



TRAKCJA CAPITAL GROUP

CONSOLIDATED HALF-YEARLY REPORT
FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2018

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

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SELECTED FINANCIAL DATA OF TRAKCJA CAPITAL GROUP

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

Period ended	Average exchange rate in the period*	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
2018-06-30	4,2395	4,1423	4,3616	4,3616
2017-12-31	4,2447	4,1709	4,4157	4,1709
2017-06-30	4,2474	4,1737	4,4157	4,2265

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

Key items of the consolidated balance sheet translated into the euro:

	30.06.2018		31.12.2017	
	TPLN	TEUR	TPLN	TEUR
Non-current assets	762 068	174 722	731 454	175 371
Current assets	763 800	175 119	710 826	170 425
TOTAL ASSETS	1 525 868	349 841	1 442 280	345 796
Equity	745 218	170 858	762 034	182 703
Long-term liabilities	182 199	41 774	116 953	28 040
Short-term liabilities	598 451	137 209	563 293	135 053
TOTAL EQUITY AND LIABILITIES	1 525 868	349 841	1 442 280	345 796

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

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

	Period ended 30.06.2018		Period ended 30.06.2017	
	TPLN	TEUR	TPLN	TEUR
Sales revenues	578 851	136 538	537 648	126 583
Cost of goods sold	(567 983)	(133 975)	(507 999)	119 603
Gross profit (loss) on sales	10 868	2 563	29 649	6 980
Operating profit (loss)	(18 167)	(4 285)	6 119	1 441
Gross profit (loss)	(22 936)	(5 410)	2 429	572
Net profit (loss) from continued operations	(20 603)	(4 860)	1 089	256
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	(20 603)	(4 860)	1 089	256

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

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

	Period ended 30.06.2018		Period ended 30.06.2017	
	TPLN	TEUR	TPLN	TEUR
Cash flows from operating activities	(183 814)	(43 358)	(47 780)	(11 249)
Cash flows from investment activities	(21 876)	(5 160)	(19 485)	(4 588)
Cash flows from financial activities	109 640	25 862	(10 776)	(2 537)
Total net cash flows	(96 050)	(22 656)	(78 041)	(18 374)

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

	30.06.2018		30.06.2017	
	TPLN	TEUR	TPLN	TEUR
Cash at start of period	112 172	26 894	146 360	33 083
Cash at end of period	16 122	3 696	68 319	16 165

The exchange rates adopted for the purpose of calculating the above data of the consolidated statement of cash flows are as follows:

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

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



TRAKCJA CAPITAL GROUP

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2018
PREPARED IN ACCORDANCE WITH
THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of Trakcja PRKiI S.A. has approved the condensed consolidated financial statements of Trakcja Capital Group for the period from January 1, 2018 to June 30, 2018.

The condensed consolidated financial statements for the period from January 1, 2018 to June 30, 2018 are prepared in accordance with IAS 34 Interim Financial Reporting approved by the European Union.

Information included herein is presented in the following sequence:

1. Consolidated income statement for the period from January 1, 2018 to June 30, 2018, which shows a net loss of PLN **20,603** thousand.
2. Consolidated statement of comprehensive income for the period from January 1, 2018 to June 30, 2018, which shows the negative total comprehensive income of PLN **6,847** thousand.
3. Consolidated balance sheet as at June 30, 2018, which shows the total assets and total equity and liabilities of PLN **1,525,868** thousand.
4. Consolidated statement of cash flows for the period from January 1, 2018 to June 30, 2018, which shows a decrease in the total net cash flows by PLN **96,050** thousand.
5. Consolidated statement of changes in equity for the period from January 1, 2018 to June 30, 2018, which shows a decrease in the total equity by PLN **16,816** thousand.
6. Selected explanatory notes.

The condensed consolidated financial statements have been drawn 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 certain column or row in certain tables provided herein may differ slightly from the total amount given for such a column or row.

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

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CONSOLIDATED INCOME STATEMENT

	Note	1.01.2018 - 30.06.2018 <i>Unaudited</i>	1.01.2017 - 30.06.2017 <i>Unaudited</i>
Continued operations			
Sales revenues	13	578 851	537 648
Cost of goods sold		(567 983)	(507 999)
Gross profit (loss) on sales		10 868	29 649
Cost of sales, marketing and distribution		(3 059)	(2 974)
General and administrative costs		(26 199)	(23 062)
Other operating revenues	14	1 685	3 569
Other operating costs	15	(1 462)	(1 063)
Operating profit (loss)		(18 167)	6 119
Financial revenues	16	2 214	1 965
Financial costs	17	(6 983)	(5 655)
Gross profit (loss)		(22 936)	2 429
Income tax	18	2 333	(1 340)
Net profit (loss) from continued operation		(20 603)	1 089
Discontinued operations			
Net profit (loss) from discontinued operations		-	-
Net profit (loss) for the period		(20 603)	1 089
Attributable to:			
Shareholders of parent entity		(20 689)	917
Non-controlling interests		86	172
Profit per share attributable to shareholders in the period (PLN per share)			
- basic		(0,40)	0,02
- diluted		(0,40)	0,02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	1.01.2018 - 30.06.2018 <i>Unaudited</i>	1.01.2017 - 30.06.2017 <i>Unaudited</i>
Net profit (loss) for the period		(20 603)	1 089
Other comprehensive income:			
Other comprehensive income that will not be reclassified into profit or loss under certain conditions:		56	(16)
Actuarial gains/(losses)		56	(16)
Other comprehensive income that will be reclassified to profit or loss:		13 700	(14 101)
Foreign exchange differences on translation of foreign operations		13 552	(14 959)
Cash flow hedging instruments	31	148	858
Total other comprehensive income		13 756	(14 117)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(6 847)	(13 028)
Attributable to:			
Shareholders of Parent entity		(7 073)	(13 333)
Non-controlling interests		226	305

CONSOLIDATED BALANCE SHEET

ASSETS	Note	30.06.2018	31.12.2017
		<i>Unaudited</i>	<i>Badane</i>
Non-current assets		762 068	731 454
Tangible non-current assets	19	286 960	266 853
Intangible assets		53 165	53 753
Goodwill from consolidation	21	335 424	327 996
Investment properties	22	20 079	20 097
Investments in other units		3 776	858
Other financial assets	23	44 479	44 147
Deferred tax assets	18	10 611	9 836
Accruals		7 574	7 914
Current assets		763 800	710 826
Inventory	24	138 704	94 027
Trade and other receivables	25	346 161	324 094
Income tax receivables		4 274	9 642
Other financial assets	23	14 161	14 859
Cash and cash equivalents	26	16 134	112 184
Accruals		13 918	9 233
Construction contracts and advances received towards contracts being performed	27	230 448	146 787
TOTAL ASSETS		1 525 868	1 442 280
Equity and liabilities			
Equity attributable to shareholders of parent entity		741 332	756 979
Share capital	28	41 120	41 120
Share premium account		309 984	309 984
Revaluation reserve		5 767	5 765
Other capital reserves		384 603	361 588
Retained earnings		(20 689)	31 429
Foreign exchange differences on translation of foreign operations		20 547	7 093
Non-controlling interests		3 886	5 055
Total equity		745 218	762 034
Long-term liabilities		182 199	116 953
Interest-bearing loans and borrowings	29	154 749	87 661
Provisions	32	11 723	11 917
Liabilities due to employee benefits		5 807	5 127
Provision for deferred tax	18	5 482	7 810
Derivative financial instruments	31	4 364	4 351
Other liabilities		74	87
Short-term liabilities		598 451	563 293
Interest-bearing loans and borrowings	29	87 426	28 538
Trade and other liabilities	34	351 461	335 049
Provisions	32	8 257	14 179
Liabilities due to employee benefits		16 169	12 762
Derivative financial instruments	31	1 004	960
Accruals		443	416
Construction contracts and advances received towards contracts being performed	27	132 107	171 347
Advances received towards flats		1 584	42
TOTAL EQUITY AND LIABILITIES		1 525 868	1 442 280

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended	
		30.06.2018	30.06.2017
		Unaudited	Unaudited
<i>Cash flows from operating activities</i>			
Gross profit from continued operations		(21 906)	2 429
Adjustments for:		(161 908)	(50 209)
Depreciation		15 134	14 346
FX differences		1 333	(273)
Net interest and dividends		3 418	3 013
Profit on investment activities		(2 007)	(2 135)
Change in receivables		(11 156)	29 053
Change in inventory		(43 783)	(27 017)
Change in liabilities, excluding loans and borrowings		9 700	(3 069)
Change in prepayments and accruals		(41)	(31 023)
Change in provisions		(6 369)	(20 399)
Change in construction contracts		(129 018)	(3 514)
Change in financial derivatives		(183)	(997)
Income tax paid		(2 246)	(4 975)
Other		(1 123)	972
Foreign exchange differences on translation of foreign operations		4 433	(4 191)
Net cash flows from operating activities		(183 814)	(47 780)
<i>Cash flows from investment activities</i>			
Sale (purchase) of intangible assets and tangible non-current assets		(21 501)	(21 538)
- acquisition		(22 167)	(22 997)
- sale		666	1 459
Sale (acquisition) of shares and stocks in affiliates and subsidiaries		(4 547)	-
- acquisition		(4 547)	-
Financial assets		3 826	2 185
- sold or returned		6 454	6 087
- repaid		(2 628)	(3 902)
Loans		211	(210)
- granted		-	(210)
- repaid		211	-
Interest received		135	78
Net cash flows from investment activities		(21 876)	(19 485)
<i>Cash flows from financial activities</i>			
Proceeds on account of taken borrowings and loans	49	126 827	5 195
Repayment of borrowings and loans		(7 782)	(5 667)
Interest and commissions paid		(3 583)	(3 795)
Dividends paid to non-controlling shareholders		(185)	(382)
Payment of liabilities under financial lease agreements		(5 625)	(5 941)
Outflows (inflows) from other financial liabilities		-	(186)
Other		(12)	-
Net cash flows from financial activities		109 640	(10 776)
Total net cash flows		(96 050)	(78 041)
Net FX differences		-	-
Cash at start of period		112 172	146 360
Cash at end of period	26	16 122	68 319

Cash excluded from the statement of cash flows as at June 30, 2018 comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to the shareholders of the Parent											
	Share capital	Share premium account	Revaluation reserve	Other reserve capitals		Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interests	Total equity	
				Hedging instruments	Actuarial gains/ (losses)	Results from previous years					
As at 1.01.2018 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	-	-	-	-	-	-	-	(20 689)	(20 689)	86	(20 603)
Other comprehensive income	-	-	-	109	53	-	13 454	-	13 616	140	13 756
Distribution of profit	-	-	-	-	-	26 289	-	(26 289)	-	-	-
Dividend payment	-	-	-	-	-	-	-	(5 140)	(5 140)	-	(5 140)
Payment of dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(220)	(220)
Acquisition of shares in a subsidiary	-	-	-	-	-	(625)	-	-	(625)	(1 220)	(1 845)
Other changes	-	-	2	-	-	607	-	-	609	45	654
As at 30.06.2018 Unaudited	41 120	309 984	5 767	(3 231)	(922)	388 756	20 547	(20 689)	741 332	3 886	745 218
As at 1.01.2016 Audited	41 120	309 984	5 765	(4 162)	(404)	337 225	26 924	54 685	771 137	4 830	775 967
Net profit for the period	-	-	-	-	-	-	-	917	917	172	1 089
Other comprehensive income	-	-	-	632	(17)	-	(14 865)	-	(14 250)	133	(14 117)
Distribution of profit	-	-	-	-	-	28 985	-	(28 985)	-	-	-
Dividend payment	-	-	-	-	-	-	-	(25 700)	(25 700)	-	(25 700)
Payment of dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(556)	(556)
Other changes	-	-	-	-	-	(278)	-	-	(278)	(3)	(281)
As at 30.06.2016 Unaudited	41 120	309 984	5 765	(3 530)	(421)	365 932	12 059	917	731 826	4 576	736 402

	Equity attributable to shareholders of Parent entity										
	Share capital	Share premium	Revaluation reserve	Other reserve capitals			Foreign exchange differences on translation	Retained earnings	Total	Non-controlling interest	Total equity
				Hedging instruments	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)	-	-	-
Dividend payment to Shareholders of the Parent Company	-	-	-	-	-	-	-	(25 700)	(25 700)	-	(25 700)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(556)	(556)
Other	-	-	-	-	-	(307)	-	-	(307)	4	(303)
As at 31.12.2017 Audited	41 120	309 984	5 765	(3 340)	(975)	365 903	7 093	31 429	756 979	5 055	762 034

CONDENSED ADDITIONAL INFORMATION AND EXPLANATIONS

1. General information

These condensed consolidated financial statements cover the period of 6 months ended June 30, 2018 and include comparative data for the period of 6 months ended June 30, 2017 and for the period ended December 31, 2017.

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

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

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

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

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

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

On December 19, 2013 the District Court of the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, registered a change in the Company's business name from Trakcja S.A. to Trakcja PRKiL 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 Żłota 59 Street in Warsaw. Both the Parent Company and other entities that are members of the Group are established for an indefinite period of time.

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

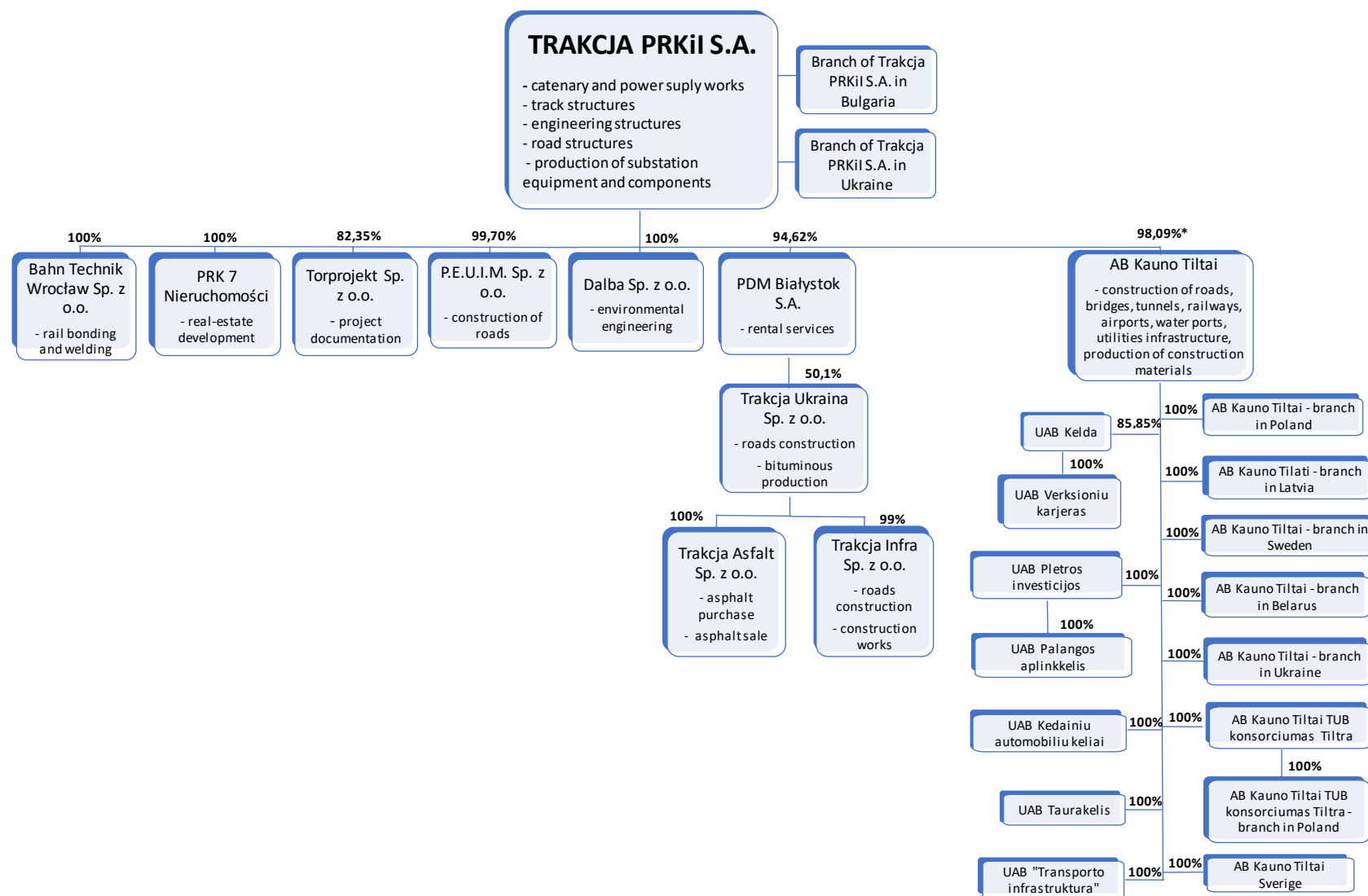
- foundation and network works,
- installation of traction substations and section cabs,

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

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

As at June 30, 2018 the Group consists of the Parent Company (Trakcja PRKiI S.A.) and its subsidiaries, that are consolidated using the full method. The Group has companies in Ukraine which are not consolidated due to immateriality. Shares in Trakcja Ukraina Sp. z o.o. were presented under Investments in other units.

The Group's organisational structure is presented in the diagram below.



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

3. Changes in the Group

As at June 8, 2018 the company from the Group, AB Kauno tiltai, acquired 24.9% of shares in UAB Plestros Investicijos, obtaining a total of 100% shares in this company. In the first half of 2018, no other changes occurred in the structure of the Trakcja Group.

4. Parent Company's Management Board

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

- | | | |
|--------------------|---|---|
| ▪ 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 March 9, 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.

On April 27, 2018 the Company obtained 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 the effect on April 27, 2018.

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

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

5. Parent Company's Supervisory Board

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

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

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

6. Approval of the condensed consolidated financial statements

These consolidated financial statements were approved for publication by the Management Board on August 30, 2018.

7. Basis for preparing the consolidated financial statements

The condensed consolidated financial statements are prepared according to the historical cost principle, except for the financial derivatives, investment properties which are measured at fair value.

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

These consolidated financial statements are prepared on the assumption that the Group remains a going concern in the foreseeable future. As at the approval hereof, there are no circumstances that would indicate that any threats exist to the companies within the Group or to the whole Group as a going concern.

8. Statement of compliance

These condensed consolidated financial statements are prepared in accordance with IAS 34 Interim Financial Reporting, approved by the European Union.

These condensed consolidated financial statements do not cover all information or disclosures required in the annual financial statements and they should be read together with the Group's consolidated financial statements for the year ended December 31, 2017.

Measurement currency and currency of the financial statements

The Polish zloty is the measurement currency of the Parent Company and some of the companies within the Group, as well as the reporting currency herein. The euro is the measurement currency of the companies with their registered offices in Lithuania, whereas the Swedish crown (SEK) is the currency of AB Kauno Tiltai Sverige with its registered office in Sweden, the Belarusian rouble (BYN) is the currency of AB Kauno Tiltai Branch in Belarus, the Bulgarian lev (BGN) is the currency of the establishment of Trakcja PRKil S.A. in Bulgaria, and the Ukrainian hryvnia (UAH) is the currency of Trakcja Ukraina Sp. z o.o., Trakcja Infra Sp. z o.o., Trakcja Asphalt Sp. z o.o. and the establishment of Trakcja PRKil S.A. in Ukraine.

9. Significant values based on professional judgement and estimates

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

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

9.1. Professional judgement

Fair value of financial instruments

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

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

Classification of leases

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

Investment properties

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

Allocation of goodwill to cash generating units

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

Classification of joint contractual arrangements

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

Control over related entities

The Parent Company exercises control over related entities, if it is exposed or has rights to variable returns from its involvement and when it is in a position to use its powers over an entity to exert an effect on such returns. In the first half of 2018, the Parent Company did not take control of any significant entity.

9.2. Estimate uncertainty

Recognition of revenue

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

Provisions for additional works

Provisions for additional works are estimated based on the knowledge of the construction site (contract) directors with regard to the required or potential performance of additional works for the benefit of the contracting entity, in order to fulfil warranty obligations. The largest companies that are members of Trakcja Group are obliged to grant warranty for their services. The provision for additional works depends on the segment in which the companies operate and is based on the Group's historical data. It is subject to individual review and may be increased or decreased when necessary. Any change in the estimates affects the value of the provisions. The change in the provisions for additional works is presented in Note 32.

Provisions for contractual penalties

The Group recognises provisions for contractual penalties in relation to any contracts under completion in the amounts in which they may and are likely to be imposed. Provisions are recognised based on the documentation regarding the contract completion and on the opinion of lawyers who participate in the ongoing negotiations and estimate the Group's potential future liabilities on the basis of their course.

Measurement of employee benefit liabilities

Any employee benefit liabilities for retirement allowances and jubilee bonuses in the current period are estimated on the basis of actuarial methods which take into account the amendments to the remuneration regulations made on June 3, 2017. The amount of liability depends on various factors which are applied as assumptions in the actuarial method. Key assumptions for determining the amount of liability are the discount rate and the average expected increase in wages.

Deferred tax assets

The Group recognises a deferred tax asset assuming that in the future a taxable profit is generated that will allow for its use. Any deterioration in the future taxable profits may result in the assumption becoming unjustified. The Parent Company's Management Board verifies the estimated recoverability of deferred tax assets on the basis of changes in the factors taken into account, new information and past experiences. The likelihood that deferred tax assets will be

utilised against future taxable profits is assumed in the Group's forecast. The Group members recognise deferred tax assets up to the amount corresponding to the likely amount of future taxable profit that will allow for negative temporary differences to be deducted. The Group's companies, which generated losses in the past and whose financial forecast does not project future taxable profits that would allow for negative temporary differences to be deducted, do not recognise any deferred tax assets in their books.

Amortisation and depreciation rates

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

Investment properties

Investment properties are measured at fair value. The value of investment properties is determined by independent experts who hold valid authorisations to perform such valuations. In selecting the approach and technique thereof, the Group follows the principles set forth in IFRS 13 and in the Real Estate Management Act and also in the Regulation of the Council of Ministers on the detailed principles of property valuation and rules and method for preparing valuation reports. Fair value of investment properties is measured by way of applying measurement techniques that require a maximum use of observable data. As at June 30, 2018 the Group did not perform any measurements, as no circumstances occurred which would indicate that the value of investment properties might have changed.

Goodwill impairment

Pursuant to IAS 36, cash-generating units to which goodwill has been allocated are tested for impairment annually by the Parent Company's Management Board. The tests performed consist in the estimation of the value in use of cash generating units ("CGU") on the basis of future cash flows generated by such units, which are next adjusted to their present value with the use of a discount rate. As at June 30, 2018, there were indications of impairment of some cash-generating units, and the Group carried out a test on this day. The goodwill impairment losses are described in detail in Note 21. As a result of the tests performed no goodwill impairment loss was recognised as at June 30, 2018.

Impairment of financial assets

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

Write-downs of inventories

The Management Board assesses whether there are any indications that inventories may need to be written down in accordance with Note 9.12 of the Notes to the Consolidated Financial Statements for 2017. For that purpose, the Company estimates the net realisable value of those inventories that lost their functional properties or are no longer useful. The changes in the write-downs of inventories are presented in Note 24 and Note 38.

Impairment of trade receivables and other receivables

Pursuant to IFRS 9, the Group recognizes write-downs on the account of expected credit losses due to trade receivables and other receivables. In terms of trade receivables, the Group applies a simplified method for receivables recognized in the group dimension – for these receivables, a write-down is made for so-called lifelong credit losses, regardless of the analysis of credit risk changes. In terms of other receivables and held financial instruments, the Group defines the write-down to the 12-month expected credit losses if the credit risk is low or it has not increased significantly since the date of including the given component of receivables in the balance sheet, in the amount equivalent to the expected credit losses throughout the life, if the credit risk related with the given component of financial assets has increased significantly since the initial recognition. A change to the write-down to trade receivables and other receivables is presented in Note 38.

Fair value and its measurement

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. The detailed information on the items measured at fair value is presented in Note 35 and Note 36.

Information regarding measurement techniques and input data used for measuring the fair value of individual assets and liabilities is disclosed in Note 23, Note 40 and Note 47 of the Notes to the consolidated financial statements for 2017.

10. Accounting principles

The condensed consolidated financial statements for the period from January 1, 2018 to June 30, 2018 are prepared in accordance with IAS 34 Interim Financial Reporting approved by the European Union.

These financial statements are presented according to IAS 34 with the same principles being applied for the current and comparable periods and with the comparable period being adjusted accordingly to the changes in the accounting and presentation principles adopted in the current period.

Except for the changes specified in Note 10 hereto, the accounting principles (policy) applied to these condensed consolidated financial statements for the first half-year of 2018 are consistent with those applied to the consolidated financial statements for the financial year ended December 31, 2017.

10.1. Selected accounting principles

The accounting principles adopted by the Group are described in detail in its consolidated financial statements for the financial year ended December 31, 2017, published on March 28, 2018.

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

In the period covered with the condensed financial statement for the 1st half of 2018 the following amendments to the accounting principles and principles of drawing up financial statements have been introduced.

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

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

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

Classification

IFRS 9 classifies financial assets to the following categories:

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

Recognition

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

Financial assets measured at amortised cost

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

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

Financial assets measured at fair value

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

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

Impairment

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

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

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

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

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

The Group classifies financial liabilities to the following categories:

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

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

Hedge accounting

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

Impact on the consolidated financial statement

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

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

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

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

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

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

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

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

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

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

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

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

Other amendments to the existing standards and interpretation applied for the first time in 2018

The following amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) and approved for use in the EU come into force for the first time in the Group's consolidated financial statement for 2018:

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions - approved in the EU on February 27, 2018 (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" - approved in the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Explanations to IFRS 15 "Revenue from contracts with customers" - approved in the EU on October 31, 2017 and further amendments (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property – approved in the EU on March 14, 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – approved in the EU on February 7, 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018),
- **Interpretation IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** - approved in the EU on March 28, 2018 (effective for annual periods beginning on or after January 1, 2018).

The adoption of above-mentioned amendments to the existing standards and interpretation has not led to any the condensed consolidated financial statements of Trakcja Group for the first half of 2018.

Changes introduced by the Company independently

In the period covered by the condensed consolidated financial statements for the first half-year of 2018, there were no other changes to the accounting principles and the preparation of the financial statements.

Conversion of items in foreign currency

The Polish zloty is the measurement currency of the Parent Company and the majority of the companies within the Group, as well as the reporting currency in these condensed consolidated financial statements for the first half-year of 2017. Measurement currencies of individual Group companies operating abroad and the method of conversion have not changed compared to those used in the consolidated financial statements of the Trakcja Group for the fiscal year 2017, where they were described in Note 9.2.

Exchange rate on the reporting date	30.06.2018	31.12.2017
PLN/USD	3,7440	3,4813
PLN/EUR	4,3616	4,1709
PLN/SEK	0,4190	0,4243
PLN/BYN	1,8663	1,7908
PLN/UAH	0,1423	nd
PLN/BGN	2,2300	2,1326

The average exchange rate, calculated as the arithmetic average of the rates prevailing on the last day of each month during the period:

	30.06.2018	30.06.2017
PLN/USD	3,5192	3,8964
PLN/EUR	4,2395	4,2474
PLN/SEK	0,4149	0,4425
PLN/BYN	1,7592	2,0661
PLN/UAH	0,1324	nd
PLN/BGN	2,1676	2,1717

Principles of consolidation

The consolidation principles used to prepare the condensed consolidated financial statements are consistent in all material aspects with the principles described in Note 9.1 to the audited consolidated financial statements of the Trakcja Group for the 2017 financial year prepared in accordance with the International Financial Reporting Standards

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

In these condensed consolidated financial statements, the Group has not decided to apply previously published standards or interpretations before their effective date.

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at August 30, 2018 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or transfer of assets between an investor and its affiliate or joint venture and subsequent changes

(the date of entry into force of the amendments has been postponed until the completion of research on the equity method),

- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Interpretation of IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the consolidated financial statements of the Group, if they have been applied by the Group as at the balance sheet date .

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

10.3. Amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these consolidated financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 16 “Leases”** – adopted by the EU on 31 October, 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 “Financial Instruments”** - prepayment features with negative compensation – adopted by the EU on 22 March, 2018 (effective for annual periods beginning on or after 1 January 2019).

The Group is in the process of estimating the impact of the above standards on the consolidated financial statements prepared for periods after the effective date of these standards.

11. Type and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence

In the opinion of the Management Board, in the 6-month period ended June 30, 2018, except for the factors described in other notes hereto, no other significant events occurred, which could have had an impact on the assessment of the Trakcja Group's financial condition. The Group's performance in the first half-year of 2018 was primarily affected by the contracts completed by the Group.

12. Information on operating and geographical segments

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

Key customers:

In the first half-year of 2018, revenues from transactions with external single customers were respectively 10% or more of the Group's total revenues. Total revenues by type of customers and by segments to which such revenues pertain are presented in the table below.

Client	Total revenue obtained in IQ 2018 by a single recipient (TPLN)	Segments presenting the revenues
Client 1	261 365	Civic building segment - Poland
Client 2	71 951	Civic building segment - Poland

The condensed additional information and explanations on pages 15 to 54 constitute an integral part hereof.

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

Operating segments

For the period from 1.01.2018 to 30.06.2018

Continued operations

Unaudited

	Civic building segment in Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales to external customers	451 671	125 061	2 119	578 851	-	-	578 851
Sales between segments	5 154	10	4	5 168	-	(5 168)	-
Total segment revenues	456 825	125 071	2 123	584 019	-	(5 168)	578 851
Results							
Depreciation	9 713	5 376	45	15 134	-	-	15 134
Financial income - interests	457	1 705	54	2 216	-	(5)	2 211
Financial expenses - interests	2 556	1 159	5	3 720	-	(5)	3 715
Gross profit	(6 432)	(5 988)	(1 265)	(13 685)	-	(9 251)	(22 936)

For the period from 1.01.2017 to 30.06.2017

Continued operations

Revenues

	Civic building segment in Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Sales to external customers							
Sales between segments	343 866	188 806	4 976	537 648	-	-	537 648
Total segment revenues	3	-	2	5	-	(5)	-
Total segment revenues	343 869	188 806	4 978	537 653	-	(5)	537 648
Results							
Depreciation	9 400	4 934	12	14 346	-	-	14 346
Financial revenues - interests	155	1 826	11	1 992	-	(28)	1 964
Financial expenses - interests	2 203	1 469	31	3 703	-	(28)	3 675
Gross profit	21 034	526	12	21 572	-	(19 143)	2 429

As at 30.06.2018

	Continued operations					
	Civic building segment in Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions
						Total operations
Segment assets	994 925	702 169	40 971	1 738 065		(222 808)
Assets not allocated to segments						10 611
Total assests						1 525 868
Segment liabilities*	513 225	170 814	4 951	688 990		(90 539)

Other disclosures:

Capital expenditure	(16 114)	(6 017)	(36)	(22 167)	-	-
Impairment of non-financial assets	-	-	-	-	-	-

* short-term liabilities were allocated to assess segment

As at 31.12.2017

Audited

	Continued operations					
	Civic building segment in 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)
Assets not allocated to segments						9 836
Total assests						1 442 280
Segment liabilities	454 984	189 080	2 603	646 667	-	(83 374)

Other disclosures:

Capital expenditure	(35 193)	(19 860)	-	(55 053)	-	-
Impairment of non-financial assets	(959)	-	-	(959)	-	-

* short-term liabilities were allocated to assess segment

Geographical segments

The key data concerning geographical segments has been presented below.

For the period from 1.01.2018 to 30.06.2018

Unaudited

	Continued operations					
	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Revenues						
Sales to external customers	458 941	119 910	578 851	-	-	578 851
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	-	-	-	-	-	-
Total segment revenues	458 941	119 910	578 851	-	-	578 851

For the period from 1.01.2017 to 30.06.2017

Unaudited

	Continued operations					
	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Revenues						
Sales to external customers	348 841	188 807	537 648	-	-	537 648
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	-	-	-	-	-	-
Total segment revenues	348 841	188 807	537 648	-	-	537 648

As at 30.06.2018

Unaudited

	Continued operations					
	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Operating assets	1 043 056	695 009	1 738 065	-	(222 808)	1 515 257
Operating liabilities*	542 826	146 164	688 990	-	(90 539)	598 451

As at 31.12.2017

Audited

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

* short-term liabilities were allocated to assess segment

13. Sales revenues

	Period ended	
	30.06.2018	30.06.2017
	<i>Unaudited</i>	<i>Unaudited</i>
Sales revenues		
Revenues from sale of construction services	555 711	501 199
Revenues from sale of goods and materials	14 838	23 781
Revenues from sale of other products and services	8 302	12 668
Total	578 851	537 648

	Period ended	
	30.06.2018	
	<i>Unaudited</i>	
Distribution of contract revenues by country		
Poland	446 700	
Lithuania	90 447	
Sweden	7 673	
Latvia	7 648	
Hungary	3 072	
Germany	171	
Total	555 711	

	Period ended	
	30.06.2018	
	<i>Unaudited</i>	
Distribution of revenues due to recipients		
Government and local government institutions	514 669	
Private sector	41 042	
Total	555 711	

	Period ended	
	30.06.2018	
	<i>Unaudited</i>	
Distribution of revenues due to the duration of contracts		
Contracts up to 12 months	135 172	
Contracts over 12 months	420 539	
Total	555 711	

All agreements concerning construction contracts are based on a fixed price. 99% of revenues from contracts are recognized using the percentage of completion method. In turn, revenues related to the sale of materials and other services are recognized at the time of transfer of the goods.

14. Other operating revenues

	Period ended	
	30.06.2018	30.06.2017
	<i>Unaudited</i>	<i>Unaudited</i>
Reversal of provision including:	-	1 936
- reversal of provision for restructuring	-	1 831
- other	-	105
Received penalties and fines	127	599
Redeemed liabilities	139	-
Profit on sale of non-financial non-current assets	423	709
Other	996	325
Total	1 685	3 569

15. Other operating costs

	Period ended	
	30.06.2018	30.06.2017
	<i>Unaudited</i>	<i>Unaudited</i>
Damage of tangible non-current assets	-	522
Litigation costs paid	28	-
Donations made	77	153
Liquidation value of non-financial assets	-	52
Receivables write-off	251	37
Other	1 106	299
Total	1 462	1 063

The other item includes mainly own costs due to the sale of other services, costs of third party liability insurance, payments to State Fund for the Rehabilitation of the Disabled and non-deductible VAT.

16. Financial revenues

	Period ended	
	30.06.2018	30.06.2017
	<i>Unaudited</i>	<i>Unaudited</i>
Financial revenue from interest, including:	2 211	1 964
- bank interest	118	87
- interest on receivables	284	78
- interests on released provisions for Interests on liabilities	1	3
- discount	1 675	1 741
- other	133	55
Other financial revenue	3	-
Total	2 214	1 965

17. Financial costs

	Period ended	
	30.06.2018	30.06.2017
	<i>Unaudited</i>	<i>Unaudited</i>
Financial cost from interest, including:	3 715	3 675
- interest on loans and borrowings	2 666	1 736
- on liabilities	92	628
- on leasing	856	922
- other	101	390
Loss from exchange rate differences	1 769	237
Financial commission paid	398	892
Factoring related costs	298	182
Commission fee expenses relating to advance payment guarantee	389	516
Other financial cost	414	151
Total	6 983	5 655

18. Income tax

	Period ended	
	30.06.2018 <i>Unaudited</i>	30.06.2017 <i>Unaudited</i>
Current income tax:	749	193
- current income tax charge	724	180
- adjustments related to current income tax from previous years	25	13
Deferred tax:	(3 082)	1 147
- related to increase and decrease in temporary differences	(3 082)	1 147
Total	(2 333)	1 340

Income tax was partially determined according to the rate of 19% applicable to legal entities that operate in Poland. The income tax rates applicable to foreign companies being members of Trakcja Group are as follows: 15% in Lithuania and Latvia, 22% in Sweden, 18% in Belarus, 10% in Bulgaria and 18% in Ukraine.

Income tax recognised in other comprehensive income

	Period ended	
	30.06.2018 <i>Unaudited</i>	30.06.2017 <i>Unaudited</i>
Actuarial gains/(losses)		
Gross amount	61	(23)
Tax	(5)	7
Net amount	56	(16)
Cash flow hedging instruments		
Gross amount	174	1 009
Tax	(26)	(151)
Net amount	148	858
Foreign exchange differences on translation of foreign operations		
Gross amount	13 552	(14 959)
Tax	-	-
Net amount	13 552	(14 959)

19. Tangible non-current assets

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Fixed assets, including:	257 055	249 165
- land (including right of perpetual usufruct)	22 425	22 541
- buildings, premises, civil and water engineering structures	18 697	17 378
- technical equipment and machines	131 166	126 130
- vehicles	72 338	70 770
- other fixed assets	12 429	12 346
Fixed assets under construction	29 905	17 688
Total	286 960	266 853

20. Transactions of acquisition and sale of tangible non-current assets and other intangible assets, including any commitments for acquisition of tangible non-current assets

From January 1, 2018 to June 30, 2018 the Group purchased tangible non-current assets and intangible assets in the amount of PLN 35,647 thousand (as compared to PLN 37,646 thousand in the comparable period of 2017).

From January 1, 2018 to June 30, 2018 the Group sold tangible non-current assets and intangible assets in a total book value of PLN 152 thousand (as compared to PLN 546 thousand in the comparable period of 2017).

In the period between 1 January 2018 and 30 June 2018 the Parent Company concluded an agreement on transferring the ownership right to the gravel cleaner and 6 transporters to mLeasing Sp. z o. o., which it later entered into the register under leaseback agreements. From the formal point of view, those were sales and repurchase transactions (under leasing agreement) of the aforementioned fixed assets, however, in compliance with the IFRS, sales and repurchase transactions should be treated jointly as loan transactions secured with assets, since in compliance with SIC-27 the transaction had a character of a loan secured with assets, from which the Company obtained funds in the amount of PLN 17,061K net. Therefore, the above specified operations in the scope of purchasing and selling tangible fixed assets do not take into consideration the value of fixed assets covered with the aforementioned agreements.

21. Goodwill

As at June 30, 2018 the goodwill disclosed in the consolidated financial statements by the Group was PLN 384,156 thousand (as at December 31, 2017: PLN 376,728 thousand) was recognised in the following items:

- Goodwill on consolidation – PLN 335,424 thousand (as at December 31, 2017: PLN 327,996 thousand),
- Intangible assets – PLN 48,732 thousand (as at December 31, 2017: PLN 48,732 thousand).

Goodwill on consolidation

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Balance at the beginning of the period	327 996	337 855
Increase	-	-
Decreases	-	-
Exchange rate differences	7 428	(9 859)
Balance at the end of the period	335 424	327 996

Allocation of goodwill to cash generating units ("CGU") after recognition of impairment losses

Goodwill was allocated to the following cash generating units:

	CGU: Trakcja PRKił 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: Companies from AB Kauno Tiltai Group	CGU: PRK7 Nieruchomości	Total
As at 30.06.2018					
Goodwill allocated after recognition of impairment	58 160	37 741	283 475	4 780	384 156
recognized in goodwill on consolidation	9 428	37 741	283 475	4 780	335 424
recognized in intangible assets	48 732	-	-	-	48 732
As at 30.06.2017					
Goodwill allocated after recognition of impairment	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

Test for impairment of goodwill

As at June 30, 2018, the following indicators occurred on two CGUs indicating the possibility of impairment of cash-generating units. No indications were found on other CGUs.

The most important prerequisites for the possible impairment of CGU Trakcja PRKiI S.A., Torprojekt Sp. z o. o., BTW Sp. z o. o.:

1. Weaker results in the first half of 2018 with regard to the 1st half of 2017 resulting from difficult situation in the construction market:
 - a. problems in the construction industry related with investment cumulation;
 - b. liquidity deterioration of companies in the sector;
 - c. an increase in prices of services and materials;
 - d. an increase in bankruptcy of companies in the sector.
2. Balance sheet value of net assets of the company Trakcja PRKiI S.A. is higher than the value of its market capitalisation as on the balance sheet day. (IAS 36, par. 12d)

The most important prerequisites for possible CGU's impairment of the Company from the AB Kauno tiltai Group:

1. A delay in announcing tenders in Lithuania;
2. An amendment of the Lithuanian companies' contracts' portfolio structure – worsening of margins with regard to the decrease in the average value of road contracts in Lithuania. Additional factor affecting margins constituted tightening requirements regarding the quality of road projects implemented by the contracting authority.

With regard to CGU of PEUiM Sp. z o. o. Dalba Sp. z o. o. PDM S.A. and CGU PRK7 Nieruchomości no prerequisites of impairment have been stated.

Therefore, in the aforementioned two centres, an impairment test was carried out by the Group on 30 June 2018. The recoverable amount of the CGU is stipulated on the grounds of the use value calculations. These calculations use cash flow forecasts for a five year period. Cash flows exceeding the five year period have been estimated at a permanent level. The growth rate in the residual period has been adopted at a level of 2% and it does not exceed the long-term inflation rate. The Management Board stipulates budget margin on the grounds of historical results, updated contractual budgets and its market development forecasts. The applied discount rate is a post-tax rate reflecting a specific risk regarding particular segments not recognised in cash flow forecasts, calculated on the grounds of the CAPM.

Basic assumptions for the purposes of the test on impairment of the company CGU Trakcja PRKiI S.A., Torprojekt Sp. z o. o., BTW Sp. z o. o.:

	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.
As at 30.06.2018	
WACC before taxation	10,2%
EBITDA margin	4,0%-6,7%
Growth rate in the residual period	2,0%
	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.
As at 31.12.2017	
WACC before taxation	10,1%
EBITDA margin	3,8%-5,7%
Growth rate in the residual period	2,0%

In the years 2016 and 2017 the road and railway market in Poland was characterised with increased competition as a result of the decrease in the number of announced tenders in the previous years. Furthermore, an increase in the

infrastructural construction materials' prices, post-performance services' costs and labour costs was noticeable. It was related with obtaining lower margins on performed contracts, as a result of which, in the 1st half of 2018, CGU's EBITDA was lower than the comparative period. Currently, tender procedures in the railway and road market are characterised with fewer number of participants. Moreover, current tendency in the market shows that contractors' offers significantly exceeding investment budgets are more often accepted by the contracting authorities. As on 30 June 2018, Trakcja PRKiL S.A. contracts' portfolio amounted to PLN 1,537M, of which PLN 327M constitute contracts signed in the 1st half of 2018, expected average margins of which are higher than the ones obtained currently. Margins assumed in the forecast period are also based on historical data from the period before 2016. In the Parent Company's Management Board's opinion, current worsening of the situation in the construction market is temporary. Announced investment plans in the railway infrastructure within the KPK programme allowed the Group to assume revenues in the following years at a similar or higher level than in previous years. Assumed EBITDA margin in the residual period amounts to 4.7%.

Basic assumptions adopted for the purpose of the impairment test of CGU Company from the AB Kauno Tiltai Group:

As at 30.06.2018	CGU: Companies from AB Kauno Tiltai Group
WACC before taxation	8,1%
EBITDA margin	4,2%-7,9%
Growth rate in the residual period	2,0%
As at 31.12.2017	CGU: Companies from AB Kauno Tiltai Group
WACC before taxation	7,9%
EBITDA margin	5,7%-8,0%
Growth rate in the residual period	2,0%

In the years 2017 and 2018, the road and railway market in Lithuania was characterised with fragmentation of tenders which was related with tenders being entered by competitors characterised with lower fixed costs, which resulted in a higher pressure on the price offer. An additional factor affecting margins constituted tightening the contracting authority's requirements regarding the quality of implemented road projects. It resulted in obtaining lower margins on performed contracts in the 1st half of 2018. In the Parent Company's Management Board's opinion, current worsening of the situation in the Lithuanian construction market is temporary. Currently, the Management Board expects announcement of larger tenders, which should influence increasing revenues and margins in the future. Furthermore, tighter requirements regarding quality of performed works in the road market should be taken into consideration by all market bidders. Moreover, announcement of tenders within the "Rail Baltica" project is planned in the next years, which, in the Parent Company's Management Board's opinion should have a positive impact both, on revenues and obtained margins.

The Group calculated average EBITDA margins in the period between 2009 and 2017 obtained by the competition, which amounted to 8.6%. It is higher than assumed EBITDA margin in the residual period (7.9%) by 0.7 pp.

As a result of carried out tests, company's impairment was not stated as on 30 June 2018.

The sensitivity analysis indicates that the significant factors influencing estimates of use value of cash flow generating centres are as follows: profitability of executed construction contracts, assumed level of a discount rate and growth rate of revenues in infrastructural construction markets in Poland and Lithuania.

Below, the sensitivity analysis of the recoverable amount of cash flow generating centres with regard to the amendment of particular indexes used in the impairment test has been presented.

Sensitivity analysis for the CGU consisting of the following companies: Trakcja PRKil, Torprojekt Sp. z o.o. and BTW Sp. Z o.o.:

Factor applied	Reasonably possible change of the factor	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 5,0%	36 107	(36 107)
WACC	+/- 0,5 p.p.	(28 339)	32 000

Sensitivity analysis for the CGU consisting of the companies in the AB Kauno Tiltai Group.

Factor applied	Reasonably possible change of the factor	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 5,0%	47 473	(47 473)
WACC	+/- 0,5 p.p.	(46 292)	54 722

The Group has analysed the sensitivity of changes in EBITDA by +/- 5,0% and WACC by +/- 0.5% and concluded that a reasonable change in the assumptions would not result in any impairment loss being recognised.

In addition, the Company made a calculation of the EBITDA margin during the residual period, below which a write-down would be required due to goodwill impairment:

1. CGU Trakcja PRKil S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.: 3,1%
2. CGU Companies from AB Kauno Tiltai Group: 6,6%, which is at 2 p.p. lower than the average EBITDA margin from 2009-2017 on the Lithuanian market.

22. Investment properties

Investment properties are measured by the Group at fair value. The Group estimates their values as at December 31 on the basis of valuations carried out as 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 Company assesses whether there are any indications that the fair value may need to be changed.

The most recent valuation of investment properties by an independent expert was carried out as at December 31, 2017. As at June 30, 2018 the Company stated that there were no indications that the values of investment properties changed significantly. The valuation method applied and the unobservable input data used for valuation, as well as the descriptive presentation of the fair value sensitivity to changes in the unobservable input data are described in detail in Note 23 to the Consolidated Annual Financial Statements of Trakcja Group for 2017. In the first half of 2018, there was no change in the technique of fair value measurement.

The Group categorises investment properties within Level 3 of the fair value hierarchy. In the first half-year of 2018, there were no transfers made between levels 1, 2 and 3.

In the period ended June 30, 2018 there were no significant changes in the value of investment property.

23. Other financial assets

	30.06.2018	31.12.2017
	<i>Unaudited</i>	<i>Audited</i>
Assets valued at amortised cost	14 939	17 435
Bank guarantee deposits	14 939	17 222
Loans granted and own receivables	-	213
Financial assets related to the concession agreement	43 701	41 571
Financial assets related to the concession agreement	43 701	41 571
Total	58 640	59 006
including:		
- recognised as non-current assets	44 479	44 147
- recognised as current assets	14 161	14 859

In the first half-year of 2018, there were no impairment losses recognised on the individual financial assets. In connection with the entry into force as of January 1, 2018, the Group has included deposits for bank guarantees and granted loans and own receivables as assets measured at amortized cost.

The financial assets related to concession agreement are described in detail in Note 9.24, Note 26 and Note 52 of the Notes to the consolidated annual financial statements for 2017. The Group accounts for the aforementioned financial asset related to concession agreement in accordance with IFRIC 12.

24. Inventory

	30.06.2018	31.12.2017
	<i>Unaudited</i>	<i>Audited</i>
Materials	101 176	63 012
Semi-finished goods and products in progress	11 383	8 011
Finished goods	14 882	13 624
Merchandise	11 917	10 014
Total, gross inventory	139 358	94 661
Inventory revaluation write-offs	(654)	(634)
Materials	100 569	62 426
Semi-finished goods and products in progress	11 383	8 011
Finished goods	14 855	13 597
Merchandise	11 897	9 993
Total, net inventory	138 704	94 027

25. Trade and other receivables

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Gross trade receivables, before discounting	352 757	334 961
Discounting of receivables	-	-
Total, gross trade receivables	352 757	334 961
including:		
- receivables from related entities	244	2 780
Budgetary receivables	7 894	1 942
Receivables claimed in court	4 253	4 320
Other receivables from third parties	25 567	25 692
Amounts held	22 958	25 859
including:		
- amounts held from related entities	2 424	-
Advances paid	1 259	938
Total, gross trade and other receivables	414 688	393 712
Receivables revaluation write-offs	(68 527)	(69 617)
Total	346 161	324 094

26. Cash and cash equivalents

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Cash in hand	129	121
Cash at bank	11 758	90 012
Other cash and cash equivalents - deposits	4 247	22 052
Total	16 134	112 184
Cash excluded from the cash flow statement	(12)	(12)
Cash at end of period	16 122	112 172

Cash excluded from the statement of cash flows as at June 30, 2018 in the amount of PLN 12 thousand pertains to cash blocked on the property development project accounts (PLN 12 thousand as at December 31, 2017).

27. Construction contracts

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Surplus of invoiced revenues over revenues resulting from degree of advancement	14 388	12 294
Surplus of revenues resulting from degree of advancement over invoiced revenues	184 591	108 819
Advances paid towards contracts being performed	45 857	37 968
Advances received towards contracts being performed	113 137	146 588
Provision for anticipated losses on contracts	4 582	12 465
Recognised in balance sheet:		
<i>in current assets</i>		
Construction contracts and advance payments for contracts executed	230 448	146 787
<i>in short-term liabilities</i>		
Construction contracts and advance payments for contracts executed	132 107	171 347

28. Share capital

	30.06.2018	31.12.2017
	<i>Unaudited</i>	<i>Audited</i>
	Par value 0.8	Par value 0.8
	PLN	PLN
Series A ordinary shares	51 399 548	51 399 548
Total	51 399 548	51 399 548

The Parent Company's share capital is PLN 41,119,638.40 and is divided into 51,399,548 shares with a par value of PLN 0.8 each, which give entitlement to the same number of votes at the Company's general meeting. All shares are fully paid-up.

29. Interest-bearing loans and borrowings

Loans incurred by the Parent Company and its subsidiaries have been set out in the table below:

Company name	Lender	Type of loan/credit	Amount according to the agreement in the currency	Currency	Maturity date	Interests	Outstanding amount (in ths. PLN)
Trakcja PRKił S.A.	mBank S.A.	investment loan	21 500	PLN	30.09.2021	WIBOR 1M + margin	16 441
Trakcja PRKił S.A.	mBank S.A.	overdraft	20 000	PLN	25.04.2019	WIBOR O/N + margin	9 836
Trakcja PRKił S.A.	mBank S.A.	working capital loans	50 000	PLN	27.09.2019	WIBOR 1M + margin	29 000
Trakcja PRKił S.A.	Pekao S.A.	overdraft	20 000	PLN	31.05.2019	WIBOR 1M + margin	19 447
Trakcja PRKił S.A.	mLeasing Sp. Z o.o.	investment loan	29 862	PLN	15.06.2028	WIBOR 1M + margin	23 725
Torprojekt Sp. z o.o.	ING Bank Śląski S.A.	working capital loans	2 000	PLN	28.02.2019	WIBOR 1R + margin	1 538
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	overdraft	2 500	PLN	28.02.2019	WIBOR 6M + margin	378
Bahn Technik Wrocław Sp. z o.o.	mBank S.A.	overdraft	1 000	PLN	16.04.2019	WIBOR ON + margin	8
Bahn Technik Wrocław Sp. z o.o.	mBank S.A.	working capital loans	1 500	PLN	16.04.2019	WIBOR 1M + margin	-
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	investment loan	1 747	PLN	30.11.2018	WIBOR 6M + margin	213
Bahn Technik Wrocław Sp. z o.o.	Plasser & Theurer, Export von Bahnbaumaschinen, Gesellschaft m.b.H.	investment loan	1 800	EUR	24.03.2020	fixed interest rate	4 580
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	investment loan	2 500	PLN	30.12.2020	WIBOR 1M + margin	1 744
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	overdraft	2 000	PLN	09.07.2018	WIBOR 1M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital loans	14 000	EUR	31.08.2019	EURIBOR 3M + margin	50 158
AB Kauno Tiltai	Nordea	working capital loans	3 000	EUR	31.08.2019	EURIBOR 1M + margin	-
AB Kauno Tiltai	Dnb	working capital loans	3 000	EUR	31.08.2019	EURIBOR 3M + margin	1 058
AB Kauno Tiltai	Nordea Dnb	working capital loans	1 400	EUR	14.01.2020	EURIBOR 3M + margin	3 257
UAB Palangos aplinkelis	SEB Bank	project purpose loans	8 500	EUR	31.05.2028	EURIBOR 3M + margin	33 592
Total							194 975

The interest rate of the loans received is the WIBOR/EURIBOR rate plus a bank margin. Bank margins depend on the bank and fixed repayment of the loan.

Long-term interest-bearing loans and borrowings:

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Bank loans	97 939	49 309
- investment loans	12 428	15 307
- working capital loans	52 933	2 394
- project purpose loans	32 578	31 608
Loans from other entities	23 672	8 301
- investment loans	23 672	8 301
Financial lease liabilities	33 138	30 051
Total	154 749	87 661

Short-term interest-bearing loans and borrowings:

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Bank loans	68 730	8 678
- investment loans	5 969	6 260
- working capital loans	32 078	1 387
- overdraft	29 669	-
- project purpose loans	1 014	1 031
Loans from other entities	4 633	7 232
- investment loans	4 633	7 232
Financial lease liabilities	14 064	12 628
Total	87 427	28 538
Total short and long term loans and borrowings	242 176	116 199

30. Failure to repay borrowings or violation of their terms, with regard to which no corrective measures have been taken

As at June 30, 2018, the Group did not have unpaid loans or borrowings. In addition, the Group did not breach material provisions of the loan or loan agreement, for which no remedial action was taken by the end of the reporting period.

31. Financial derivatives

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 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 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 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 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 the first half-year of 2018, the measurement method remained unchanged.

As at June 30, 2018 the loss from remeasuring the aforementioned hedging instruments was PLN 57 thousand, whereas the gain recognised in other comprehensive income was PLN 148 thousand.

In the first half-year of 2018, the Group assessed the hedge effectiveness of the IRS transactions. In the reporting period, the hedge of the interest rate fluctuations was highly effective, and therefore no ineffective part thereof was identified or recognised in profit or loss.

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 period subject hereto, and therefore the Group is not a party to any other derivative contracts in the scope covered hereby and no financial derivatives measured at fair value were recognised in profit or loss.

The Group categorises financial derivatives within Level 2 of the fair value hierarchy. In the first half-year of 2018, there were no transfers made between Levels 1, 2 and 3. The categorisation within Levels 1, 2 and 3 has been described in detail in Note 36.

32. Provisions

As at 1.01.2018	26 096
<i>Audited</i>	
Recognized	5 366
Variations due to currency translation	272
Used	(8 996)
Reversed	(2 758)
As at 30.06.2018	19 980
<i>Unaudited</i>	
including	
- long-term	11 723
- short-term	8 257

In the first half-year of 2018, the Group reversed the provisions for additional works in the amount of PLN 1,327 thousand and also used them in the amount of PLN 1,179 thousand and released the provision in the amount of PLN 1,356 thousand. In addition, in the first half of 2018, the Group created a provision for a bonus in the amount of PLN 2,595 thousand, used a provision for the same purpose in the amount of PLN 6,514 thousand and released a provision in the amount of PLN 1,011 thousand.

33. Reversal of provisions for restructuring costs

As at June 30, 2018 and as at December 31, 2017 the Group did not have a provision for restructuring costs. The entire reserve was dissolved in the first half of 2017.

34. Trade and other liabilities

	30.06.2018	31.12.2017
	<i>Unaudited</i>	<i>Audited</i>
Trade liabilities, before discounting	278 615	282 063
Discounting of liabilities	-	-
Total, net trade liabilities after discounting	278 615	282 063
including:		
- liabilities to related entities	1 252	808
Amounts held	32 452	15 258
Budgetary liabilities	25 363	31 203
Payroll liabilities	7 804	5 563
Other liabilities towards third parties	2 057	959
Dividends and other distributions	5 170	3
Total trade and other liabilities	351 461	335 049

	30.06.2018	31.12.2017
	<i>Unaudited</i>	<i>Audited</i>
Trade liabilities and amounts held before discounting	311 067	297 321
With maturity within 12 months	301 386	292 280
With maturity over 12 months	9 681	5 041
Discounting of liabilities	-	-
Total, Trade liabilities and amounts held after discounting	311 067	297 321

35. Fair value of financial instruments

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

Due to a short-term nature of trade and other receivables and trade and other liabilities, as well as cash and cash equivalents, the carrying amounts of these financial instruments are close to their fair value.

Any borrowings granted and any loans and borrowings incurred are based on the variable market rates linked to WIBOR and EURIBOR, and therefore their fair values are close to their carrying amounts.

The fair value of the IRS contracts (classified as financial derivatives) is calculated as the present value of future cash flows estimated using the yield curves.

In the first half-year of 2018, no fair value was transferred between Level 1, 2 or 3 in the fair value hierarchy.

36. Assets and liabilities measured at fair value

The Group measures at fair value such categories of assets and liabilities as investment properties and financial derivatives. In the first half of 2018, there was no change in the technique of fair value measurement of the above assets and liabilities. The measurement method applied and the unobservable inputs used for measurement are described in detail in the Group's consolidated annual financial statements for 2017.

Balance sheet elements accounted in fair value	Level 1		Level 2		Level 3	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Derivatives (liability)	-	-	5 368	5 311	-	-
Investment properties	-	-	-	-	20 079	20 097
Office properties	-	-	-	-	15 438	15 438
Land properties	-	-	-	-	1 697	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 quoted market prices, set directly (by comparison with actual transactions) or indirectly (by application of measurement methods based on actual transaction);

Level 3 – prices other than prices in active markets.

In the first half-year of 2018, no fair value was transferred between Level 1, 2 or 3 in the fair value hierarchy.

37. Changes in business or economic conditions affecting fair value of the Group's financial assets or liabilities either recognised at fair value or at amortised cost

In the first half-year of 2018, there were no changes in any business or economic conditions which would have a significant effect on fair value of financial assets or liabilities. From January 1, 2018, the Group started to apply IFRS 9.

38. Change in impairment losses and write-downs

	Tangible asstes	Goodwill	Inventory	Receivables	Total
As at 1.01.2018	792	61 532	634	69 617	132 575
<i>Audited</i>					
<i>IFRS 9 implementation</i>	-	-	-	3 221	3 221
As at 1.01.2018 after adjustments	792	61 532	634	72 838	135 796
Recognized	-	-	-	2 708	2 708
Variances due to currency translation	-	-	21	64	85
Reversed	-	-	-	(7 083)	(7 083)
As at 30.06.2018	792	61 532	655	68 527	131 506
<i>Unaudited</i>					

39. Joint ventures

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.

In the first half-year of 2018, the revenues attributable to the consortium members in relation to the contracts performed under the aforementioned consortia, which were not recognised in profit or loss of the Group, were PLN 89,611 thousand and the costs related thereto were PLN 90,041 thousand. In the comparable period, they were respectively PLN 87,304 thousand and PLN 86,179 thousand.

The Group's balance sheet as at June 30, 2018 does not include the trade receivables attributable to the consortium members in the amount of PLN 41,122 thousand (PLN 36,125 thousand as at December 31, 2017) or the trade liabilities attributable to the consortium members in the amount of PLN 42,041 thousand (PLN 36,935 thousand as at December 31, 2017).

40. Contingent and other off-balance-sheet items

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Contingent receivables		
From related entities due to:	85 108	79 285
Received guarantees and sureties	84 262	76 107
Bills of exchange received as collateral	846	3 178
Total contingent receivables	85 108	79 285
From related entities due to:		
From other entities due to:	2 576 045	2 645 100
Provided guarantees and sureties	858 042	796 255
Promissory notes	463 768	485 219
Mortgages	183 892	149 039
Assignment of receivables	927 539	1 071 118
Assignment of rights under insurance policy	54 659	54 301
Security deposits	20 928	22 174
Other liabilities	67 217	66 994
Total contingent liabilities	2 576 045	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 members. Promissory notes are a different form of collateral for the aforementioned bank guarantees.

As at June 30, 2018, except for the aforementioned contingent receivables and liabilities, the Group had contingent receivables in the amount of PLN 1,290 thousand (as compared to PLN 1,407 thousand as at December 31, 2017) arising from the employment contracts signed with employees. If a manager fails to meet his or her obligations defined in Article 1 of the Non-Competition Agreement, he or she will pay, immediately and without a termination notice or any demand issued by the 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. The contingent liabilities arising from employment contracts with employees were PLN 9,084 thousand as at June 30, 2018 (PLN 8,600 thousand as at December 31, 2017).

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

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

41. Events subsequent to the end of the reporting period, which are not reflected in the financial statements for the first half-year of 2018

On July 19, 2018 the Parent Company has signed a contract with the General Directorate of National Roads and Motorways with its registered office in Warsaw covering the execution of construction works envisaged within the project of the development of a "Design and construction of the S61 express road Szczuczyn - Budzisko (Greek state) with the division into tasks: Task No. 2: section Ełk Południe junction - Wysokie junction (along with an outlet within national road 16)". The net value of the contract is PLN 557.7 million. The planned share of the Issuer is PLN 251.0 million net. The works are to be completed within 29 months beginning with the date of the conclusion of the agreement, excluding winter periods during the performance of works. The above information was announced in the current report No. 16/2018 dated July 19, 2018.

On July 24, 2018 the Parent Company has signed two contracts with the PKP PLK S.A. with its registered office in Warsaw, covering the execution of design and construction works envisaged within the project of the development of "Construction of Metropolitan Railway in Szczecin with use of current existed sections of railway lines no. 406, 273, 351", which total net value amounts to PLN 481.2 million. The above information was announced in the current report No. 17/2018 dated July 24, 2018.

On August 30, 2018 the Parent Company has 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"), which net value amounts to PLN 292,2 million. The above information was announced in the current report No. 18/2018 dated August 30, 2018.

42. Cyclicity and seasonality of operations

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

43. Reclassification of financial assets due to changes in their purpose or use

With the exception of the change in the classification of financial assets related to the entry into force of IFRS 9, in the first half of 2018, the Group did not make any other changes to the classification of financial assets. Details of reclassification to new categories under IFRS 9 are presented in note 10.1.

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

In the first half-year of 2018, the Group did not issue, redeem or repay any debt or equity securities.

45. Information on dividends paid or declared

In the first half-year of 2018, Trakcja PRKił S.A. did not pay any dividends.

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

- the amount of PLN 5,139,954.80 (i.e. PLN 0.1 per share) to pay dividends,
- the amount of PLN 26,899,522.04 to increase the supplementary capital.

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

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

46. Significant court cases and disputes

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

Proceedings concerning the Parent Company:

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

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

To the Company's best knowledge, the list of claims towards PNI was drawn up. The claims of Trakcja PRKiL S.A. were recognised in the amount of PLN 10,569,163.16, including PLN 10,274,533.87 for the unpaid invoices and PLN 294,632.29 for the interest for delay in payment. The Company's receivables from contractual penalties and other claims in the total amount of PLN 44,956,834.35 were dismissed. The Company did not agree with that dismissal; therefore, an objection was submitted to the judge commissioner concerning the dismissal in the aforementioned scope. The court had rejected the objection; therefore the Company filed a complaint which was overruled.

On June 8, 2015 the Company received a notice from the trustee in bankruptcy on the change in the bankruptcy procedure from the arrangement bankruptcy to the liquidation bankruptcy. The case is pending and its resolution date is difficult to predict.

Case against Leonhard Weiss International GmbH

As Leonhard Weiss International failed to respond to the statement including a debit note and a request for payment dated October 31, 2017, of which the Group informed in the consolidated report for the 9-month period ended on September 30, 2017 in Note 25 "Interests in joint ventures", the Parent Company decided to take the case to court. The case against Leonhard Weiss International GmbH ("LWI") for payment due under the sale agreement of 50 % of shares in Bahn Technik Wrocław Sp. z o.o. The statement of claim was submitted to the Regional Court in Warsaw on December 29, 2017, but has not yet been served on LWI. Therefore it is impossible to precisely indicate the expected closing date of the case. The Parent Company expects that an enforceable solution may be issued in the second half of 2019 or in the first half of 2020.

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

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

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

Proceedings against PKP PLK S.A.

On October 31, 2017 the Parent Company filed a case against PKP PLK S.A. for the payment of PLN 46 747 276.90 (including, interest of PLN 4 913 969.34), requesting that compensation be paid to it in connection with extension

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

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

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

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

Proceedings regarding subsidiaries:

AB Kauno Tiltai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, of which a subsidiary, AB Kauno Tiltai, is a member, for a total amount of PLN 65,378,448.89 (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. In the opinion of the Management Board of the Parent Company, such disclosure may provide the parties to court proceedings with information that may be used in the ongoing proceedings against the interests of the subsidiary AB Kauno tiltai.

47. Transactions with related entities

Intragroup transactions are made at arm's length. These transactions are excluded from the condensed consolidated financial statements.

The total amounts of transactions made between the related entities in the period covered by the condensed consolidated financial statements and in the comparable period are presented below.

Related entities	Period	Sale to related entities	Purchases from related entities
Shareholders of the Parent:			
COMSA S.A.	1.01.2018 - 30.06.2018	1 521	1 250
	1.01.2017 - 30.06.2017	35 055	732
<hr/>			
Total	1.01.2018 - 30.06.2018	1 521	1 250
	1.01.2017 - 30.06.2017	35 055	732

Please also find below information on receivables from and liabilities towards the related entities as at balance sheet date and as at the end of the comparable period.

Related entities	Reporting date	Net receivables from related entities	Liabilities towards related entities
Shareholders of parent company:			
COMSA S.A.	30.06.2018	2 668	1 252
	31.12.2017	2 780	808
<hr/>			
Total	30.06.2018	2 668	1 252
	31.12.2017	2 780	808

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

48. Remuneration of the Parent Company's Management Board and Supervisory Board members

The Management Board of the Parent Company is the key management of the Group.

The remuneration of the Parent Company's Management Board has been presented in the table below.

Remuneration of the Management Board	Period ended			
	30.06.2018		30.06.2017	
	In parent company	In subsidiaries	In parent company	In subsidiaries
Salaries and other current employee benefits	2 434	607	2 198	127
Post-employment benefits	150	-	-	-
Benefits due to termination of employment	-	-	350	-
Total	2 584	607	2 548	127

Remuneration of the Supervisory Board of the Parent Company:

Remuneration of the Supervisory Board	Period ended			
	30.06.2018		30.06.2017	
	In parent company	In subsidiaries	In parent company	In subsidiaries
Salaries and other current employee benefits	498	501	480	127
Total	498	501	480	127

49. Explanation to the cash flow statement

In June 2018, the Parent Company concluded an investment loan agreement transferring the ownership right to the gravel cleaner and 6 transporters to mLeasing Sp. z o. o. at a total amount of PLN 29,862K net, which were later entered into the register under leaseback agreements (in compliance with SIC-27 the transaction had a character of taking a loan – see note 20). Accounts receivable from mLeasing Sp. z o. o. were set off with liabilities due to the previously concluded loan agreement with mLeasing Sp. z o. o., the value of which as on 30.06.2018 amounted to PLN 6,829K and decreased with preliminary fees in the amount of PLN 5,972K net. The Parent Company received cash flow in the amount of PLN 17,061K net. Due to the lack of a cash character of the transaction, the Group did not recognise cash flow due to the setting off.

50. Parent Company's liquidity

In order to understand current situation in the construction market and the way it challenges the Group, it is important to study Parent Company's liquidity.

The Parent Company pursues an active policy in the scope of managing liquidity. The Parent Company monitors liquidity in the short- and long-term on an ongoing basis and aims to maintain a stable level of available funding. In order to maintain liquidity, the Parent Company undertakes activities aimed at soliciting contracts on which advance payments are provided. Furthermore, the Parent Company pursues an active policy of maintaining a low level of receivables, managing stocks and sales of key materials to contracting parties at the initial stage of the contract execution. The Parent Company puts a great emphasis on shortening the period between performance of works and invoicing completed works.

As on June 30, 2018 the Parent Company had capital and equivalent thereof in the amount of PLN 1.2M as well as unused credit facilities in the amount of PLN 31.7M. As on June 30, 2018 the total of revolving credit facilities amounted to PLN 90M, PLN 58.3M of which constituted used facilities.

In the 1st half of 2018 the Parent Company generated net profit of PLN 1.4M in comparison with net profit of PLN 23.5M in the 1st half of 2017. The above resulted from the fact that in the 1st half of 2018 the Parent Company was executing contracts that had been solicited at the turn of 2016 and 2017, in the period of increased market competition. Furthermore, as of 2016 a noticeable increase in the prices of infrastructural construction materials, post-construction services' costs and labour costs has been observed. Moreover, the decrease in the net result was influenced by lower accounted revenues due to dividends from subsidiaries.

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 obtaining sufficient funds in order to execute current and future contracts. As a result of the aforementioned elements, the Parent Company to a great extent funds executed contracts with external sources and advance payments.

The Management Board of the Parent Company forecasts an average cash flow balance and an average balance of already available and unused credit facilities at the end of the month in the periods after the balance sheet date until 31 December 2018 in the amount of PLN 33.9M with a consideration of the inflow of expected advance payments on already signed contracts (a minimal expected level of cash flow with the level of unused credit facilities at the peak of demand for working capital in the 2nd half of 2018 shall amount to PLN 2.8M).

Credit facilities available at the balance sheet date have been presented in the Note 29 hereto. An average forecasted balance of using credit facilities in the second half of 2018 is estimated at the level up to 75% (the average at the end of particular months) of the use of available credit facilities. In order to increase the possibility of funding the Management Board of the Parent Company is in the process of obtaining advance payments on contracts and negotiations of another credit agreements.

Activities undertaken by the Parent Company after the balance sheet date:

1. As it has been the case so far, the Parent Company actively participates in tender procedures in the railway and road market, which are currently characterised with a smaller number of participants. The current tendency in the market demonstrates that contractors' offers significantly exceeding investment budgets are more and more frequently accepted by contracting parties.
2. The Parent Company has signed 3 contracts of a total net value for the Company of PLN 919M of which it expects to obtain advance payments in the amount up to 10% of the contracts' value and one agreement of a net value of PLN 52M, on which it expects to obtain an advance payment up to 20% of the value of construction works. Furthermore, the Parent Company placed the most favourable offer at the first stage of the procedure for performance of the contract entitled: Construction works on line 226 and station Gdańsk Port Północny as well as line 965 and station Gdańsk Kanał Kaszubski within the project "Improvement of the infrastructure of railway access to the port of Gdańsk", an advance payment in the amount of 10% of the contract's value is expected under the contract. The contracting party reserves the right to organise an auction at the second stage of the procedure. The aforementioned advance payments have not been included in the Group's balance sheet as on 30 June 2018 and have an uncertain character.
3. Despite banks' increased caution with regard to the increase of engagement in the construction services industry, the Parent Company signed credit agreements valued at PLN 58M, including:
 - a. in order to fund the activity of subcontractors and suppliers of two road contracts in the amount of PLN 20M with ING Bank Śląski S.A.; maturity date on 28.02.2019;
 - b. in order to fund the activity of subcontractors and suppliers in the amount of PLN 30M with mBank S.A.; maturity date on 28.09.2018. The Parent Company's intention is to prolong the agreement for another period;
 - c. the agreement on purchasing the accounts receivable of the road contract in the amount of PLN 8M from mBank S.A.; maturity date on 04.10.2019.
4. On the grounds of negotiations held at funding banks, the Parent Company expects to obtain additional credit facilities up to the amount of PLN 100M.
5. The Parent Company analyses potential sales of non-operating assets.

The Management Board of the Parent Company believes that conducted analyses and undertaken steps sufficiently neutralise the risk of losing liquidity. In the Parent Company's opinion conducted activities shall allow securing funding of conducted activity and shall prepare the Parent Company to implement a larger scale of projects.

Warsaw, August 30, 2018

Management Board:

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Person responsible for keeping the accounting records:

Sławomir Krysiński

Head of Financial Reporting Trakcja Group



TRAKCJA PRKiI S.A.

CONDENSED FINANCIAL STATEMENTS

FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2018

PREPARED IN ACCORDANCE WITH

THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

APPROVAL OF THE CONDENSED FINANCIAL STATEMENTS

The Management Board of Trakcja PRKił S.A. has approved the condensed financial statements of Trakcja PRKił S.A. for the period from January 1, 2018 to June 30, 2018.

The condensed financial statements for the period from January 1, 2018 to June 30, 2018 are prepared in accordance with IAS 34 Interim Financial Reporting approved by the European Union.

Information included herein is presented in the following sequence:

1. Income statement for the period from January 1, 2018 to June 30, 2018, which shows a net profit of PLN **1,356** thousand.
2. Statement of comprehensive income for the period from January 1, 2018 to June 30, 2018, which shows the positive total comprehensive income of PLN **1,314** thousand.
3. Balance sheet as at June 30, 2018, which shows the total assets and total equity and liabilities of PLN **1,167,915** thousand.
4. Statement of cash flows for the period from January 1, 2018 to June 30, 2018, which shows a decrease in the total net cash flows by PLN **19,445** thousand.
5. Statement of changes in equity for the period from January 1, 2018 to June 30, 2018, which shows a decrease in the equity by PLN **4,222** thousand.
6. Selected explanatory notes.

The condensed financial statements have been drawn 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.

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

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INCOME STATEMENT

	Note	1.01.2018 - 30.06.2018 <i>Unaudited</i>	1.01.2017 - 30.06.2017 <i>Unaudited</i>
Continued operations			
Sales revenues	5	412 280	322 007
Cost of goods sold		(408 888)	(305 227)
Gross profit (loss) on sales		3 392	16 780
Cost of sales, marketing and distribution		(1 379)	(1 081)
General and administrative costs		(13 161)	(10 676)
Other operating revenues	6	670	2 598
Other operating costs	7	(1 102)	(807)
Operating profit (loss)		(11 580)	6 814
Financial revenues	8	13 345	21 702
Financial costs	9	(3 093)	(3 563)
Gross profit (loss)		(1 328)	24 953
Income tax		2 684	(1 450)
Net profit (loss) from continued operations		1 356	23 503
Net profit (loss) from discontinued operations		-	-
Net profit for financial year		1 356	23 503
Net profit/(loss) in PLN per one share			
– basic		0,03	0,46
– diluted		0,03	0,46

STATEMENT OF COMPREHENSIVE INCOME

	Note	1.01.2018 - 30.06.2018 <i>Unaudited</i>	1.01.2017 - 30.06.2017 <i>Unaudited</i>
Net profit (loss) for the period		1 356	23 503
Other total income for the period			
Other comprehensive income that will not be reclassified into profit or loss under certain conditions:		-	(79)
Profit from revaluation referred into revaluation reserve			
Actuarial gains/(losses)		-	(79)
Other comprehensive income that will be reclassified to profit or loss:		(42)	(5)
Foreign exchange differences on translation of foreign operations		(42)	(5)
Total other comprehensive income	10	(42)	(84)
Total comprehensive income for the period		1 314	23 419

BALANCE SHEET

ASSETS	Note	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Non-current assets		681 581	664 541
Tangible non-current assets	11	158 175	141 389
Intangible assets		52 277	52 961
Investment properties	14	17 174	17 174
Investments in subsidiaries	12	436 241	436 241
Other financial assets		4 440	5 507
Deferred tax assets		6 595	3 811
Accruals		6 679	7 458
Current assets		486 334	444 634
Inventory	16	85 635	53 105
Trade and other receivables	17	214 049	230 975
Income tax receivables		-	134
Other financial assets		10 835	10 318
Cash and cash equivalents	18	1 173	20 618
Accruals		11 078	7 749
Construction contracts and advances paid towards contracts being performed	15	160 502	118 673
Assets held for sale		3 062	3 062
TOTAL ASSETS		1 167 915	1 109 175
Equity and liabilities			
Equity		627 376	631 598
Share capital	19	41 120	41 120
Share premium account		309 984	309 984
Revaluation reserve		5 806	5 804
Other capital reserves		269 145	242 643
Retained earnings		1 356	32 040
Foreign exchange differences on translation of foreign operations		(35)	7
Total equity		627 376	631 598
Long-term liabilities		71 820	51 178
Interest-bearing loans and borrowings	20	65 435	44 508
Provisions	22	3 470	4 035
Liabilities due to employee benefits		2 915	2 635
Short-term liabilities		468 719	426 399
Interest-bearing loans and borrowings	20	76 845	19 737
Trade and other liabilities	21	262 495	252 084
Provisions	22	5 883	7 316
Liabilities due to employee benefits		10 136	8 099
Accruals		397	366
Construction contracts and advances received towards contracts being performed	15	112 963	138 797
TOTAL EQUITY AND LIABILITIES		1 167 915	1 109 175

STATEMENT OF CASH FLOWS

	Note	1.01.2018 - 30.06.2018 <i>Unaudited</i>	1.01.2017 - 30.06.2017 <i>Unaudited</i>
Cash flows from operating activities			
Gross profit from continued operations		(1 328)	24 953
Adjustments for:		(80 890)	(4 579)
Depreciation		7 157	6 696
FX differences		12	126
Net interest and dividends		(10 701)	(20 061)
Profit on investment activities		(25)	55
Change in receivables		20 249	43 431
Change in inventory		(32 530)	(14 937)
Change in liabilities, excluding loans and borrowings		7 087	(37 509)
Change in prepayments and accruals		(2 519)	(10 217)
Change in provisions		(1 999)	(13 669)
Change in construction contracts and advances towards contracts being performed		(67 662)	42 869
Income tax paid		133	(2 228)
Other		(97)	890
Foreign exchange differences on translation of foreign operations		5	(25)
Net cash flows from operating activities		(82 218)	20 374
Cash flows from investment activities			
Sale (purchase) of intangible assets and tangible non-current assets		(14 623)	(8 125)
- acquisition		(14 682)	(8 130)
- sale		59	5
Financial assets		2 597	(2 182)
- granted or acquired		4 178	1 527
- repaid		(1 581)	(3 709)
Loans		(2 000)	3 000
- granted		-	3 000
- repaid		(2 000)	-
Dividend received		9 494	20 685
Interest received		-	243
Net cash flows from investment activities		(4 532)	13 621
Cash flows from financial activities			
Proceeds on account of taken borrowings and loans	23	78 343	-
Repayment of borrowings and loans		(4 626)	(2 224)
Interests and commissions paid		(2 536)	(2 012)
Inflows (outflows) due to other financial liabilities		(21)	(182)
Payment of liabilities under financial lease agreements		(3 855)	(4 616)
Net cash flows from financial activities		67 305	(9 034)
Total net cash flows		(19 445)	24 961
Cash at start of period		20 618	18 820
Cash at end of period		1 173	43 781

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium account	Revaluation reserve	Other reserve capitals	Actuarial gains (losses)	Results from previous years	FX differences on translation of foreign operations	Retained earnings	Total equity
As at 1.01.2018 Audited	41 120	309 984	5 804	391	242 252	7	32 040	631 598	
IFRS 9 implementation	-	-	-	-	(401)	-	-	(401)	
As at 1.01.2018 after adjustments	41 120	309 984	5 804	391	241 851	7	32 040	631 197	
Net profit for the period	-	-	-	-	-	-	1 356	1 356	
Other comprehensive income for the period	-	-	-	-	-	(42)	-	(42)	
Distribution of profit	-	-	-	-	26 900	-	(26 900)	-	
Dividend payment	-	-	-	-	-	-	(5 140)	(5 140)	
Other	-	-	2	-	3	-	-	5	
As at 30.06.2018 Unaudited	41 120	309 984	5 806	391	268 754	(35)	1 356	627 376	
As at 1.01.2017 Audited	41 120	309 984	5 800	470	239 247	(9)	28 699	625 311	
Net profit for the period	-	-	-	-	-	-	23 503	23 503	
Other comprehensive income for the period	-	-	-	(79)	-	(5)	-	(84)	
Distribution of profit	-	-	-	-	2 999	-	(2 999)	-	
Dividend payment	-	-	-	-	-	-	(25 700)	(25 700)	
Other	-	-	2	-	3	-	-	5	
As at 30.06.2017 Unaudited	41 120	309 984	5 802	391	242 249	(14)	23 503	623 035	

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

SELECTED EXPLANATORY NOTES

1. General information

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 Company is located at Złota 59 in Warsaw. The term of the Company is unspecified.

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

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

These condensed financial statements cover the period of 6 months ended June 30, 2018 and include comparative information for the period of 6 months ended June 30, 2017 and as at December 31, 2017.

These financial statements were approved for publication by the Management Board on August 30, 2018. The financial statements form part of the consolidated half-yearly report that contains also the condensed consolidated financial statements of Trakcja Group ("Group"), whose parent company is the Company.

The composition of Trakcja Group and other general information about the Company have been presented in Note 2 of the selected explanatory notes to the Group's condensed consolidated financial statements for the period of 6 months ended June 30, 2018.

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.

2. Accounting principles and changes therein in the half-year concerned

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

Significant values based on professional judgement and estimates are described in detail in Note 6 to the annual financial statements of Trakcja PRKił S.A. for 2017. In the first half-year of 2018, no significant changes have been made to any such accounting estimates, assumptions or professional judgement of the management as verified as at June 30, 2018.

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

Professional judgement

Fair value of financial instruments

If the market for financial instruments is not active, their fair value is established by using relevant measurement techniques. When selecting methods and assumptions, the Company follows the professional judgement. The

assumptions made for this purpose are presented in Note 44 of the Notes to the annual financial statements of Trakcja PRKiI for 2017.

In the first half-year of 2018, the Company has not changed the measurement method for financial instruments measured at fair value. The carrying amounts of financial assets and liabilities are close to their fair values.

Classification of leases

The Management Board classifies a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. This depends on the economic substance of each transaction. For additional information please refer to Note 8.2.4, Note 40, Note 41 and Note 42 of the Notes to the Annual Financial Statements of Trakcja PRKiI for 2017.

Investment properties

The Company's Management Board classifies property as tangible non-current assets or investment properties depending on their intended use by the Company.

Classification of joint contractual arrangements

The Company verifies whether it exercises joint control and determines the type of joint arrangement in which it is involved by considering its rights and obligations under a given arrangement and the structure and legal form of the arrangement, as well as the terms thereof agreed by the parties.

Control over related entities

The parent company exercises control over the related entities, if it is exposed or has rights to variable returns from its involvement and when it is in a position to use its powers over an entity to exert an effect on such returns. In the first half of the year, the Parent Company did not take control of any significant entity.

Estimate uncertainty

Recognition of revenue

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

Provisions for additional works

Provisions for additional works are estimated based on the knowledge of the construction site (contract) directors with regard to the required or potential performance of additional works for the benefit of the contracting entity, in order to fulfil warranty obligations. The largest companies that are members of Trakcja Group are obliged to grant warranty for their services. The provision for additional works depends on the segment in which the companies operate and is based on the Group's historical data. It is subject to individual review and may be increased or decreased when necessary. Any change in the estimates affects the value of the provisions. The change in the provisions for additional works is presented in Note 22.

Provisions for contractual penalties

The Group recognises provisions for contractual penalties in relation to any contracts under completion in the amounts in which they may and are likely to be imposed. Provisions are recognised based on the documentation regarding the contract completion and on the opinion of lawyers who participate in the ongoing negotiations and estimate the Group's potential future liabilities on the basis of their course.

Measurement of employee benefit liabilities

Any employee benefit liabilities for retirement allowances and jubilee bonuses in the current period are estimated on the basis of actuarial methods which take into account the amendments to the remuneration regulations made on June 3, 2017. The amount of liability depends on various factors which are applied as assumptions in the actuarial

method. Key assumptions for determining the amount of liability are the discount rate and the average expected increase in wages.

Deferred tax assets

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

Amortisation and depreciation rates

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

Investment properties

Investment properties are measured at fair value. The value of investment properties is determined by independent experts who hold valid authorisations to perform such valuations. In selecting the approach and technique thereof, the Group follows the principles set forth in IFRS 13 and in the Real Estate Management Act and also in the Regulation of the Council of Ministers on the detailed principles of property valuation and rules and method for preparing valuation reports. Fair value of investment properties is measured by way of applying measurement techniques that require a maximum use of observable data. As at June 30, 2018, there were no circumstances indicating the possibility of a change in the value of investment property, therefore the Company did not make a valuation as at that date.

Impairment of financial assets

In assessing whether financial assets did not lose their value, available and generally applicable valuation methods were used, taking into account the future cash flows forecasted by the Company in relation to the assets held.

In determining the value of expected credit losses, the available and commonly used valuation methods were used, taking into account the forecasts of future cash flows of the Company in relation to the assets held.

Approach regarding investments in AB Kauno Tiltai

The company does not individually identify the cost of acquisition of individual companies as part of an investment made on April 19, 2011 regarding the purchase of shares of a number of companies, ie AB Kauno Tiltai, Lithold AB and Silentio Investments Sp. z o.o., which was based on one general agreement for the entire transaction. In the aforementioned contract the total method of payment for the entire package of the acquired companies was defined, thus stating the total purchase price of the entire package of companies, and not each of the companies separately. The company does not see the practical possibility of dividing the purchase price paid. The Company annually tests the impairment of this investment as a whole and during the year at subsequent balance sheet dates, ie March 31, June 30 and September 30, the Company analyzes the premises regarding the possibility of changing the value of the investment. The carrying amount of the investment in AB Kauno as at June 30, 2018 is presented in note 12 of this report. Note 13 presents data on the impairment test concerning shares in AB Kauno Tiltai.

Write-downs of inventories

The Management Board assesses whether there are any indications that inventories may need to be written down in accordance with Note 8.8 of the selected explanatory notes to the Financial Statements for 2017. For that purpose, the Company estimates the net realisable value of those inventories that lost their functional properties or are no longer useful. The goodwill impairment losses are described in detail in Note 16 and 27.

Write-down to trade receivables and other receivables

Pursuant to IFRS 9, the Group recognizes write-downs on the account of expected credit losses due to trade receivables and other receivables. In terms of trade receivables, the Group applies a simplified method for receivables recognized in the group dimension – for these receivables, a write-down is made for so-called lifelong credit losses, regardless of the analysis of credit risk changes. In terms of other receivables and held financial instruments, the Group defines the write-down to the 12-month expected credit losses if the credit risk is low or it has not increased significantly since the date of including the given component of receivables in the balance sheet, in the amount equivalent to the expected credit losses throughout the life, if the credit risk related with the given component of financial assets has increased significantly since the initial recognition. A change to the write-down to trade receivables and other receivables is presented in Note 27.

Fair value and its measurement

Some assets and liabilities of the Group are measured at fair value for the purposes of financial reporting. The Company measures the fair value of assets or liabilities, to the extent possible, on the basis of the market data observable. The detailed information on the items measured at fair value is presented in Note 24 and 25.

Information regarding measurement techniques and input data used for measuring the fair value of individual assets and liabilities is disclosed in Note 23, 40 and 47 of the selected explanatory notes to the consolidated financial statements for 2017.

2.2. Basis for financial statements preparation

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

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

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

The condensed financial statements do not include all information and disclosures required in the annual financial statements and should be read together with the Company's report for the year ended on December 31, 2017.

The Polish zloty is the Company's measurement currency and the reporting currency in the condensed financial statements, whereas the Bulgarian lev (BGN) is the currency of the establishment of Trakcja PRKił S.A. in Bulgaria and the Ukrainian hryvnia (UAH) is the currency of the establishment in Ukraine.

2.3. Accounting principles

The condensed financial statements for the period from January 1, 2018 to June 30, 2018 are prepared in accordance with IAS 34 Interim Financial Reporting and in accordance with the relevant accounting standards applicable to interim financial reporting approved by the European Union. The presentation of the financial statements is based on IAS 34 "Interim financial reporting" with the same principles being applied for the current and comparable periods and with the comparable period being adjusted accordingly to the changes in the accounting and presentation principles adopted in the current period except for the changes described below.

The accounting principles adopted by the Company are described in detail in its annual financial statements for the financial year ended December 31, 2017, published on March 28, 2018 and in the condensed consolidated financial statements for the period of 6 months of 2018.

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

In the period covered by the condensed financial statements for the first half of 2018, the following changes to the accounting principles and principles of drawing up financial statements have been introduced:

The selected explanatory notes on pages 10 to 36 constitute an integral part hereof.

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

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

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

Classification

IFRS 9 classifies financial assets to the following categories:

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

Recognition

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

Financial assets measured at amortised cost

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

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

Financial assets measured at fair value

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

Impairment

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

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

with increasing the balance sheet value of accounts receivable due to deliveries and services and other accounts receivable.

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

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

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

The Company classifies financial liabilities to the following categories:

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

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

Impact on the standalone financial statement

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

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

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

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

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

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

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

Other amendments to the existing standards and interpretation applied for the first time in 2018

The following amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) and approved for use in the EU come into force for the first time in the Company's financial statements for 2018:

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions - approved in the EU on February 27, 2018 (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" - approved in the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Explanations to IFRS 15 "Revenue from contracts with customers" - approved in the EU on October 31, 2017 and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property – approved in the EU on March 14, 2018 (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – approved in the EU on February 7, 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018),

- **Interpretation IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** - approved in the EU on March 28, 2018 (effective for annual periods beginning on or after January 1, 2018).

The adoption of above-mentioned amendments to the existing standards and interpretation has not led to any the condensed financial statements of the Company for the first half of 2018.

Changes introduced by the Company independently

In the period covered by the condensed financial statements for the first half-year of 2018, there were no other changes to the accounting principles and the preparation of the financial statements.

Standards and amendments to the existing standards adopted by IASB but not yet approved by the EU

In these condensed financial statements, the Company has not decided to apply previously published standards or interpretations before their effective date.

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at August 30, 2018 (the effective dates stated below is for IFRS in full):

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after January 1, 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after January 1, 2021),
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019),
- **Interpretation of IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after January 1, 2019).

The Company anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Company, if they have been applied by the Company as at the balance sheet date .

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company’s estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement” would not significantly impact the financial statements, if applied as at the balance sheet date.

Amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 16 “Leases”** – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IFRS 9 “Financial Instruments”** - prepayment features with negative compensation – adopted by the EU on March 22, 2018 (effective for annual periods beginning on or after January 1, 2019).

The company is in the process of estimating the impact of the above standards on the financial statements prepared for periods after the effective date of these standards.

3. Description of factors and events exerting a significant impact on the financial performance in the first half-year of 2018

In the first half of 2018, Trakcja PRKiI S.A. achieved sales revenues in the amount of PLN 412,280 thousand PLN, which increased by 28.0% compared to the same period last year. The cost of sales for the six months of 2018 amounted to PLN 408,888 thousand and increased compared to the comparable period by 34.0%. Gross profit on sales amounted to PLN 3,392 thousand and was lower by PLN 13,388 thousand compared to the previous period. Gross profit margin on sales in the first half of 2018 amounted to 0.8% and decreased by 4.4 p.p. in relation to the comparable period.

Factors that had the most significant impact on the level of gross profit margin from the sale of the first half of 2018 are the settlement of low-margin contracts acquired in more difficult to offer previous years. The results of the first half of 2018 presented above were also influenced by the increase in the prices of infrastructure construction materials, subcontracting services and wage costs. In addition, the Company incurs related costs with the diversification of activity on the professional energy market and re-entry into the tram segment (urban market). Moreover, the Company continues to prepare operations on foreign markets, where selected investment programs date back to 2030.

General administrative expenses totaled PLN 13,161 thousand and increased by 23.3%, i.e. by PLN 2,485 thousand compared to the comparable period. The growth in general administrative expenses was mainly due to the increase in actuarial provisions for employee benefits by PLN 1,319 thousand, which in turn resulted from the increase in employment necessary to provide services for growing number of contracts. Another reason for the increase in general administrative expenses in the discussed period were one-off benefits due to compensation for the former President of the Management Board in the amount of PLN 545 thousand. The costs of sales, marketing and distribution amounted to PLN 1,379 thousand and rose by PLN 298 thousand. Other operating income totaled PLN 670 thousand and fell by PLN 1,928 thousand in comparison with first half of 2017, when the restructuring provision in the amount of PLN 1,831 thousand was released and its result was posted in other operating income. Other operating costs amounted to PLN 1,102 thousand and grew by PLN 295 thousand in relation to the first half of 2017. For the six-month period of 2018, the Company generated a loss from operating activities in the amount of PLN 11,580 thousand whereas PLN 6,814 thousand for operating profit for the first half of 2017.

The Company's financial revenues for the period from January 1 to June 30, 2018 amounted to PLN 13,345 thousand. and decreased in relation to the comparable period by PLN 8,357 thousand, which results from the fact that the Company recognized lower revenues from received dividends from subsidiaries by PLN 8,773 thousand in relation to the same period of the comparable year. Financial costs in the first half of 2018 dropped by PLN 470 thousand and totaled PLN 3,093 thousand.

In the analyzed period, the Company incurred a gross loss of PLN 1,328 thousand. This result was lower by PLN 26,281 thousand compared to the same period of the previous year, in which the Company reached gross profit in the amount PLN 24,953 thousand.

The Company recognized in the profit and loss account the profit from deferred tax for the first half of 2018 in the amount PLN 2,684 thousand. The company completed the first half of 2018 with a net profit of PLN 1,356 thousand, this result was lower by PLN 22,147 thousand in relation to the result achieved in the first half of 2017.

The balance sheet total as at June 30, 2018 amounted to PLN 1,167,915 thousand and was higher by PLN 58,740 thousand from the balance sheet total at the end of 2017.

The value of fixed assets as at June 30, 2018 was PLN 681,581 thousand and grew by an amount PLN 17,040 thousand, which is an increase of 2.6% compared to non-current assets as at December 31, 2017.

Current assets increased by 9.4% compared to December 31, 2017 and they reached the value of PLN 486,334 thousand. Both trade receivables and other receivables as well as cash and cash equivalents decreased respectively by

PLN 16,926 thousand and PLN 19,445 thousand. In turn, inventories rose by PLN 32,530 thousand to the level of PLN 85,635 thousand, which is related to the preparation of the Company for the implementation of large-scale projects. Construction contracts on the asset side and advances on realized contracts amounted to PLN 160,502 thousand as at the balance sheet date and increased compared to the end of last year by PLN 41,829 thousand.

The Company's equity as at June 30, 2018 totaled PLN 627,376 thousand and dropped by PLN 4,222 thousand, i.e. by 0.7% compared to December 31, 2017. In accordance with the resolution of the Ordinary General Meeting of June 26, 2018, the result of 2017 was allocated in the amount of PLN 5,140 thousand for the payment of dividends and PLN 26,900 thousand to other capital reserve. The dividend will be paid on October 15, 2018.

Long-term liabilities as at June 30, 2018 amounted to PLN 71,820 thousand and increased by PLN 20,642 thousand, i.e. by 40.3% compared to the balance as at December 31, 2017. The increase was mainly caused by a positive change in the long-term investment loan in the amount of PLN 20,646 thousand as at June 30, 2018 in comparison with December 31, 2017. This change was partially offset by the repayment of an investment loan of PLN 2,530 thousand in the analyzed period.

Short-term liabilities reached PLN 468,719 thousand and rose by PLN 42,320 thousand, i.e. by 9.9% compared to the balance at the end of the previous year. The increase was mainly due to increase in the balance on short-term loans and borrowings. The company has signed new contract amendments regarding working capital loan and overdraft facility, for which the value of debt as at June 30, 2018 amounted to a total of PLN 58,283 thousand. The above growth - both in the scope of long- and short-term liabilities - was mainly due to the growing demand for working capital caused by high engagement of work in the spring and summer season, as well as the pressure of subcontractors on accelerated payment of liabilities due to problems related to liquidity of companies in the industry construction. In addition, the balance due to trade payables and other liabilities rose by PLN 10,411 thousand, hence by 4.1% in the analyzed period compared to the value as at December 31, 2017. The positive change in short-term liabilities was partially offset by a decrease in the balance of construction contracts and advance payments towards contracts being performed by PLN 25,834 thousand, including a negative change in the value of advances received that amounted to PLN 25,795 thousand. Advances on executed contracts included in previous periods as short-term liabilities were settled as part of the normal operating cycle of the Company.

The company started the year 2018 with cash presented in the cash flow statement in the amount of PLN 20,618 thousand and ended the period of six months with the balance of cash in the amount of PLN 1,173 thousand. Net cash flow for the six-month period of 2018 was negative and totaled PLN 19,455 thousand, which is a decrease of PLN 44,406 thousand compared to the same period of 2017.

4. Company's liquidity

The Company pursues an active policy in the scope of managing liquidity. The Company monitors liquidity in the short- and long-term on an ongoing basis and aims to maintain a stable level of available funding. In order to maintain liquidity, the Company undertakes activities aimed at soliciting contracts on which advance payments are provided. Furthermore, the Company pursues an active policy of maintaining a low level of receivables, managing stocks and sales of key materials to contracting parties at the initial stage of the contract execution. The Company puts a great emphasis on shortening the period between performance of works and invoicing completed works.

As on June 30, 2018 the Company had capital and equivalent thereof in the amount of PLN 1.2M as well as unused credit facilities in the amount of PLN 31.7M. As on June 30, 2018 the total of revolving credit facilities amounted to PLN 90M, PLN 58.3M of which constituted used facilities.

In the 1st half of 2018 the Company generated net profit of PLN 1.4M in comparison with net profit of PLN 23.5M in the 1st half of 2017. The above resulted from the fact that in the 1st half of 2018 the Company was executing contracts that had been solicited at the turn of 2016 and 2017, in the period of increased market competition. Furthermore, as of 2016 a noticeable increase in the prices of infrastructural construction materials, post-construction services' costs and labour costs has been observed. Moreover, the decrease in the net result was influenced by lower accounted revenues due to dividends from subsidiaries.

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 obtaining sufficient funds in order to execute current and future contracts. As a result of the aforementioned elements, the Company to a great extent funds executed contracts with external sources and advance payments.

The Management Board of the Company forecasts an average cash flow balance and an average balance of already available and unused credit facilities at the end of the month in the periods after the balance sheet date until December 31, 2018 in the amount of PLN 33.9M with a consideration of the inflow of expected advance payments on already signed contracts (a minimal expected level of cash flow with the level of unused credit facilities at the peak of demand for working capital in the 2nd half of 2018 shall amount to PLN 2.8M).

Credit facilities available at the balance sheet date have been presented in the Note 29 hereto. An average forecasted balance of using credit facilities in the second half of 2018 is estimated at the level up to 75% (the average at the end of particular months) of the use of available credit facilities. In order to increase the possibility of funding the Management Board of the Company is in the process of obtaining advance payments on contracts and negotiations of another credit agreements.

Activities undertaken by the Company after the balance sheet date:

1. As it has been the case so far, the Company actively participates in tender procedures in the railway and road market, which are currently characterised with a smaller number of participants. The current tendency in the market demonstrates that contractors' offers significantly exceeding investment budgets are more and more frequently accepted by contracting parties.
2. The Company has signed 3 contracts of a total net value for the Company of PLN 919M of which it expects to obtain advance payments in the amount up to 10% of the contracts' value and one agreement of a net value of PLN 52M, on which it expects to obtain an advance payment up to 20% of the value of construction works. Furthermore, the Company placed the most favourable offer at the first stage of the procedure for performance of the contract entitled: Construction works on line 226 and station Gdańsk Port Północny as well as line 965 and station Gdańsk Kanał Kaszubski within the project "Improvement of the infrastructure of railway access to the port of Gdańsk", an advance payment in the amount of 10% of the contract's value is expected under the contract. The contracting party reserves the right to organise an auction at the second stage of the procedure. The aforementioned advance payments have not been included in the Company's balance sheet as on 30 June 2018 and have an uncertain character.
3. Despite banks' increased caution with regard to the increase of engagement in the construction services industry, the Company signed credit agreements valued at PLN 58M, including:
 - a. in order to fund the activity of subcontractors and suppliers of two road contracts in the amount of PLN 20M with ING Bank Śląski S.A.; maturity date on 28.02.2019;
 - b. in order to fund the activity of subcontractors and suppliers in the amount of PLN 30M with mBank S.A.; maturity date on 28.09.2018. The Company's intention is to prolong the agreement for another period;
 - c. the agreement on purchasing the accounts receivable of the road contract in the amount of PLN 8M from mBank S.A.; maturity date on 04.10.2019.
4. On the grounds of negotiations held at funding banks, the Company expects to obtain additional credit facilities up to the amount of PLN 100M.
5. The Parent Company analyses potential sales of non-operating assets.

The Management Board of the Company believes that conducted analyses and undertaken steps sufficiently neutralise the risk of losing liquidity. In the Company's opinion conducted activities shall allow securing funding of conducted activity and shall prepare the Company to implement a larger scale of projects.

5. Sales revenues

	Period ended	
	30.06.2018	30.06.2017
	<i>Unaudited</i>	<i>Unaudited</i>
Sales revenues		
Revenues from sale of construction services	405 583	316 620
Revenues from sale of goods and materials	1 980	1 060
Revenues from sale of other products and services	4 717	4 327
Total	412 280	322 007

	Period ended	
	30.06.2018	
	<i>Unaudited</i>	
Distribution of contract revenues by country		
Poland	402 340	
Germany	171	
Hungary	3 072	
Total	405 583	

	Period ended	
	30.06.2018	
	<i>Unaudited</i>	
Distribution of revenues due to recipients		
Government and local government institutions	382 402	
Private sector	23 181	
Total	405 583	

	Period ended	
	30.06.2018	
	<i>Unaudited</i>	
Distribution of revenues due to the duration of contracts		
Contracts up to 12 months	52 180	
Contracts over 12 months	353 403	
Total	405 583	

All agreements concerning construction contracts are based on a fixed price. All revenues from contracts are recognized using the percentage of completion method. In turn, revenues related to the sale of materials and other services are recognized at the time of transfer of the goods.

6. Other operating revenues

	Period ended	
	30.06.2018	30.06.2017
	<i>Unaudited</i>	<i>Unaudited</i>
Reversal of provision including:		
- for restructuring	-	1 831
Received penalties and fines	57	554
Redeemed liabilities	139	-
Profit on sale of non-financial non-current assets	25	-
Other	449	213
Total	670	2 598

7. Other operating costs

	Period ended	
	30.06.2018	30.06.2017
	<i>Unaudited</i>	<i>Unaudited</i>
Damage of tangible non-current assets	-	522
Costs of legal proceedings paid	31	-
Donations made	-	5
Cost of restructuring of production department	-	22
Receivables write-off	7	37
Loss on sale of non-financial non-current assets	-	3
Other	1 064	218
Total	1 102	807

The other item includes mainly own costs due to the sale of other services, costs of third party liability insurance, payments to State Fund for the Rehabilitation of the Disabled and non-deductible VAT.

8. Financial revenue

	Period ended	
	30.06.2018	30.06.2017
	<i>Unaudited</i>	<i>Unaudited</i>
Financial revenue from interest, including:	456	101
- bank interest	23	39
- interest on receivables	281	11
- interest on loans	46	28
- other	106	23
Income from received dividends	12 828	21 601
Foreign exchange gains	61	-
Total	13 345	21 702

In the first half-year of 2018, the Company recognised revenues from dividends in the amount lower by PLN 8,773 thousand than their balance in the analogous period of the previous year.

9. Financial costs

	Period ended	
	30.06.2018	30.06.2017
	<i>Unaudited</i>	<i>Unaudited</i>
Financial cost from interest, including:	2 336	2 083
- on loans and borrowings	1 442	641
- on liabilities	88	48
- on factoring	21	114
- on leasing	734	813
- on liability from employee benefits	51	55
- other	-	412
Factoring related costs	-	182
Costs of commissions for advance payment guarantee	389	431
Loss from exchange rate differences	-	339
Financial commission paid	368	443
Financial expenses due to the cost of bank guarantees and insurance	-	85
Total	3 093	3 563

10. Income tax recognized in other comprehensive income

	Period ended	
	30.06.2018	30.06.2017
	Unaudited	Unaudited
Actuarial gains (losses)		
Gross amount	-	(98)
Tax	-	19
Net amount	-	(79)
Gross amount	(42)	(5)
Tax	-	-
Net amount	(42)	-

11. Transactions of acquisition and sale of tangible non-current assets and other intangible assets, including any commitments for acquisition of tangible non-current assets

From January 1, 2018 to June 30, 2018 the Company purchased tangible non-current assets and intangible assets in the amount of PLN 27,303 thousand (PLN 13,141 thousand in the comparable period). From January 1, 2018 to June 30, 2018 the Company sold tangible non-current assets and intangible assets in a total book value of PLN 21 thousand (PLN 55 thousand in the comparable period).

In the period between 1 January 2018 and 30 June 2018 the Company concluded an agreement on transferring the ownership right to the gravel cleaner and 6 transporters to mLeasing Sp. z o. o., which it later entered into the register under leaseback agreements. From the formal point of view, those were sales and repurchase transactions (under leasing agreement) of the aforementioned fixed assets, however, in compliance with the IFRS, sales and repurchase transactions should be treated jointly as loan transactions secured with assets, since in compliance with SIC-27 the transaction had a character of a loan secured with assets, from which the Company obtained funds in the amount of PLN 17,061K net. Therefore, the above specified operations in the scope of purchasing and selling tangible fixed assets do not take into consideration the value of fixed assets covered with the aforementioned agreements.

12. Investments in subsidiaries and entities consolidated under the equity method

As at June 30, 2018 the Company held the following shares in subsidiaries:

- shares in AB Kauno Tiltai with its registered office in Kaunas in the total amount of PLN 364,109 thousand which is 96.84% of the share capital of AB Kauno Tiltai. 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.
- shares in PRK 7 Nieruchomości Sp. z o.o. with its registered office in Warsaw in the amount of PLN 17,169 thousand which is 100% of its share capital;
- shares in Torprojekt Sp. z o.o. with its registered office in Warsaw in the amount of PLN 1,400 thousand which is 82.35% of its share capital;
- shares in Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o. in the amount of PLN 29,466 thousand which is 99.70% of its share capital;
- shares in Dalba Sp. z o.o. in the amount of PLN 385 thousand which is 100% of its share capital;
- shares in PDM Białystok S.A. in the amount of PLN 204 thousand which is 94.62% of its share capital;

- shares in Bahn Technik Wrocław Sp. z o.o. in the amount of PLN 23,508 thousand which is 100% of its share capital.

13. Investment impairment test

As at June 30, 2018, the following prerequisites occurred in AB Kauno tiltai indicating the possible impairment of investments. There were no indications identified the need to test the impairment of other investments.

The most important prerequisites for possible impairment of the AB Kauno tiltai Group investment:

1. a delay in announcing tenders in Lithuania,
2. an amendment of the Lithuanian companies' contracts' portfolio structure – worsening of margins with regard to the decrease in the average value of road contracts in Lithuania. Additional factor affecting margins constituted tightening requirements regarding the quality of road projects implemented by the contracting authority.

In connection with the above, as at 30 June 2018, an impairment test was executed in AB Kauno tiltai. For the purposes of the impairment test, the related party was treated as a separate unit generating cash flows. The recoverable amount of the investment is determined on the basis of value-in-use calculations.

These calculations use cash flow forecasts for a five year period. Cash flows exceeding the five year period have been estimated by calculating the residual value calculated using discount rates computed as the weighted average cost of equity and foreign equity. The growth rate in the residual period has been adopted at a level of 2% and it does not exceed the long-term inflation rate. The Management Board stipulates budget margin on the grounds of historical results, updated contractual budgets and its market development forecasts. The applied discount rate is a post-tax rate reflecting a specific risk regarding particular segments not recognised in cash flow forecasts, calculated on the grounds of the CAPM.

Basic assumptions for the purposes of the test on impairment of the investment:

As at 30.06.2018	AB Kauno tiltai
WACC before taxation	8,1%
EBITDA margin	4,2%-7,9%
Growth rate in the residual period	2,0%

As at 31.12.2017	AB Kauno tiltai
WACC before taxation	7,9%
EBITDA margin	5,7%-8,0%
Growth rate in the residual period	2,0%

In the years 2017 and 2018, the road and railway market in Lithuania was characterised with fragmentation of tenders which was related with tenders being entered by competitors characterised with lower fixed costs, which resulted in a higher pressure on the price offer. An additional factor affecting margins constituted tightening the contracting authority's requirements regarding the quality of implemented road projects. It resulted in obtaining lower margins on performed contracts in the 1st half of 2018. In the Parent Company's Management Board's opinion, current worsening of the situation in the Lithuanian construction market is temporary. Currently, the Management Board expects announcement of larger tenders, which should influence increasing revenues and margins in the future. Furthermore, tighter requirements regarding quality of performed works in the road market should be taken into consideration by all market bidders. Moreover, announcement of tenders within the "Rail Baltica" project is planned in the next years, which, in the Parent Company's Management Board's opinion should have a positive impact both, on revenues and obtained margins.

The Company calculated average EBITDA margins in the period between 2009 and 2017 obtained by the competition, which amounted to 8.6%. It is higher than assumed EBITDA margin in the residual period (7.9%) by 0.7 pp.

As a result of carried out tests, impairment of AB Kauno tiltai investment was not stated as on June 30, 2018.

The sensitivity analysis indicates that the significant factors influencing estimates of use value of cash flow generating centres are as follows: profitability of executed construction contracts, assumed level of a discount rate and growth rate of revenues in infrastructural construction markets in Poland and Lithuania.

Below, the sensitivity analysis of the recoverable amount of investment in AB Kauno tiltai with regard to the amendment of particular indexes used in the impairment test has been presented.

Factor applied	Reasonably possible change of the factor	Liabilities due to employee benefits	
		increase	decrease
EBITDA	+/- 5,0%	47 473	(47 473)
WACC	+/- 0,5 p.p.	(46 292)	54 722

The Company analyzed the sensitivity of the change in EBITDA +/- 5.0% and WACC +/- 0.5 pp., as a result of which it was found that a reasonable change in assumptions in all of the above cases would not result in the need to recognize an impairment write-down.

In addition, the Company made a calculation of the EBITDA margin during the residual period, below which a write-down would be required for impairment of investments for investments in AB Kauno tiltai. It amounted to 6.5%. It is 2.1 pp. lower than the average EBITDA margin from 2009-2017 on the Lithuanian market.

14. Investment properties

Investment properties are measured by the Company at fair value. The Company estimates their values as at December 31 on the basis of valuations carried out as 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 Company assesses whether there are any indications that the fair value may need to be changed.

The most recent valuation of investment properties by an independent expert was carried out as at December 31, 2017. As at June 30, 2018 the Company stated that there were no indications that the values of investment properties changed significantly.

15. Construction contracts

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Surplus of invoiced revenues over revenues resulting from degree of advancement	3 486	3 535
Surplus of revenues resulting from degree of advancement over invoiced revenues	126 909	82 024
Advances paid towards contracts being performed	33 593	36 649
Advances received towards contracts being performed	108 031	133 826
Provision for anticipated losses on contracts	1 446	1 436
Recognised in balance sheet:		
<i>in current assets</i>		
Construction contracts and advances paid towards contracts being performed	160 502	118 673
<i>in short-term liabilities</i>		
Construction contracts and advances received towards contracts being performed	112 963	138 797

16. Inventory

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Materials	75 572	47 232
Semi-finished goods and products in progress	8 317	5 856
Finished goods	1 888	159
Merchandise	10	10
Total, gross inventory	85 787	53 257
Inventory revaluation write-offs	(152)	(152)
Materials	75 447	47 107
Semi-finished goods and products in progress	8 317	5 856
Finished goods	1 861	132
Merchandise	10	10
Total, net inventory	85 635	53 105

17. Trade and other receivables

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Gross trade receivables, before discounting	251 505	274 743
Discounting of receivables	-	-
Total, gross trade receivables	251 505	274 743
including:		
- <i>receivables from related entities</i>	3 063	5 456
Receiveability due to dividend payment	3 322	-
Budgetary receivables	8	6
Receivables claimed in court	3 845	3 913
Other receivables from third parties	14 333	15 077
Amounts held	3 805	2 445
including:		
- <i>amounts held from related entities</i>	18	18
Total, gross trade and other receivables	276 818	296 184
Receivables revaluation write-offs	(62 769)	(65 209)
Total	214 049	230 975

18. Cash and other equivalents

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Cash in hand	50	56
Cash at bank	892	9 460
Other cash and cash equivalents - deposits	231	11 102
Cash and cash equivalents as at end of period	1 173	20 618

19. Share capital

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
	Par value 0.8 PLN	Par value 0.8 PLN
Series A ordinary shares	51 399 548	51 399 548
Total	51 399 548	51 399 548

The Company's share capital is PLN 41,119,638.40 and is divided into 51,399,548 shares with a par value of PLN 0.8 each, which give entitlement to the same number of votes at the Company's General Meeting. All shares are fully paid-up.

20. Interes-bearing loans and borrowings

Long-term interest-bearing loans and borrowings:

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Bank loans	11 382	13 911
- investment loans	11 382	13 911
Loans from other entities	24 714	4 068
- project purpose loans	24 714	4 068
Financial lease liabilities	29 339	26 529
Total	65 435	44 508

Short-term interest-bearing loans and borrowings:

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Bank loans	63 342	5 059
- investment loans	5 059	5 059
- working loans	29 000	-
- overdraft	29 283	-
Loans from other entities	2 016	4 693
- project purpose loans	2 016	4 693
Financial lease liabilities	11 487	9 985
Total	76 845	19 737
Total short and long term loans and borrowings	142 280	64 245

21. Trade and other liabilities

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Trade liabilities, before discounting	205 605	215 744
Discounting of liabilities	-	-
Total, net trade liabilities after discounting	205 605	215 744
including:		
- liabilities to related entities	9 143	10 941
Amounts held	29 798	10 051
- to related entities	351	217
Budgetary liabilities	17 408	23 921
Payroll liabilities	2 928	2 021
Liability due to dividend payment	5 140	-
Other liabilities towards third parties	1 616	347
Total trade and other liabilities	262 495	252 084

Trade liabilities and amounts held:

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Trade liabilities and amounts held before discounting	235 403	225 795
With maturity within 12 months	221 261	221 542
With maturity over 12 months	14 142	4 253
Discounting of liabilities	-	-
Total, Trade liabilities and amounts held after discounting	235 403	225 795

22. Provisions

As at 1.01.2018	11 351
<i>Audited</i>	
Recognized	5 047
Variations due to currency translation	-
Used	(5 310)
Reversed	(1 735)
As at 30.06.2018	9 353
<i>Unaudited</i>	
including	
- long-term	3 470
- short-term	5 883

As at 31 December 2017, the balance of provisions for warranty works amounted to PLN 7,091 thousand and the value of bonuses provisions was at the level of PLN 3 661 thousand. During the first half of 2018, the Company created provisions for bonuses in the amount of PLN 2,595 thousand and for warranty works worth PLN 1,072 thousand. In addition, in the analyzed period, the Company terminated provisions for warranty works in the amount of PLN 1,356 thousand and also used reserves for the same purpose in the amount PLN 1,029 thousand. The company also used the provision for a bonus of PLN 3,661 thousand in the first half of 2018.

23. Explanation to the cash flow statement

In June 2018, Parent Company concluded an investment loan agreement transferring the ownership right to the gravel cleaner and 6 transporters to mLeasing Sp. z o. o. at a total amount of PLN 29,862K net, which were later entered into the register under leaseback agreements (in compliance with SIC-27 the transaction had a character of taking a loan – see note 20). Accounts receivable from mLeasing Sp. z o. o. were set off with liabilities due to the previously concluded loan agreement with mLeasing Sp. z o. o., the value of which as on 30.06.2018 amounted to PLN 6,829K and decreased with preliminary fees in the amount of PLN 5,972K net. The Parent Company received cash flow in the amount of PLN 17,061K net. Due to the lack of a cash character of the transaction, the Group did not recognise cash flow due to the setting off.

24. Fair value of financial instruments

In the first half-year of 2018, the Company did not change the measurement method for any categories of financial instruments measured at fair value as compared to the annual financial statements. The carrying amounts of financial assets and liabilities are close to their fair values.

Due to a short-term nature of trade and other receivables and trade and other liabilities, as well as cash and cash equivalents, the carrying amounts of these financial instruments are close to their fair value.

Any borrowings granted and any loans and borrowings incurred are based on the variable market rates linked to WIBOR, and therefore their fair values are close to their carrying amounts.

For the shares held in other entities (including the related entities), the Company is unable to reliably determine their fair value due to the fact that they are not listed on the active market. In keeping with the accounting policy adopted by the Company, such shares are measured at cost less any impairment losses. A test for impairment was performed as at June 30, 2018, because there were indications of the possible impairment of investment in AB Kauno tiltai. The description was made in note 13.

In the first half-year of 2018, no fair value was transferred between Level 1, 2 or 3 in the fair value hierarchy.

25. Assets and liabilities measured at fair value

The Company measures at fair value such categories of assets and liabilities as investment properties and financial derivatives. In the first half-year of 2018, the measurement method applied to the aforementioned assets and liabilities remained unchanged. The measurement method applied and the unobservable inputs used for measurement are described in detail in the Company's Annual Financial Statements for 2017.

	30.06.2018 Unaudited	Level 1	Level 2	Level 3
Investment properties:	17 174	-	-	17 174
Office property	17 174	-	-	17 174
- land	13 739	-	-	13 739
- buildings	3 435	-	-	3 435
	31.12.2017 Audited	Level 1	Level 2	Level 3
Investment properties:	17 174	-	-	17 174
Office property	17 174	-	-	17 174
- land	13 739	-	-	13 739
- buildings	3 435	-	-	3 435

Level 1 – quoted market prices for similar assets or liabilities in active markets;

Level 2 – prices in active markets other than quoted market prices, set directly (by comparison with actual transactions) or indirectly (by application of measurement methods based on actual transaction);

Level 3 – prices other than prices in active markets.

In the first half-year of 2018, no fair value was transferred between Level 1, 2 or 3 in the fair value hierarchy.

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

With the exception of the change in the classification of financial assets related to the entry into force of IFRS 9, in the first half of 2018 the company did not make any other changes to the classification of financial assets. Details of reclassification to new categories under IFRS 9 are presented in Note 2.4.

27. Change in impairment losses and write-downs

	Inventory	Receivables	Total
As at 1.01.2018 Audited	152	65 209	65 361
Changes in accounting standards - IFRS 9		(328)	(328)
As at 1.01.2018 after adjustment	152	64 881	65 033
Recognized		2 078	2 078
Variances due to currency translation			-
Used		(31)	(31)
Reversed		(4 159)	(4 159)
As at 30.06.2018 Unaudited	152	62 769	62 921

28. Contingent and other off-balance-sheet-items

	30.06.2018 <i>Unaudited</i>	31.12.2017 <i>Audited</i>
Contingent receivables		
From related entities due to:	83 438	78 389
Received guarantees and sureties	82 592	75 212
Bills of exchange received as collateral	846	3 177
Total contingent receivables	83 438	78 389
Contingent liabilities		
From related entities	4 900	-
Provided guarantees and sureties	4 900	-
From other entities due to:	2 263 018	2 313 021
Provided guarantees and sureties	731 214	701 044
Promissory notes	458 220	481 638
Mortgages	129 000	99 000
Assignment of receivables	811 633	897 275
Assignment of rights under insurance policy	47 528	47 305
Security deposits	18 206	19 765
Other liabilities	67 217	66 994
Total contingent liabilities	2 267 918	2 313 021

Contingent liabilities due to guarantees and sureties granted for the benefit of other entities are mainly guarantees issued by banks for the benefit of business partners as collateral for their claims against the Company arising out of the construction contracts performed (performance bonds, retention bonds and advance payment guarantees). Banks have a right of recourse against the Company. Promissory notes are a different form of collateral for the aforementioned bank guarantees.

As at June 30, 2018, except for the aforementioned contingent receivables and liabilities, the Company had contingent receivables in the amount of PLN 1,290 thousand (as compared to PLN 1,407 thousand as at December 31, 2017) arising from the employment contracts signed with employees. If a manager fails to meet his or her obligations defined in Article 1 of the Non-Competition Agreement, he or she will pay, immediately and without a termination notice or any demand issued by the Company, a contractual penalty in the amount equal to the PLN equivalent of EUR 25,000

for each failure and the amount equal to the PLN equivalent of EUR 1,000 for each day in which such a failure occurs or continues.

The contingent liabilities arising from employment contracts with employees were PLN 5,198 thousand as at June 30, 2018 (PLN 5,554 as at December 31, 2017).

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

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

29. Transactions with related parties

Transactions with related entities are made at arm's length.

Please also find below information on receivables from and liabilities towards the related entities as at balance sheet date and as at the end of the comparable period.

Related entities	Period	Sale to related entities	Purchases from related entities	Interest revenue	Interest costs	Financial revenue from dividends received
Shareholders:						
COMSA S.A.	1.01.18-30.06.18	-	1 250	-	-	-
	1.01.17-30.06.17	-	732	-	-	-
Subsidiaries:						
PRK7 Nieruchomości Sp. z o.o.	1.01.18-30.06.18	175	4	-	5	157
	1.01.17-30.06.17	9	2	28	-	-
Torprojekt Sp. z o.o.	1.01.18-30.06.18	172	1 849	-	-	125
	1.01.17-30.06.17	115	1 572	-	-	790
AB Kauno Tiltai	1.01.18-30.06.18	1 537	-	-	-	9 349
	1.01.17-30.06.17	1 448	-	-	-	19 143
PEUim Sp. z o.o.	1.01.18-30.06.18	13	-	-	-	2 761
	1.01.17-30.06.17	-	473	-	-	1 668
Dalba Sp. z o.o.	1.01.18-30.06.18	3	1 031	18	-	-
	1.01.17-30.06.17	2	-	-	-	-
PDM Białystok S.A.	1.01.18-30.06.18	-	-	28	-	-
	1.01.17-30.06.17	412	-	-	-	-
AB Kauno Tiltai Lenkijos skyrius	1.01.18-30.06.18	5 151	10	-	-	-
	1.01.17-30.06.17	-	2	-	-	-
BTW Sp. z o.o.	1.01.18-30.06.18	317	2 293	-	-	436
	1.01.17-30.06.17	414	2 604	-	-	-
Total	1.01.18-30.06.18	7 368	6 437	46	5	12 828
	1.01.17-30.06.17	2 400	5 385	28	-	21 602

The total amounts of transactions made between the related entities in the period covered by the condensed financial statements and in the comparable period are presented below.

Related entities	Reporting date	Net receivables from related entities	Liabilities towards related entities	Loans granted	Borrowings received
Shareholders:					
COMSA S.A.	30.06.2018	-	1 252	-	-
	31.12.2017	-	808	-	-
Subsidiaries:					
Bahn Technik Wrocław Sp. z o.o.	30.06.2018	521	2 560	-	-
	31.12.2017	951	1 828	-	-
PRK7 Nieruchomości Sp. z o.o.	30.06.2018	36	4	-	3 005
	31.12.2017	11	1	-	-
Torprojekt Sp. z o.o.	30.06.2018	139	2 022	-	-
	31.12.2017	14	3 258	-	-
AB Kauno Tiltai	30.06.2018	1 454	2 613	-	-
	31.12.2017	3 033	3	-	-
AB Kauno Tiltai - oddział w Polsce	30.06.2018	-	12	-	-
	31.12.2017	-	-	-	-
PEUIM Sp. z o.o.	30.06.2018	2 761	-	-	-
	31.12.2017	44	5 043	-	-
PDM Białystok S.A.	30.06.2018	-	-	2 028	-
	31.12.2017	4	-	-	-
Dalba Sp. z o.o.	30.06.2018	2	1 031	1 030	-
	31.12.2017	1	-	1 012	-
AB Kauno Tiltai Lenkijos skyrius	30.06.2018	1 489	12	-	-
	31.12.2017	1 398	-	-	-
Total	30.06.2018	6 402	9 506	3 058	3 005
	31.12.2017	5 456	10 941	1 012	-

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

Trakcja PRKił S.A. and its subsidiary, AB Kauno Tiltai, concluded an agreement for the provision by the Issuer of support services to the subsidiary in the area of finance management, strategic management and human resources management. The Issuer's remuneration is determined at arm's length as the costs incurred by the Issuer as a result of the services provided plus a fixed margin.

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

The total value of remuneration and other benefits for the Management Board members in the first half-year of 2018 was PLN 3,191 thousand, including PLN 2,584 thousand recognised as costs of the parent company and PLN 607 thousand recognised as costs of its subsidiaries.

In the comparable period of 2017, the total value of remuneration and other benefits for the Management Board members was PLN 2,675 thousand, including PLN 2,548 thousand recognised as costs of the parent company and PLN 127 thousand recognised as costs of its subsidiaries.

The total value of remuneration and other benefits for the Supervisory Board members in the first half-year of 2018 was PLN 999 thousand, including PLN 498 thousand recognised as costs of the parent company and the remaining amount of remuneration, namely PLN 501 thousand, recognised as costs of its subsidiaries.

In the comparable period of 2017, the total value of remuneration and other benefits for the Supervisory Board members was PLN 607 thousand, including PLN 480 thousand recognised as costs of the parent company and the remaining amount of remuneration, namely PLN 127 thousand recognised as costs of its subsidiaries.

Remuneration of the Management Board	Period ended			
	30.06.2018		30.06.2017	
	In parent company	In subsidiaries	In parent company	In subsidiaries
Salaries and other current employee benefits	2 434	607	2 198	127
Post-employment benefits	150	-	-	-
Benefits due to termination of employment	-	-	350	-
Total	2 584	607	2 548	127

Remuneration of the Supervisory Board	Period ended			
	30.06.2018		30.06.2017	
	In parent company	In subsidiaries	In parent company	In subsidiaries
Salaries and other current employee benefits	498	501	480	127
Total	498	501	480	127

31. Events subsequent to the end of the reporting period, which are not reflected in the financial statements for the first half-year of 2018

Significant events subsequent to the end of the reporting period have been presented in Note 41 of the interim consolidated financial statements of Trakcja Group for the 6-month period ended June 30, 2018.

Warsaw, August 30, 2018

Management Board:

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Person responsible for keeping the accounting records:

Elżbieta Okuła

Chief Accountant



TRAKCJA CAPITAL GROUP

REPORT ON THE ACTIVITIES OF TRAKCJA CAPITAL GROUP
FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2018

prepared pursuant to § 90 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information to be published by issuers of securities and on conditions of recognition of information required under non-member state law regulations as equivalent (Journal of Laws of 2014, item 133), as amended.

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

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Figures provided in this Report on the Activities of the Group are presented in thousand Polish zloty, unless explicitly stated otherwise. Financial information herein is prepared in accordance with IAS 34 Interim Financial Reporting approved by the European Union. This Report on the Activities of the Group does not cover all information or disclosures required in the annual report on the activities and it should be read together with the Group's consolidated financial statements for the year ended December 31, 2017. 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 Group is not responsible for such information.

1. Business Activities of Trakcja 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 railway and road infrastructure construction market.

The Group's activities concentrate on the comprehensive performance of works relating to a widely understood railway 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 railway and tramway lines, railway and tramway electrification system and power lines, as well as construction of bridges, viaducts, piers, overpasses, tunnels, underpasses, retaining walls, roads and associated elements of railway 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 core business is the construction of buildings both for railway 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 responsible for comprehensive medium and high voltage power systems in the new and modernised and renovated railway power facilities. The Group modernised several thousand kilometres of railway lines and provided power to over 10,000 kilometres of railway 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 include its ability to execute 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 completed in a timely manner and according to the highest European standards,
- its modern machinery.

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

The long-term market practice 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 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 European procedures to be strictly complied with, which has also an effect on the quality of the services provided and products manufactured.

1.2 Changes in the Group and their consequences

As at June 8, 2018 the company from the Group, AB Kauno tiltai, acquired 24.9% of shares in UAB Plestros Investicijos, obtaining a total of 100% shares in this company. In the first half of 2018, no other changes occurred in the structure of the Trakcja Group. As at June 30, 2018 the Group's organisational structure is presented in the diagram in Note 2 to the condensed consolidated financial statements for the six months ended June 30, 2018.

1.3 Types of products and services

The scope of activities in Trakcja Group has not changed compared to the one presented in note 2.1. Report on the Activities of the Trakcja Group in 2017.

1.4 Significant construction contracts

As at June 30, 2018 the Trakcja Group's portfolio of construction contracts was PLN 2,027 million (excluding any revenues allocated to consortium members). In the first half-year of 2018, the companies within Trakcja Group signed construction contracts with the total value of PLN 699 million (excluding any revenues allocated to consortium members). The contract portfolio as at June 30, 2018 ensures that Trakcja Group will operate at 100% of its capacity in the current financial year. The Group's participation in new tenders in 2018 will allow the Group to further secure its portfolio of contracts for subsequent periods.

In addition, on July 19, 2018 the Parent Company has signed a contract with the General Directorate of National Roads and Motorways with its registered office in Warsaw covering the execution of construction works envisaged within the project of the development of a "Design and construction of the S61 express road Szczuczyn - Budzisko (Greek state) with the division into tasks: Task No. 2: section Ełk Południe junction - Wysokie junction (along with an outlet within national road 16)". The net value of the contract is PLN 557.7 million. The planned share of the Issuer is PLN 251.0 million net. The works are to be completed within 29 months beginning with the date of the conclusion of the agreement, excluding winter periods during the performance of works. The above information was announced in the current report no. 16/2018 dated July 19, 2018.

On July 24, 2018 the Parent Company has signed two contracts with the PKP PLK S.A. with its registered office in Warsaw, covering the execution of design and construction works envisaged within the project of the development of "Construction of Metropolitan Railway in Szczecin with use of current existed sections of railway lines no. 406, 273, 351", which total net value amounts to PLN 481.2 million. The above information was announced in the current report no. 17/2018 dated July 24, 2018.

On August 30, 2018 the Parent Company has 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"), which net value amounts to PLN 292,2 million. The above information was announced in the current report no. 18/2018 dated August 30, 2018.

Trakcja Group primarily performs railway and road contracts on Polish and Lithuanian markets. The Group's equipment and human resources allow for large contracts with value between several dozen and several hundred million to be performed. The largest contracts completed by the Group in the first half-year of 2018 are presented in the table below (the contract amounts specified include the construction works allocated to consortium members):

No.	Name of contract	Contract value (net mPLN)	Work types
1.	Modernization of the E30/C-E30 railway line on the Kraków – Rzeszów section, stage III (Dębica - Sędziszów Małopolski)	423	rail works
2.	Design and execution of construction works within the project „Works on the railway lines no. 140, 148, 157, 159, 173, 689, 691 on the Chybie – Żory – Rybnik – Nędza / Turze section”	379	rail works
3.	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”	379	rail works
4.	Development of execution projects and execution of works for LCS Warszawa Okęcie (railway line no. 8)	377	rail works
5.	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"	364	rail works
6.	Design and construction of the S-5 expressway, Szubin-Jaroszewo	324	road works
7.	Modernization of the E30/C-E30 railway line on the Kraków – Rzeszów section, stage III (Sędziszów Małopolski – Rzeszów Zachodni)	305	rail works
8.	Modernization of the E30 railway line on the Jaworzno Szczakowa - Trzebinia section	259	rail works
9.	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 srk machines 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”	165	rail works
10.	Modernization of the E59 railway line on the Wrocław - Poznań section, stage III (Czempiń - Poznań)	163	rail works
11.	Development of the Trans-European Road Network E67 (VIA BALTICA). Development of Kaunas-Marijampolė section. Stage I. Road A5 Kaunas-Marijampolė-Suvalkai section 23.40 - 35.40 km reconstruction.	133	road works
12.	Optimization and preparation of the North-East Lithuanian power grid for synchronous operation with the continental European energy system	100	energy

The most significant construction contracts concluded by the Trakcja Group members in the first half-year of 2018 are the following (the contract amounts specified include the construction works allocated to consortium members):

No.	Name of contract	Contract value (net mPLN)	Company	Work types
1.	Optimization and preparation of the North-East Lithuanian power grid for synchronous operation with the continental European energy system	100	AB Kauno tiltai	energy
2.	Design and construction works at Warszawa Główna Station	81	Trakcja PRKiI S.A.	rail works
3.	Reconstruction of Provincial Road No. 211 - section C: Mojusz-Kartuzy	68	Trakcja PRKiI S.A.	road works
4.	LCS Malbork - improvement of railway embankment	67	Trakcja PRKiI S.A.	rail works
5.	Reconstruction works in Kaunas City (stage I, II, III, IV)	57	AB Kauno tiltai	road works
6.	Road reconstruction with reconstruction of the tram tracks in Gorzów Wielkopolski	45	Trakcja PRKiI S.A.	tram works
7.	Expansion of the intersection of Warszawska Street and Kolska Street in Konin	28	Trakcja PRKiI S.A.	road works
8.	Design works - Warsaw cross-city line on the section Warszawa Wschodnia - Warszawa Zachodnia	22	Torprojekt Sp. z o.o.	rail works
9.	Design and construction works - BUW investment: basement adaptation for sport purposes	20	PRK 7 Nieruchomości Sp. z o.o.	general construction
10.	110 kV line Pagėgiai - Bitėnai	17	AB Kauno tiltai	energy
11.	Design and construction of 20 photovoltaic installations of a maximum total capacity of 20MW	14	Trakcja PRKiI S.A.	energy
12.	Other contracts	288	-	different
TOTAL		808		

1.5 Strategy and directions of the Group's development

In the first half-year of 2018, the Group successfully continued organizational and legal restructuring in order to achieve effects of synergy, operational effectiveness and increasing the financial power.

In 2018 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 a better organisation of works, better use of synergies, and incentive schemes;
- improvement in cash flow management and reduction in debt;
- intensified use of its own resources during the performance of contracts;
- 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.

Strengthening the Group's position on the Polish railway market of construction and assembly services

In 2018 and subsequent years, the Management Board of Trakcja PRKiI expects to focus its operations on the Polish railway market of construction and assembly services and to strengthen its market position on the road 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, in particular, the Production Preparation and Project Optimisation Department.

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

1.6 Brief description of significant accomplishments or failures in the first half of 2018

The significant achievements of the Group during the 6 months ended June 30, 2018 include:

- Gross profit from sales for the period of 6 months of 2018, which amounted to PLN 10,868 thousand,
- Signing new contracts worth PLN 699 million (excluding the part attributable to consortium members)
- Further reconstruction of the order portfolio,
- Ensuring the availability of guarantee lines: as at June 30, 2018, Trakcja Group companies had free lines of guarantee at the level of PLN 670 million.

2. Present and forecast condition of Trakcja Group

2.1 Description of factors and events exerting a significant impact on the financial performance in the first half of 2018

2.1.1 Overview of the Income Statement

CONSOLIDATED PROFIT & LOSS ACCOUNT	1.01.2018 - 30.06.2018 Unaudited	1.01.2017 - 30.06.2017 Unaudited	Change	Change %
Sales revenues	578 851	537 648	41 203	8%
Cost of goods sold	(567 983)	(507 999)	(59 984)	12%
Gross profit on sales	10 868	29 649	(18 781)	-63%
Cost of sales, marketing and distribution	(3 059)	(2 974)	(85)	3%
General and administrative costs	(26 199)	(23 062)	(3 137)	14%
Other operating revenues	1 685	3 569	(1 884)	-53%
Other operating costs	(1 462)	(1 063)	(399)	38%
Operating profit	(18 167)	6 119	(24 286)	-397%
Financial revenues	2 214	1 965	249	13%
Financial costs	(6 983)	(5 655)	(1 328)	23%
Gross profit	(22 936)	2 429	(25 365)	-1044%
Income tax	2 333	(1 340)	3 673	-274%
Net profit for the period	(20 603)	1 089	(21 692)	-1992%

In the first half of 2018, the Trakcja Group generated revenues of PLN 578,851 thousand, which increased by 8% compared to the same period last year. The cost of sales in the six-month period of 2018 increased by 12% and reached the value of PLN 567,983 thousand.

Gross profit on sales of the Group in the first half of 2018 amounted to PLN 10,868 thousand and was 63% lower than the profit in the comparable period. Gross profit margin on sales in the analyzed period totaled 1.9% and was by 3.6 pp. lower than in the corresponding period of 2017.

Factors that had the most significant impact on the level of gross profit margin from the sale of the first half of 2018 are the settlement of low-margin contracts acquired in more difficult to offer previous years. The results of the first half of 2018 presented above were also influenced by the increase in the prices of infrastructure construction materials, subcontracting services and wage costs. In addition, the Parent Company incurs costs related to the diversification of operations on the professional energy market and re-entering the tram segment (urban market). Moreover, the Parent Company continues to prepare operations on foreign markets, where selected investment programs date back to 2030. Furthermore, the change in the structure of the portfolio of contracts awarded to the Lithuanian members of the Group had an impact on the results achieved by the Group.

The costs of sales, marketing and distribution were recorded at PLN 3,059 thousand. They were higher by 3% compared to the comparable period.

General administrative expenses amounted to PLN 26,199 thousand and grew by 14% compared to the first half of last year. The factors due to which the overheads increased included the growth in actuarial provisions for employee benefits in the Parent Company by PLN 1,319 thousand and one-off compensation benefit for the former President of the Management Board in the amount of PLN 545 thousand.

Other operating income for the six months period of 2018 totaled PLN 1,685 thousand and decreased by PLN 1,884 thousand compared to the corresponding period, when the restructuring provision in the amount of PLN 1,831 thousand was reversed and its result recognized in other operating income. Other operating expenses achieved PLN 1,462 thousand and were higher by PLN 399 thousand in relation to costs from the first half of last year.

The Group completed the first half of 2018 with a loss from operating activities in the amount of PLN 18,167 thousand which is a decrease in the operating result by PLN 24,286 thousand compared to the same period of the previous year,

in which the operating profit totaled PLN 6,119 thousand. The loss from operating activities results from the reduction of the gross profit margin on sales in the discussed period, which was affected by the factors described above.

In the first half of 2018, the Group generated financial revenues in the amount of PLN 2,214 thousand, which was higher by 13% related to the comparable period. The financial costs in the analyzed period rose by 23% and reached PLN 6,983 thousand. The growth of financial costs was mainly due to the increase in foreign exchange losses, which amounted to PLN 1,532 thousand.

In the period analyzed, the Group recorded a gross loss of PLN 22,936 thousand, which is a decrease by PLN 25,365 thousand in relation to the first half of 2017 that ended with a gross profit of PLN 2,429 thousand.

Income tax in the first half of 2018 totaled PLN 2,333 thousand and was higher by PLN 3,673 thousand compared to the corresponding period of the previous year.

The Group ended the first half of 2018 with a net loss of PLN 20,603 thousand, while in the corresponding period of the previous year, the Group generated a net profit of PLN 1,089 thousand, which means a decrease in net profit by the amount PLN 21,692 thousand compared to the result for the first half of 2017.

In the first half of 2018, the net profit margin reached the level of -3.6%, whereas in the first half of 2017 it amounted to 0.2%.

2.1.2 Overview of the Balance Sheet

The key items of the consolidated balance sheet of Trakcja Group as at June 30, 2018 in comparison with their balances as at December 31, 2017 are presented in the table below:

CONSOLIDATED ASSETS	30.06.2018 Unaudited	31.12.2017 Audited	Change	Change %
Non-current assets	762 068	731 454	30 614	4%
Tangible non-current assets	286 960	266 853	20 107	8%
Investment properties	20 079	20 097	(18)	0%
Goodwill from consolidation	335 424	327 996	7 428	2%
Intangible assets	53 165	53 753	(588)	-1%
Investments in other units	3 776	858	2 918	340%
Other financial assets	44 479	44 147	332	1%
Deferred tax assets	10 611	9 836	775	8%
Accruals	7 574	7 914	(340)	-4%
Current assets	763 800	710 826	52 974	7%
Inventory	138 704	94 027	44 677	48%
Trade and other receivables	346 161	324 094	22 067	7%
Income tax receivables	4 274	9 642	(5 368)	-56%
Other financial assets	14 161	14 859	(698)	-5%
Cash and cash equivalents	16 134	112 184	(96 050)	-86%
Accruals	13 918	9 233	4 685	51%
Construction contracts and advance payments for contracts being performed	230 448	146 787	83 661	57%
TOTAL ASSETS	1 525 868	1 442 280	83 588	6%

As at June 30, 2018 the balance sheet total of Trakcja Group amounted to PLN 1,525,868 thousand and grew by PLN 83,588 thousand in comparison with its balance as at the end of 2017, which is an increase of 6%.

As at June 30, 2018 the non-current assets were PLN 762,068 thousand and rose by PLN 30,614 thousand. The growth resulted mainly from the increase of the tangible non-current assets by PLN 20,107 thousand and goodwill by PLN 7,428 thousand. Tangible fixed assets grew primarily due to the construction of a modern equipment base in Bierńkowice, for which expenditures in the amount of PLN 13,488 thousand were incurred in the first half of 2018 and due to investments in railway and road equipment. The increase in goodwill on consolidation results from foreign exchange differences.

Current assets as at June 30, 2018 totaled PLN 763,800 thousand and rose by PLN 52,974 thousand, which is an increase of 7% compared to December 31, 2017. This increase resulted mainly from the inventory growth by PLN 44,677 thousand and construction contracts and advance payments for executed contracts reported in current assets by PLN 83,661 thousand. In addition, the level of cash and cash equivalents decreased by PLN 96,050 thousand. This is a result of a large rise in the number of contracts executed in the first half of 2018 (including on the road market), which was associated with high involvement of the working capital of the Group.

CONSOLIDATED LIABILITIES	30.06.2018 Unaudited	31.12.2017 Audited	Change	Change %
Equity attributable to shareholders of parent entity	741 332	756 979	(15 647)	-2%
Share capital	41 120	41 120	-	0%
Share premium account	309 984	309 984	-	0%
Revaluation reserve	5 767	5 765	2	0%
Other capital reserves	384 603	361 588	23 015	6%
Retained earnings	(20 689)	31 429	(52 118)	-166%
Foreign exchange differences on translation of foreign operations	20 547	7 093	13 454	190%
Non-controlling interests	3 886	5 055	(1 169)	-23%
Total equity	745 218	762 034	(16 816)	-2%
Total liabilities	780 650	680 245	100 405	15%
Long-term liabilities	182 199	116 953	65 246	56%
Interest-bearing bank loans and borrowings	154 749	87 661	67 088	77%
Provisions	11 723	11 917	(194)	-2%
Liabilities due to employee benefits	5 807	5 127	680	13%
Provision for deferred tax	5 482	7 810	(2 328)	-30%
Detrivative financial instruments	4 364	4 351	13	0%
Other liabilities	74	87	(13)	-15%
Short-term liabilities	598 451	563 293	35 158	6%
Interest-bearing bank loans and borrowings	87 426	28 538	58 888	206%
Trade and other liabilities	351 461	335 049	16 412	5%
Provisions	8 257	14 179	(5 922)	-42%
Liabilities due to employee benefits	16 169	12 762	3 407	27%
Detrivative financial instruments	1 004	960	44	5%
Accruals	443	416	27	6%
Construction contracts and advance payments for contracts being performed	132 107	171 347	(39 240)	-23%
Advances received towards flats	1 584	42	1 542	3671%
TOTAL EQUITY AND LIABILITIES	1 525 868	1 442 280	83 588	6%

In the first half-year of 2018, the total equity dropped by PLN 16,816 thousand, in comparison with its balance as at December 31, 2017, and amounted to PLN 745,218 thousand as at June 30, 2018. The decrease was mainly due to the net loss recorded in the analyzed period that totaled PLN 20,603 thousand and due to the decision concerning dividend payment in the amount of PLN 5,140 thousand (in accordance with the resolution of the General Meeting of June 26, 2018).

As at June 30, 2018 the long-term liabilities were PLN 182,199 thousand and grew by PLN 65,246 thousand (i.e. by 56%). The rise resulted primarily from the increase in the balance on interest-bearing loans and borrowings by PLN 67,088 thousand as at June 30, 2018 in relation to the amount as at December 31, 2017.

Short-term liabilities as at June 30, 2018 amounted to PLN 598,451 thousand and increased by PLN 35,158 thousand, i.e. by 6%, compared to the end of last year. This increase was mainly due to the rise in the value of interest-bearing loans and borrowings by PLN 58,888 thousand. In addition, there was an increase in the value of trade payables and other liabilities by PLN 16,412 thousand to the level of PLN 351,461 thousand. The changes described above were partially offset by a decrease in the value of construction contracts items and advances received for contracts executed

by PLN 39,240 thousand, i.e. by 23%. The decline in the level of advances received towards contracts being performed was caused by the settlement of advances obtained in previous periods.

2.1.3 Overview of the Statement of Cash Flows

The key items of the consolidated statement of cash flows of Trakcja Group for the period ended June 30, 2018 and for the period ended June 30, 2017 are presented in the table below:

CONSOLIDATED CASH FLOW ACCOUNT	1.01.2018 - 30.06.2018 Unaudited	1.01.2017 - 30.06.2017 Unaudited	Change
Cash at start of period	112 172	146 360	(34 188)
Net cash flows from operating activities	(183 814)	(47 780)	(136 034)
Net cash flows from investment activities	(21 876)	(19 485)	(2 391)
Net cash flows from financial activities	109 640	(10 776)	120 416
Total net cash flows	(96 050)	(78 041)	(18 009)
Cash at end of period	16 122	68 319	(52 197)

In the first half year 2018 the net cash flows from operating activities were negative and amounted to PLN -183,814 thousand. The value decreased compared to the same period of the previous year by PLN 136,034 thousand. Net cash flows from investment activities in the first half of 2018 showed negative balance of PLN 21,876 thousand, which changed by the amount of PLN -2,391 thousand. Net cash flows from financial activities in the first half of 2018 was positive and reached PLN 109,640 thousand. This item increased in comparison to the balance at the end of the first half of 2017 by PLN 120,416 thousand.

At the beginning of 2018, the Group's cash disclosed in the consolidated statement of cash flows was PLN 112,172 thousand, while ended the first half of 2018 with cash balances disclosed in the consolidated cash flow statement in the amount of PLN 16,122 thousand. In the reported period, negative net cash flows in the amount of PLN -96,050 thousand.

2.1.4 Overview of profitability ratios

Sales profitability ratios show the relationship between sales and costs and their impact on profit. The level of these ratios determines the ability to generate profit through sales.

Profitability ratios achieved in the first half of 2018 compared to the first half of 2017 recorded a decrease. The gross sales profit margin decreased by 3.6 pp. in first half of 2018 as compared to the same period last year and was 1.9%. The main reasons for the reduction of the gross profit margin on sales are described in note 2.1.1. The operating profit, including depreciation and amortization (EBITDA) was PLN -3,033 thousand and dropped by PLN 23,498 thousand as compared to the first half year 2017. The EBITDA margin fell by 4.3 pp. and reached -0.5%. The operating profit margin decreased by 4.2 pp. and totaled -3.1%. In the analyzed period the net profit margin was -3.6% and was lower by 3.8 pp. from the margin of the comparable period.

The return on equity (ROE) decreased by 2.9 pp. in relation to the previous year and was -2.8%. The return on assets (ROA) amounted to -1.4% and was lower by 1.5 pp. lower than in the preceding year.

PROFITABILITY RATIOS	1.01.2018 - 30.06.2018 Unaudited	1.01.2017 - 30.06.2017 Unaudited	Change
Gross sales profit margin	1,9%	5,5%	-3,6%
EBITDA	(3 033)	20 465	(23 498)
EBITDA profit margin	-0,5%	3,8%	-4,3%
Operating profit margin	-3,1%	1,1%	-4,2%
Net profit margin	-3,6%	0,2%	-3,8%
Return on equity (ROE)	-2,8%	0,1%	-2,9%
Return on assets (ROA)	-1,4%	0,1%	-1,5%

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

Gross sales profit margin = Gross profit on sales / revenues on sales

EBITDA = operating profit + depreciation and amortisation

EBITDA profit margin = (operating profit + depreciation and amortisation) / revenues on sales

Operating profit margin = operating profit / revenues on sales

Net profit margin = net profit / revenues on sales

Return on equity (ROE) = net profit / average annual equity

Return on assets (ROA) = net profit / average annual assets

2.2 Assessment of financial resources management

As at the end of the first half-year of 2018 Trakcja Group had cash in the amount of PLN 16,122 thousand and its total debt (loans, borrowings and finance lease) were PLN 242,175 thousand. The liquidity situation of the Parent Company is described in note 4 to the condensed financial statements of Trakcja PRKil S.A. for the period of 6 months ended June 30, 2018.

2.2.1 Liquidity ratios

As at June 30, 2018 the Trakcja Group's working capital totaled PLN 165,792 thousand and was higher by PLN 17,843 thousand from the working capital at the end of 2017.

As at the end of the first half-year of 2018 the current ratio amounted to 1.28 and was higher by 0.02 than the current ratio as at December 31, 2017. The quick ratio was 0,64 and by 0.18 lower compared to the ratio at the end of 2017. The cash ratio demonstrates that the Group would be able to immediately repay 3% of its liabilities in cash, which is a decrease by 17 pp.

LIQUIDITY RATIOS	30.06.2018 Unaudited	31.12.2017 Audited	Change
Working capital	165 792	147 949	17 843
Current ratio	1,28	1,26	0,02
Quick ratio	0,64	0,82	(0,18)
Cash ratio	0,03	0,20	(0,17)

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

Working capital = current assets - short-term liabilities

Current ratio = current assets / short-term liabilities

Quick ratio = (current assets - inventory - prepayments - construction contracts from assets) / short-term liabilities

Cash ratio = (cash and cash equivalents + derivatives from assets) / short-term liabilities

2.2.2 Financing structure ratios

The Group monitors its capital structure using debt ratios. The ratios analyzed by the Group, as presented in the below table, allow for the good credit rating to be maintained and confirm that the Group's capital structure supports its operating activities.

As at June 30, 2018 the equity to assets ratio was 0.49. The equity to non-current assets ratio decreased from 1,03 at the end of 2017 to 0.97 as at June 30, 2018. The debt ratio was 0.51 at the end of the first half of 2018. This means that the company's assets are financed in 51% by foreign sources of financing - liabilities. In addition, the debt to equity ratio increased from 0.91 at the end of 2017 to 1.06 in the first half of 2018.

FINANCING STRUCTURE RATIOS	30.06.2018 Unaudited	31.12.2017 Audited	Change
Equity to assets ratio	0,49	0,52	(0,03)
Equity to non-current assets ratio	0,97	1,03	(0,06)
Debt ratio	0,51	0,48	0,03
Debt to equity ratio	1,06	0,91	0,15

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 / non-current assets

Debt ratio = (Total assets - Equity attributable to shareholders of parent entity) / Total assets

Debt to equity ratio = (Total assets - Equity attributable to shareholders of parent entity) / Equity attributable to shareholders of parent entity

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

As at June 30, 2018, the Trakcja Group companies had external debt due to loans, borrowings and other external financing sources, including financial leasing, which totaled PLN 242,175 thousand. It is connected with the increased demand of the Group for working capital in the second and third quarter, which is characteristic for the construction industry.

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

The Group has signed agreements in the scope of guarantees: payment of the bid security, refund of the advance payment received, good performance of the subject of the trade agreement, removal of defects and faults during the warranty period, as well as to guarantee the timely payment of the claim. The total value of available guarantee lines not used as at June 30, 2018 amounted to PLN 1,374 million. As at June 30, 2018, the use amounted to PLN 704.6 million. The availability of guarantee financing provided by the Group, which is necessary to obtain and execute contracts, is an important element of the Group's competitive advantage in the infrastructure construction market.

2.2.3 Loans and borrowings

As at June 30, 2018 the loans and borrowings granted to Trakcja Group were as follows:

Company name	Lender	Type of loan/credit	Amount according to the agreement in the currency	Currency	Maturity date	Interests	Outstanding amount (in ths. PLN)
Trakcja PRKiL S.A.	mBank S.A.	investment loan	21 500	PLN	30.09.2021	WIBOR 1M + margin	16 441
Trakcja PRKiL S.A.	mBank S.A.	overdraft	20 000	PLN	25.04.2019	WIBOR O/N + margin	9 836
Trakcja PRKiL S.A.	mBank S.A.	working capital loans	50 000	PLN	27.09.2019	WIBOR 1M + margin	29 000
Trakcja PRKiL S.A.	Pekao S.A.	overdraft	20 000	PLN	31.05.2019	WIBOR 1M + margin	19 447
Trakcja PRKiL S.A.	mLeasing Sp. z o.o.	investment loan	29 862	PLN	15.06.2028	WIBOR 1M + margin	23 725
Torprojekt Sp. z o.o.	ING Bank Śląski S.A.	working capital loans	2 000	PLN	28.02.2019	WIBOR 1R + margin	1 538
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	overdraft	2 500	PLN	28.02.2019	WIBOR 6M + margin	378
Bahn Technik Wrocław Sp. z o.o.	mBank S.A.	overdraft	1 000	PLN	16.04.2019	WIBOR ON + margin	8
Bahn Technik Wrocław Sp. z o.o.	mBank S.A.	working capital loans	1 500	PLN	16.04.2019	WIBOR 1M + margin	-
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	investment loan	1 747	PLN	30.11.2018	WIBOR 6M + margin	213
Bahn Technik Wrocław Sp. z o.o.	Plasser & Theurer, Export von Bahnbaumaschinen, Gesellschaft m.b.H.	investment loan	1 800	EUR	24.03.2020	fixed interest rate	4 580
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	investment loan	2 500	PLN	30.12.2020	WIBOR 1M + margin	1 744
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	overdraft	2 000	PLN	09.07.2018	WIBOR 1M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital loans	14 000	EUR	31.08.2019	EURIBOR 3M + margin	50 158
AB Kauno Tiltai	Nordea	working capital loans	3 000	EUR	31.08.2019	EURIBOR 1M + margin	-
AB Kauno Tiltai	Dnb	working capital loans	3 000	EUR	31.08.2019	EURIBOR 3M + margin	1 058
AB Kauno Tiltai	Nordea Dnb	working capital loans	1 400	EUR	14.01.2020	EURIBOR 3M + margin	3 257
UAB Palangos aplinkelis	SEB Bank	project purpose loans	8 500	EUR	31.05.2028	EURIBOR 3M + margin	33 592
Total							194 975

The interest rate of the loans received is the WIBOR/EURIBOR rate plus a bank margin. Bank margins depend on a bank and fixed repayment date of the loan.

As at June 30, 2018 the total loans and borrowings granted to the Group were PLN 194,975 thousand, including the investment loans in the amount of PLN 46,703 thousand, the working capital loans in the amount of PLN 29,669 thousand, the project purpose loans in the amount of PLN 33,592 thousand.

2.3 The Management Board's position as regards previously published forecasts of the Trakcja Group's financial performance

Trakcja Group did not publish any financial forecast for 2018.

2.4 Indication of factors which, in the opinion of the Group, will have an impact on its performance during at least the following half-year

The most important factors that have a significant impact on the financial performance of the Group include the following:

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

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

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

2.5 Information relevant for the assessment of the Group's employment, assets, financial condition and performance and any changes therein, as well as information relevant for the assessment of the Group's ability to meet its obligations

In addition to the information presented in the condensed consolidated financial statements and this report on the activities of Trakcja Group for the first half of 2018, there are no other information relevant to the assessment of the

staff, property, financial situation, financial results of the Group and their changes, or to assess the Group's ability to meet its obligations.

3. Information on shareholders and shares

3.1 Shareholders held, directly or through subsidiaries, at least 5 per cent of the total number of votes at the General Meeting of Shareholders of Trakcja PRKil S.A.

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

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

As at the date of publication of the report for the first quarter of 2018, shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of Trakcja PRKil S.A. steady based on the notifications referred to in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, the following entities were:

Shareholders	Number of shares	% in the share capital	Number of votes	% in votes at GSM
COMSA S.A.	16 156 193	31,43%	16 156 193	31,43%
Nationale-Nederlanden OFE	5 111 908	9,95%	5 111 908	9,95%
OFE PZU "Złota Jesień"	4 349 650	8,46%	4 349 650	8,46%
Other shareholders	25 781 797	50,16%	25 781 797	50,16%
Total	51 399 548	100,00%	51 399 548	100,00%

On July 3, 2018, the Parent Company received a notification from the shareholder Nationale-Nederlanden Otwarty Fundusz Emerytalny (hereinafter the "Fund") about a decrease in the number of shares held below 5% of votes at the General Meeting of the company. Prior to the sale of the shares, the Fund held 2,790,163 shares of the Company, constituting 5.43% of the share capital of the company and 2,790,163 votes at the general meeting of shareholders of the Company, which constituted 5.43% of the total number of votes. On June 28, 2018, the Fund's securities account held 2,530,163 shares of the Company, which constituted 4.92% of the share capital of the Company. These shares entitled to 2,530,163 votes at the General Meeting of the Company, which constituted 4.92% of the total number of votes. The company informed about the above in current report No. 15/2018.

From the date of submission of the last periodical report, i.e. on May 17, 2018, the Parent Company did not receive any other notifications from shareholders informing about a change in the share in the total number of votes in the Parent Company.

3.2 Shares of Trakcja PRKil S.A. held by members of the management and supervisory bodies

Since the publication of the most recent quarterly report, i.e. since May 17, 2018 there have been no changes in the number of shares in the parent company held by members of the management and supervision bodies.

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

4. Transactions with related entities

In the first half-year of 2018, all the transactions between the Group members were made at arm's length. Information on the transactions between the Group members is presented in Note 47 to the Condensed Consolidated Financial Statements.

5. Information on sureties for loans or borrowings and on guarantees granted by the Issuer or its subsidiary

In the first half of 2018 neither the Issuer nor its subsidiaries did grant any sureties for loans or borrowings or any guarantees to any entity or its subsidiary, whose the total value of existing sureties and guarantees would be significant.

6. Significant court cases and disputes

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

Proceedings concerning the Parent Company:

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

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

To the Company's best knowledge, the list of claims towards PNI was drawn up. The claims of Trakcja PRKiL S.A. were recognised in the amount of PLN 10,569,163.16, including PLN 10,274,533.87 for the unpaid invoices and PLN 294,632.29 for the interest for delay in payment. The Company's receivables from contractual penalties and other claims in the total amount of PLN 44,956,834.35 were dismissed. The 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 Company filed a complaint which was overruled. On June 8, 2015 the Company received a notice from the trustee in bankruptcy on the change in the bankruptcy procedure from the arrangement bankruptcy to the liquidation bankruptcy. The case is pending and its resolution date is difficult to predict.

Case against Leonhard Weiss International GmbH

As Leonhard Weiss International failed to respond to the statement including a debit note and a request for payment dated October 31, 2017, of which the Group informed in the consolidated report for the 9-month period ended on September 30, 2017 in Note 25 "Interests in joint ventures", the Parent Company decided to take the case to court. The case against Leonhard Weiss International GmbH ("LWI") for payment due under the sale agreement of 50 % of shares in Bahn Technik Wrocław Sp. z o.o. The statement of claim was submitted to the Regional Court in Warsaw on December 29, 2017, but has not yet been served on LWI. Therefore it is impossible to precisely indicate the expected closing date 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 November 17, 2017 to the payment date,
- 2) on PLN 12,756,000.00 from December 8, 2017 to the payment date,
- 3) on PLN 295,495.00 from December 8, 2017 to the payment date.

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

Proceedings against PKP PLK S.A.

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

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

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

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

Proceedings regarding subsidiaries:

AB Kauno Tiltai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, of which a subsidiary, AB Kauno Tiltai, is a member, for a total amount of PLN 65,378,448.89 (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. In the opinion of the Management Board of the Parent Company, such disclosure may provide the parties to court proceedings with information that may be used in the ongoing proceedings against the interests of the subsidiary AB Kauno tiltai.

7. Description of basic threats and risks related to the remaining six months of the financial year

The factors that may have a significant adverse impact on the Group's financial condition during the period no shorter than the following six months:

- risk of growing competition,
- risk of changes in the strategy of the Polish and Lithuanian authorities with regard to the modernisation of infrastructure over the next few years,
- risk of being dependent on key customers,
- risk of a potential loss of subcontractors and a potential rise in prices for services rendered by subcontractors,
- risk of subcontractors' bankruptcy,
- risk associated with the lack of qualified employees,
- risk of loss of managerial and engineering staff,
- currency risk,
- risk associated with the volatility of prices for materials,
- interest rate risk,
- risk associated with the joint and several liability of the construction consortia members and with the liability for subcontractors,
- risk related to potential penalties for failure to complete contracts,
- risk of underestimating the project costs,
- risk of rising prices of building materials,
- risk related to the implementation of construction contracts,
- risk related to obtaining new contracts,
- risk related to supply logistics,
- risk related to the conditions and procedures for the settlement of tenders and the implementation of projects,
- the risk related to the increase in the portfolio of overdue receivables,
- risk related to financial contracts,
- liquidity risk (liquidity position of the Parent Company is described in note 4 to the condensed financial statements of Trakcja PRKił S.A. for the period of 6 months ended 30 June 2018),
- risk related to the implementation of the strategy,
- risk related to the approach of the financial sector to companies in the construction industry,
- risk related to obtaining financing for the implementation of construction contracts and obtaining contract guarantees,

- risk related to weather conditions,
- the risk related to changes in the law, including tax law.

Warsaw, August 30, 2018

Management Board

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

MANAGEMENT BOARD'S STATEMENT

The Management Board of Trakcja PRKiI S.A. declares that to the best of his knowledge:

- the condensed consolidated financial statements of Trakcja Group for a of 6-month period ended June 30, 2018 and the comparable data, have been drawn up in compliance with the accounting principles in force and reflect the Group's assets and financial condition as well as its financial performance in a true, reliable and clear manner.
- the condensed financial statements of Trakcja PRKiI for a of 6-month period ended June 30, 2018 and the comparable data, have been drawn up in compliance with the accounting principles in force and reflect the Company's assets and financial condition as well as its financial performance in a true, reliable and clear manner.,
- the report of the Management Board on the activities of Trakcja Group for a of 6-month period ended June 30, 2018 and the comparable data, presents a true picture of the Group's development, achievements, risks, threats and condition.

We also state that the entity authorised to audit financial statements which examines the consolidated annual financial statements of Trakcja Group for a 6-month period ended June 30, 2018, namely Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., has been appointed in accordance with the provisions of law. The entity and statutory auditors conducting the audit fulfilled the conditions for expressing an unbiased and independent audit opinion in accordance with the applicable provisions of law and professional standards.

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Warsaw, August 30, 2018

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To Shareholders and Supervisory Board of Trakcja PRKiI S.A.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Trakcja PRKiI S.A. Group (hereinafter: the "Group"), for which Trakcja PRKiI S.A. with its registered office in Warsaw, Żłota 59 is the Parent (hereinafter: the "Parent"), comprising: the condensed consolidated balance sheet prepared as at 30 June 2018, condensed consolidated profit and loss statement and consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows for the period from 1 January 2018 to 30 June 2018 and selected explanatory notes ("interim condensed consolidated financial statements").

The Management Board of the Parent is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* announced in the form of Commission Regulations.

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with National Standard on Review Engagements 2410 in line with the wording of International Standard on Review Engagements 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* adopted by Resolution No. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018.

A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing in line with the wording of International Standards on Auditing adopted by Resolution No. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* announced in the form of Commission Regulations.

Auditor conducting the review on behalf of Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. — entity entered under number 73 on the list of auditors kept by the National Council of Statutory Auditors:

Maciej Krasoń
Certified auditor
No. 10149

Warsaw, 30 August 2018

This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS

To Shareholders and Supervisory Board of Trakcja PRKiI S.A.

Introduction

We have reviewed the accompanying interim condensed financial statements of Trakcja PRKiI S.A. with its registered office in Warsaw, Złota 59 (hereinafter: the "Company"), comprising: the condensed balance sheet prepared as at 30 June 2018, condensed profit and loss statement and statement of comprehensive income, condensed statement of changes in equity, condensed statement of cash flows for the period from 1 January 2018 to 30 June 2018 and selected explanatory notes ("interim condensed financial statements").

The Management Board of the Company is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" announced in the form of Commission Regulations.

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Maciej Krasoń
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No. 10149

Warsaw, 30 August 2018

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