



TRAKCJA CAPITAL GROUP

CONSOLIDATED QUARTERLY REPORT
FOR THE 3-MONTH PERIOD ENDED MARCH 31, 2020

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**

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APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of Trakcja PRKił S.A. has approved the consolidated financial statements of Trakcja Capital Group for the period of 3 months ended March 31, 2020.

The condensed consolidated financial statements for the I quarter of 2020 were prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union for interim reporting purposes (IAS 34). Information included herein is presented in the following sequence:

1. Consolidated income statement for the period from January 1, 2020 to March 31, 2020, which shows a net loss of PLN **29,219** thousand.
2. Consolidated statement of comprehensive income for the period from January 1, 2020 to March 31, 2020, which shows the negative total comprehensive income of PLN **16,103** thousand.
3. Consolidated balance sheet as at March 31, 2020, which shows the total assets and total equity and liabilities of PLN **1,475,244** thousand.
4. Consolidated statement of cash flows for the period from January 1, 2020 to March 31, 2020, which shows a decrease in the total net cash flows by PLN **49,986** thousand.
5. Consolidated statement of changes in equity for the period from January 1, 2020 to March 31, 2020, which shows a decrease in equity by PLN **15,785** thousand.
6. Notes. The condensed consolidated financial statements have been drawn in thousands of Polish zlotys, unless explicitly stated otherwise.

Marcin Lewandowski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Arkadiusz Arciszewski

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Robert Sobków

Member of the Management Board

Adam Stolarz

Member of the Management Board

Warsaw, May 26, 2020

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I. SELECTED FINANCIAL DATA OF TRAKCJA CAPITAL GROUP

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

Financial year ended	Average exchange rate in the period*	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
31.03.2020 r.	4,3963	4,2279	4,6044	4,5523
31.12.2019 r.	4,3018	4,2406	4,3891	4,2585
31.03.2019 r.	4,2978	4,2706	4,3402	4,3013

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

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

	3 month period ended		3 month period ended	
	31.03.2020		31.03.2019	
	TPLN	TEUR	TPLN	TEUR
Sales revenues	217 374	49 445	228 504	53 168
Cost of goods sold	(223 847)	(50 917)	(231 321)	(53 823)
Gross profit (loss) on sales	(6 473)	(1 472)	(2 817)	(655)
Operating profit (loss)	(25 252)	(5 744)	(20 673)	(4 810)
Gross profit (loss)	(34 194)	(7 778)	(22 454)	(5 225)
Net profit (loss) from continued operations	(29 219)	(6 646)	(16 149)	(3 758)
Net profit for the period	(29 219)	(6 646)	(16 149)	(3 758)

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

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

	31.03.2020		31.12.2019	
	TPLN	TEUR	TPLN	TEUR
Non-current assets	615 587	135 226	596 366	140 042
Current assets	859 657	188 840	887 954	208 513
Total assets	1 475 244	324 066	1 484 320	348 555
Equity	409 699	89 998	425 484	99 914
Long-term liabilities	246 401	54 127	232 816	54 671
Short-term liabilities	819 144	179 941	826 020	193 970
Total equity and liabilities	1 475 244	324 066	1 484 320	348 555

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

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

	3 month period ended		3 month period ended	
	31.03.2020		31.03.2019	
	TPLN	TEUR	TPLN	TEUR
Cash flows from operating activities	(105 926)	(24 094)	(133 718)	(31 113)
Cash flows from investment activities	(4 069)	(926)	391	91
Cash flows from financial activities	60 009	13 650	66 535	15 481
Total net cash flows	(49 986)	(11 370)	(66 792)	(15 541)

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

	31.03.2020		31.03.2019	
	TPLN	TEUR	TPLN	TEUR
Cash at start of period	107 461	25 234	116 675	27 134
Cash at end of period	57 475	12 625	49 639	11 541

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

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

The EUR/PLN exchange rate on the last day of the reporting period ended December 31, 2018 was PLN 4.3000.

II. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	1.01.2020 - 31.03.2020 <i>Unaudited</i>	1.01.2019 - 31.03.2019 <i>Unaudited</i>
Continued operations		
Sales revenue	217 374	228 504
Cost of goods sold	(223 847)	(231 321)
Gross profit on sales	(6 473)	(2 817)
Cost of sales, marketing and distribution	(1 233)	(1 737)
General and administrative costs	(16 873)	(15 547)
Other operating revenues	2 084	1 006
Other operating costs	(2 757)	(1 578)
Operating profit	(25 252)	(20 673)
Financial revenues	297	1 391
Financial costs	(9 239)	(3 172)
Gross profit	(34 194)	(22 454)
Income tax	4 975	6 305
Net profit from continued operation	(29 219)	(16 149)
Net profit (loss) from discontinued operations	-	-
Net profit for the period	(29 219)	(16 149)
Attributable to:		
Shareholders of parent entity	(28 954)	(15 487)
Non-controlling interests	(265)	(662)
Profit per share attributable to shareholders in the period (PLN per share)		
- basic	(0,33)	(0,30)
- diluted	(0,33)	(0,30)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1.01.2020 - 31.03.2020 <i>Unaudited</i>	1.01.2019 - 31.03.2019 <i>Unaudited</i>
Net profit for the period	(29 219)	(16 149)
Other comprehensive income:		
Other comprehensive income that will be reclassified to profit or loss:	13 116	(473)
Foreign exchange differences on translation of foreign operations	13 116	111
Cash flow hedging instruments	-	(584)
Total other comprehensive income	13 116	(473)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(16 103)	(16 622)
Attributable to:		
Shareholders of Parent entity	(16 173)	(16 118)
Non-controlling interests	70	(504)

CONSOLIDATED BALANCE SHEET

	Note	31.03.2020 <i>Unaudited</i>	31.12.2019 <i>Audited</i>
ASSETS			
Non-current assets		615 587	596 366
Tangible non-current assets		292 884	286 228
Intangible assets		51 341	51 389
Goodwill from consolidation		175 417	168 983
Investment properties		22 444	22 447
Investments in other units		26	25
Other financial assets		6 470	6 202
Deferred tax assets		58 946	54 755
Long-term receivables		153	158
Accruals		7 906	6 179
Current assets		859 657	887 954
Inventory		155 645	135 390
Trade and other receivables		382 607	399 749
Other financial assets		12 537	12 699
Cash and cash equivalents		57 487	107 473
Accruals		18 159	16 574
Contracts with customers assets		228 185	211 032
Assets held for sale		5 037	5 037
TOTAL ASSETS		1 475 244	1 484 320
Equity and liabilities			
Equity (attributable to shareholders of parent entity)		404 388	420 243
Share capital		69 161	69 161
Share premium account		340 561	340 561
Revaluation reserve		7 082	7 082
Other capital reserves		276 506	276 188
Retained earnings		(314 384)	(285 430)
Foreign exchange differences on translation of foreign operations		25 462	12 681
Non-controlling interests		5 311	5 241
Total equity		409 699	425 484
Long-term liabilities		246 401	232 816
Interest-bearing loans and borrowings		223 799	207 857
Provisions	23	13 963	14 093
Liabilities due to employee benefits		4 128	4 094
Provision for deferred tax		4 467	6 727
Derivative financial instruments		8	8
Other financial liabilities		36	37
Short-term liabilities		819 144	826 020
Interest-bearing loans and borrowings		211 727	153 790
Trade and other liabilities		357 143	408 766
Provisions	23	87 352	94 773
Liabilities due to employee benefits		14 420	13 574
Income tax liabilities		828	238
Other financial liabilities		116	123
Accruals		697	506
Liabilities from contracts with customers		146 861	154 250
Total equity and liabilities		1 475 244	1 484 320

CONSOLIDATED STATEMENT OF CASH-FLOWS

	1.01.2020 - 31.03.2020 <i>Unaudited</i>	1.01.2019 - 31.03.2019 <i>Unaudited</i>
<i>Cash flows from operating activities</i>		
Gross profit from continued operations	(34 194)	(22 454)
Adjustments for:	(71 732)	(111 264)
Depreciation	9 439	9 336
FX differences	2 300	25
Net interest and dividends	4 435	2 475
Profit on investment activities	(654)	(597)
Change in receivables	20 209	(8 487)
Change in inventory	(16 459)	(23 339)
Change in liabilities, excluding loans and borrowings	(60 107)	(63 007)
Change in prepayments and accruals	376	(587)
Change in provisions	(7 933)	(3 989)
Change in settlements from contracts	(23 483)	(22 941)
Change in financial derivatives	(1)	674
Income tax paid	(684)	(323)
Other	1 054	(593)
Foreign exchange differences on translation of foreign operations	(224)	89
Net cash flows from operating activities	(105 926)	(133 718)
<i>Cash flows from investment activities</i>		
Sale (purchase) of intangible assets and tangible non-current assets	(2 261)	(2 015)
- acquisition	(4 884)	(2 335)
- sale	2 623	320
Financial assets	(1 857)	2 289
- sold or repaid	2 686	4 865
- granted or acquired	(4 543)	(2 576)
Interest received	49	117
Net cash flows from investment activities	(4 069)	391
<i>Cash flows from financial activities</i>		
Proceeds from payment to capital of a subsidiary from holders of non-controlling interest	-	713
Proceeds on account of taken borrowings and loans	71 960	76 936
Repayment of borrowings and loans	(3 711)	(3 445)
Interest paid	(4 389)	(2 799)
Payment of liabilities under financial lease agreements	(3 859)	(4 888)
Other	8	18
Net cash flows from financial activities	60 009	66 535
Total net cash flows	(49 986)	(66 792)
Cash at start of period	107 461	116 675
Assets held for sale - transfer	-	(244)
Cash at end of period	57 475	49 639

Cash excluded from the statement of cash flows at as March 31, 2019 and March 31, 2020 comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to shareholders of parent entity											
	Share capital	Share premium account	Revaluation reserve	Other reserve capitals			Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
				Hedging instruments	Actuarial gains/ (losses)	Results from previous years					
As at 01.01.2020 Audited	69 161	340 561	7 082	(4 635)	(1 152)	281 975	12 681	(285 430)	420 243	5 241	425 484
Net profit for the period	-	-	-	-	-	-	-	(28 954)	(28 954)	(265)	(29 219)
Other comprehensive income	-	-	-	-	-	-	12 781	-	12 781	335	13 116
Total other comprehensive income	-	-	-	-	-	-	12 781	(28 954)	(16 173)	70	(16 103)
Other changes	-	-	-	-	-	318	-	-	318	-	318
As at 31.03.2020 Unaudited	69 161	340 561	7 082	(4 635)	(1 152)	282 293	25 462	(314 384)	404 388	5 311	409 699
As at 01.01.2019 Audited	41 120	309 984	5 768	(3 159)	(1 244)	388 236	15 840	(111 006)	645 539	8 841	654 380
Net profit for the period	-	-	-	-	-	-	-	(15 487)	(15 487)	(662)	(16 149)
Other comprehensive income	-	-	-	(573)	-	-	(58)	-	(631)	158	(473)
Total other comprehensive income	-	-	-	(573)	-	-	(58)	(15 487)	(16 118)	(504)	(16 622)
Other changes	-	-	-	-	-	95	-	-	95	-	95
As at 31.03.2019 Unaudited	41 120	309 984	5 768	(3 732)	(1 244)	388 331	15 782	(126 493)	629 516	8 337	637 853

Equity attributable to shareholders of parent entity											
	Share capital	Share premium account	Revaluation reserve	Other reserve capitals			Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
				Hedging instruments	Actuarial gains/ (losses)	Results from previous years					
As at 1.01.2019 Audited	41 120	309 984	5 768	(3 159)	(1 244)	388 236	15 840	(111 006)	645 539	8 841	654 380
As at 1.01.2019 after adjustments	41 120	309 984	5 768	(3 159)	(1 244)	388 236	15 840	(111 006)	645 539	8 841	654 380
Net profit for the period	-	-	-	-	-	-	-	(285 430)	(285 430)	382	(285 048)
Other comprehensive income	-	-	1 273	(1 476)	92	-	(2 738)	-	(2 849)	869	(1 980)
Total comprehensive income	-	-	1 273	(1 476)	92	-	(2 738)	(285 430)	(288 279)	1 251	(287 028)
Distribution of profit	-	-	-	-	-	(111 006)	-	111 006	-	-	-
Payment of dividends to parent undertaking shareholders	-	-	-	-	-	-	-	-	-	(93)	(93)
Emisja akcji	28 041	30 577	-	-	-	-	-	-	58 618	-	58 618
Acquisition of shares in a subsidiary	-	-	-	-	-	4 634	-	-	4 634	(4 758)	(124)
Deconsolidation of subsidiaries	-	-	-	-	-	-	(421)	-	(421)	-	(421)
Other	-	-	41	-	-	111	-	-	152	-	152
As at 31.12.2019 Audited	69 161	340 561	7 082	(4 635)	(1 152)	281 975	12 681	(285 430)	420 243	5 241	425 484

III. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

These condensed consolidated financial statements of Trakcja Group cover the period of 3 months ended March 31, 2020.

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

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

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

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

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

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

On December 19, 2013 the District Court of the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, registered a change in the Company's business name from Trakcja S.A. to Trakcja PRKiI S.A. The above change was registered pursuant to Resolution No. 4 adopted by the Extraordinary General Meeting of Shareholders on November 27, 2013.

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

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

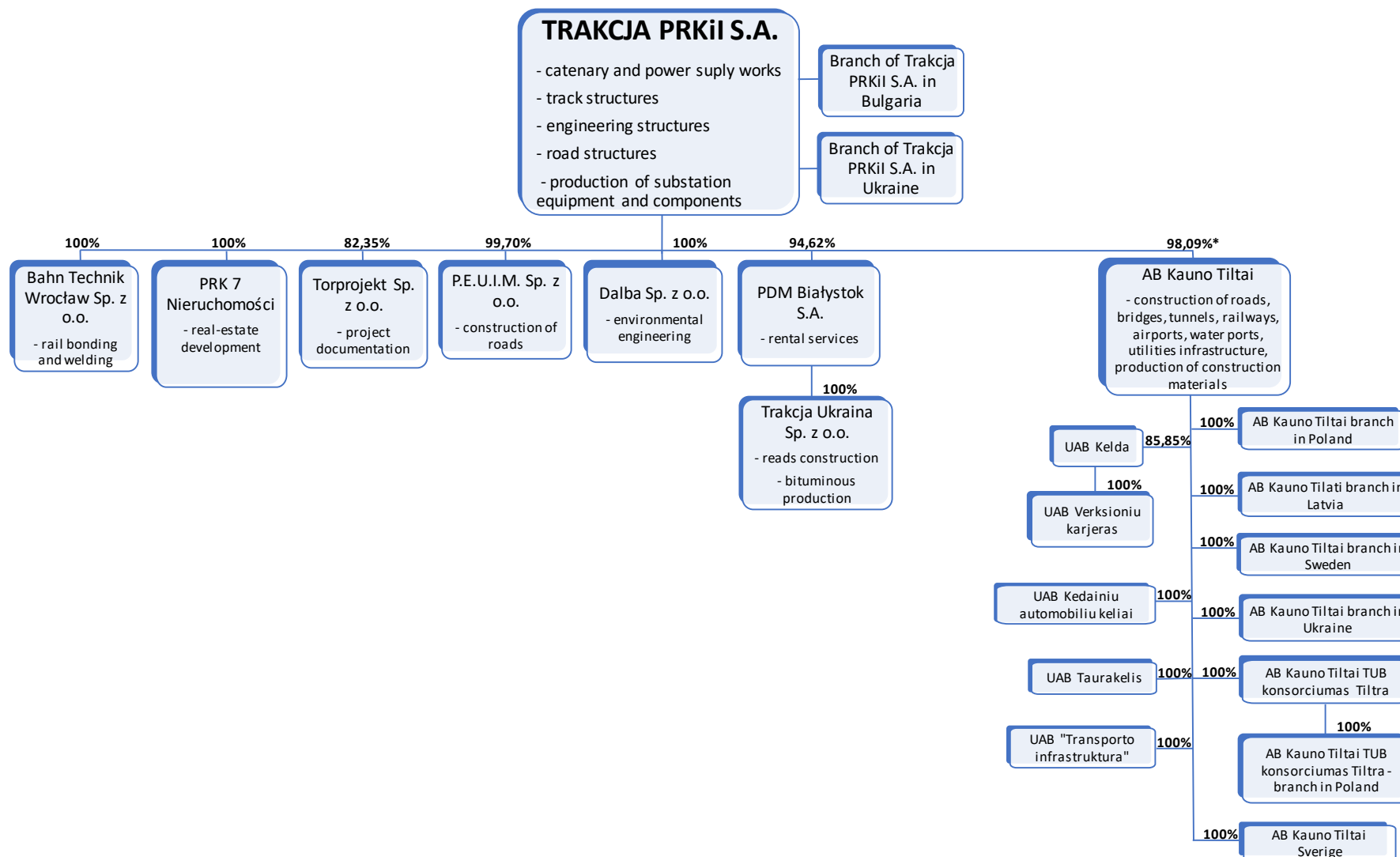
According to the Articles of Association, the Parent Company renders specialist construction and installation services within the scope of railway and tram lines electrification. The Company specialises in the following types of activity:

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

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

2. Group structure

As at March 31, 2020 the Group consists of the Parent Company (Trakcja PRKił S.A.) and its subsidiaries. The Group's organisational structure is presented in the diagram below:



*) Trakcja PRKił 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.

3. Changes in the Group structure and their consequences

In the first quarter of 2020, the Trakcja Group's structure has not changed, and neither business combination, acquisition or loss of control over subsidiaries or long-term investments nor division, restructuring or discontinuation of business occurred.

4. Parent Company's Management Board

As at March 31, 2020 the Company's Management Board was composed of the following members:

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

During the first quarter of 2020 and after the balance sheet date, no changes occurred in the composition of the Management Board.

5. Parent Company's Supervisory board

As at March 31, 2020 the Company's Supervisory Board was composed of the following members:

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

Both in the discussed period and after the balance sheet date there were no changes in the composition of the Supervisory Board.

6. Parent Company's Shareholdership

As at March 31, 2020 and as at the preparation hereof, the Parent Company's share capital, in accordance with the entry in the National Court Register, was PLN 69,160,780.80 and was divided into 51,399,548 series A ordinary bearer shares and 10,279,909 series B ordinary bearer shares and also 24,771,519 series C registered shares with a par value of PLN 0.80 per share. Each share constitutes one vote at the General Meeting of Shareholders. All shares are fully paid-up.

On February 6, 2020, the conditional increase of the Parent Company's share capital was entered into the register by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register.

Accordingly, the Parent Company's share capital was conditionally increased from PLN 69,160,780.80 by not more than PLN 13,023,288 through the issue of not more than 16,279,110 Series D ordinary bearer shares with a par value of PLN 0.80 per share. Series D shares may be subscribed for by holders of series F and G convertible bonds issued by the Parent Company after the balance sheet date, i.e. on May 8, 2020. If series F or G bonds are converted into the aforementioned shares of the Parent Company, they will be subscribed for at PLN 1.70 per share.

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

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

Since the date of submission of the last interim report, i.e. April 21 2019, to the date of publication of this report, the Parent Company received no notifications of any changes in major holdings of its shares under Article 69 of the Act on Public Offering.

On May 8 and 11, 2020, the Parent Company received the following notifications under Article 69 of the Act on Public Offering:

- COMSA S.A.U. ("COMSA") notification in connection with the subscription by COMSA for 4,514,405 registered series G bonds convertible into series D shares.
- Agencja Rozwoju Przemysłu S.A. ("ARP") with its registered office in Warsaw, notification in connection with the subscription by ARP for 11,764,705 registered series F bonds convertible into series D shares in the Company.

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

Since the publication of the most recent periodic report, i.e. since April 21, 2020 there have been no changes in the number of shares in the parent company held by members of the management and supervision bodies.

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

8. Approval of the financial statements

These condensed consolidated financial statements were approved for publication by the Management Board of the Parent Company on May 26, 2020.

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 2019. During the 3 months ended on March 31, 2020 no significant changes have been made to any such accounting estimates, assumptions or professional judgement of the management as verified as at March 31, 2020.

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 46 of the Notes to the consolidated financial statements for 2019. In the three months ended March 31, 2020, the Group did not change the measurement method for financial instruments measured at fair value.

In the first quarter of 2020, 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.

Investment properties

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

Allocation of goodwill to cash generating units

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

Classification of joint contractual arrangements

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

Control over related entities

The parent company exercises control over its subsidiaries if, due to its involvement in this entity, it is subject to exposure to variable returns, or when it has the right to variable returns, and has the ability to influence those returns by exercising power over the entity. The Management Board of the Company determines that it exercises control over individual units based on the following elements:

Trakcja PRKiI is the owner of 100% of the share capital of PRK 7 Nieruchomości Sp. z o.o. and controls this subsidiary. Trakcja PRKiI became the owner of PRK 7 Nieruchomości by merging Trakcja with PRK 7 S.A., which was the owner of PRK 7 Nieruchomości Sp. z o.o.

Trakcja PRKiI is the owner of 100% of the share capital of Bahn Technik Wrocław Sp. z o.o. and exercises full control over this subsidiary. Trakcja PRKiI S.A. became the owner of the company through the acquisition and taking control of the remaining 50% of shares on December 30, 2016.

Trakcja PRKiI is the owner of 82.35% of the share capital of Torprojekt Sp. z o.o. and exercises full control over this subsidiary. Trakcja PRKiI became the owner of Torprojekt Sp. z o.o. through the purchase of shares.

Trakcja PRKiI is the owner of 99.70% of the share capital of PEUiM Sp. z o.o. and exercises full control over this subsidiary. Trakcja PRKiI became the owner of PEUiM through the purchase of shares.

Trakcja PRKiI is the owner of 100% of the share capital of Dalba Sp. z o.o. and exercises full control over this subsidiary. Trakcja PRKiI became the owner of Dalba through purchase of shares.

Trakcja PRKiI is the owner of 94.62% of the share capital of PDM Białystok S.A. and exercises full control over this subsidiary. Trakcja PRKiI became the owner of PDM Białystok through the purchase of shares.

Trakcja PRKiI is the owner of 98.09% of the share capital of AB Kauno Tiltai and exercises control over this subsidiary. Trakcja PRKiI became the owner of AB Kauno Tiltai by purchasing shares of AB Kauno Tiltai, which is also the parent in the AB Kauno Tiltai Group.

The composition of the Group and the percentage of shares held are presented in note 2 of Additional information and explanations of this report.

9.2. Uncertainty of estimates and assumptions

Determining the timing of satisfaction of performance obligations

Sale of goods

In order to indicate the precise moment of transfer of control, the Group considers each time whether:

- a. the Group has a present right to payment for the asset,
- b. the customer has legal title to the asset,
- c. the Group has transferred physical possession of the asset,
- d. the customer has the significant risks and rewards of ownership of the asset,
- e. the customer has accepted the asset.

The moment of the transfer of control is the same as the moment when the significant risk and rewards of ownership have been transferred. In the absence of specific terms and conditions between the parties (e.g. by means of Incoterms), the revenue from the sale is recognised at the moment of delivery to the customer, in which case the customer is in physical possession of the goods and thus the legal title is transferred.

Sale of construction services

Performance obligations related to the implementation of long-term construction contracts are satisfied over time in connection with the fact that the customer controls an asset which is created or enhanced by the entity throughout the implementation period. In the opinion of the Group, execution of construction work on land owned by the principal indicates that it controls the asset being created on an ongoing basis.

Determining the transaction price and the amounts allocated to performance obligations

Variable consideration

Agreements for long-term construction services specify variable remuneration which depends on the completion dates and achieved parameters, including penalties and bonuses that may have an effect on the initial amount of remuneration stipulated in the agreement. For the purpose of determining a transaction price, the Company assesses facts and circumstances that have an impact on the likelihood of occurrence of each scenario, including the obligation to pay a penalty or the right to receive a bonus. For agreements, for which the likelihood of a certain scenario is significantly higher than that of other scenarios, the amount of remuneration calculated for the scenario concerned shall be included in the transaction price determined.

Facts and circumstances determining the probability of occurrence of individual scenarios are reviewed at least at the end of each reporting period. Changes in the transaction price, if any, are recognised prospectively.

Significant financing component

The Group has decided to use the practical expedient and does not adjust the transaction price by the impact of a change in the time value of money in the case of contracts for which the Group expects, at contract inception, that the period between the moment when the Group transfers the good or service and the moment of payment will not exceed one year.

The transaction price of contracts for which the Group expects at contract inception that the period between the moment when the Group transfers goods or services and the moment of payment will be longer than one year is adjusted by a significant financing component. For advance payments, the Group recognises interest expense, whereas for payment terms longer than 12 months, the Group recognises interest income.

In order to estimate the significant financing component, it is necessary to determine the discount rate. The Group uses rates that would be reflected in a separate financing transaction between the entity and its customer at contract inception. In order to reflect the credit characteristics of the party that receives financing, various discount rates are applied to transactions in which the Group acts as the party that provides financing and the party that receives financing.

Discount rates are reviewed at least as at the date of preparation of the financial statements and are applied to contracts concluded after the date on which the rate was updated.

Separation of non-lease components

The Group assesses whether the contract includes lease and non-lease components. Non-lease components, such as maintenance fees in contracts for lease of premises, or service maintenance of components of assets constituting the subject of the contract, are then separated from contracts that included lease and non-lease components. However if the contract covers non-lease elements which the Group deems insignificant in the light of the entire contract, the Group shall apply a simplification consisting in joint treatment of lease and non-lease elements as one lease element.

Defining the lease term

In defining the lease term, the Group assesses all material facts and events which affect the existence of economic triggers to use the option of prolongation, or not using the option of termination. The assessment is made in case of a significant event or a significant change in circumstances affecting the assessment.

Useful lives of asset components due to usage rights

The estimated useful life of assets under usage rights is determined in the same way as in the case of property, plant and equipment.

Provisions for additional works

Provisions for additional works are estimated based on the knowledge of the construction site (contract) directors with regard to the required or potential performance of additional works for the benefit of the contracting entity, in order to fulfil warranty obligations. The largest companies that are members of Trakcja Group are obliged to grant warranty for their services. The provision for additional works depends on the segment in which the companies operate and is based on the Group's historical data. This value is assessed on an individual basis and may be increased or decreased as appropriate. Any changes in these assumptions will affect the amount of the provisions.

Provisions for contractual penalties

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

estimate the Group's potential future liabilities on the basis of their course. The carrying amount of the provisions for contractual penalties as at 31 March 2020 is presented in Note 23 of the Notes.

Measurement of employee benefit liabilities

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

Deferred tax asset

The Group recognises deferred tax asset based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. If taxable income deteriorates in the future, this assumption may prove invalid. The Parent Company's Management Board reviews its estimates regarding the likelihood of recovering deferred tax assets taking into account changes in the factors on which such estimates were based, new information and past experience. The likelihood that deferred tax assets will be utilised against future taxable profits is based on budgets of the Group companies. Deferred tax assets are recognised by the Group companies to the extent that it is probable that taxable profit will be generated which will enable the deductible temporary differences to be offset. The Group's companies, which generated losses in the past and whose financial forecast does not project future taxable profits that would allow for negative temporary differences to be deducted, do not recognise any deferred tax assets in their books.

Amortisation and depreciation rates

Depreciation/amortisation rates are set based on the anticipated useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates. During the 3 months ended 31 March 2020, no significant changes were made to the depreciation rates applied by the Group.

Investment property

Investment property is measured at fair value. The value of investment properties is determined by independent appraisers who hold valid authorisations to perform such valuations. In selecting the approach and technique thereof, the Company followed the principles set forth in IFRS 13 and in the Real Estate Management Act and also in the Regulation of the Council of Ministers on the detailed principles of property appraisal and rules and method for preparing appraisal reports. Fair value of investment property was measured by way of applying measurement techniques that require a maximum use of observable data. As at 31 March 2020, there were no indications that the value of investment property could change, and therefore the Group did not make a valuation as at that date.

Impairment of goodwill

Pursuant to IAS 36, cash-generating units to which goodwill has been allocated are tested for impairment annually by the Parent Company's Management Board. The tests carried out require estimation of the value in use of the cash-generating units ("CGU") based on their future cash flows, which were subsequently discounted to their present value using a discount rate. As at March 31, 2020, there were no indications of impairment of cash-generating units, therefore the Group did not perform the test as at that date. Details regarding the write-off revaluing the company's value are presented in note 22.

Impairment of financial assets

In assessing whether financial assets did not lose their value, available and commonly used valuation methods were used, taking into account the future cash flows of the Group in relation to the assets held.

Impairment of inventories

The Management Board assesses whether there are any premises indicating the possibility of impairment of inventories in accordance with note 9.12 of additional information and explanations in the consolidated financial statements for 2019. Determining the impairment requires estimating the net value possible to obtain for inventories that have lost their useful or useful features. The change in the inventory revaluation write-down has been presented in note 22

Expected credit loss and impairment of trade and other receivables

Pursuant to IFRS 9, the Group recognises a loss allowance for expected credit losses on trade and other receivables. For trade receivables, the Group applies a simplified approach for receivables analysed on a collective basis – for these receivables, an allowance for lifetime expected credit losses is calculated, regardless of the analysis of changes in credit risk. For other receivables and financial instruments held, the Group recognises an allowance for 12-month expected credit losses if the credit risk is low or has not increased significantly since initial recognition of receivables in the balance sheet and at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. The change in the impairment allowance for trade and other receivables is presented in Note 22.

Fair value measurement and measurement procedures

Some assets and liabilities of the Group are measured at fair value for the purposes of financial reporting. The Group measures the fair value of assets or liabilities, to the extent possible, on the basis of the market data observable. Detailed information on items measured at fair value is presented in notes 25 and 27. Information on valuation techniques and batch data used to measure the fair value of individual assets and liabilities is disclosed in notes 23, 41, 47 Additional information and explanations in the consolidated financial statements for 2019.

10. Basis for preparing the condensed consolidated financial statement

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

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

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

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

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

All intra-group transactions and balances, including unrealised profits on intra-group transactions, have been completely eliminated. Unrealised losses are eliminated unless they are an impairment indicator.

Non-controlling interests are that portion of the profit or loss and net assets which are not owned by the Group. Non-controlling interests are presented as a separate item in the consolidated income statement and the consolidated statement of comprehensive income and also the consolidated balance sheet (within equity), separately from the equity of the owners of the Parent Company. At the acquisition of non-controlling interests, any difference between the acquisition price and the carrying amount thereof is recognised in the equity.

11. Statement of compliance

These condensed consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union. At the approval hereof, as far as the accounting principles adopted by the Group are concerned, there are no significant differences between the IFRS standards and the IFRS standards approved by the EU.

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

Measurement currency and currency of the financial statements

The Polish zloty is the measurement currency of the Parent Company and the majority of the companies within the Group, as well as the reporting currency in these condensed consolidated financial statements for the third quarter of 2018. The euro is the measurement currency of the companies with their registered offices in Lithuania and the AB Kayno Tiltai branch in Latvia, whereas the Swedish crown (SEK) is the currency of AB Kauno Tiltai Sverige and the Ab Kauno Tiltai branch in Sweden, the 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 Trakcja Ukraina Sp. z o.o. and the establishment of Trakcja PRKił S.A. in Ukraine.

12. Significant accounting principles

Except for the changes specified below, the accounting principles (policy) applied to these condensed consolidated financial statements for the first quarter of 2020 are consistent with those applied to the annual consolidated financial statements for 2019, except for the changes described below. The same principles apply to both the current and comparable period, unless a given standard or interpretation is to be applied only prospectively.

The effect of applying new accounting standards and changes in accounting policy

As of January 1, 2020, the following amendments to the standards are effective for the Group:

- Amendments to IAS 1 and IAS 8 concerning the definition of "material",
- Amendments to IFRS 9, IAS 39 and IFRS 7 concerning the interest rate benchmark reform,
- Amendments to IFRS 3 concerning the definition of a business,
- Amendments to References to the Conceptual Framework in IFRS Standards.

By the date of publication of these consolidated financial statements, the above amendments to standards have not been endorsed by the European Union. The Group believes that these standards will apply to the Group's operations to the extent that there are future business transactions or other events to which these amendments to the standards will apply. However, the Group believes that this impact will not be material.

13. Description of factors and events that have a significant impact on the financial performance of Trakcja Group in the first quarter of 2020

As at March 31, 2020 the Trakcja Group's portfolio of construction contracts was PLN 2,959 million (excluding any revenues allocated to consortium members). In the first quarter of 2020, the companies within Trakcja Group signed construction contracts with the total value of PLN 122 million (excluding the value of works allocated to consortium members). As of 31 March 2020, the contract portfolio of the Trakcja Group provided for the full capacity utilisation in the next financial year. The participation in new tenders in 2020 will allow the Group to secure, to an even greater extent, its portfolio of contracts for future periods.

Factors that had the most significant bearing on sales revenue and performance in the first quarter of 2020 include seasonality of sales, typical for entities operating in the construction sector and characterised by a much lower level of revenue earned in the first quarter of the year and a significant proportion of sales revenue generated in the second half of the year.

In the first quarter of 2020, Trakcja Group earned sales revenue of PLN 217,374 thousand, down by PLN 11,130 thousand year-on-year. Cost of sales decreased by PLN 7,474 thousand to PLN 223,847 thousand. Gross loss on sales reached PLN 6,473 thousand and increased by PLN 3,656 thousand year-on-year. Gross sales margin decreased by 1.75 p.p. to -2.98% in the first quarter of 2020, while in the corresponding period of 2019 it stood at -1.23%.

The decrease in revenue and gross profit on sales resulted from lower performance of construction contracts in the Parent Company due to its difficulties in settling payments to subcontractors and material suppliers and, to a small extent, from the general situation related to the SARS – CoV-2 virus pandemic.

General and administrative expenses stood at PLN 16,873 thousand and increased by 8.5% or PLN 1,326 thousand year-on-year. The increase in expenses was mainly driven by the situation in the parent company who reported an increase in this item by PLN 2,137 thousand year-on-year, and this change is attributable to an increase in staff costs by PLN 915 thousand, reclassification of PFRON (State Fund for the Disabled) costs of PLN 394 thousand to general and administrative expenses and an increase in the costs of advisory and consulting services, mainly related to the restructuring of financing, by PLN 338 thousand. In turn, the Kauno Group reported a decrease in general and administrative expenses by PLN 922 thousand year-on-year, reflecting a year-on-year decrease in provisions for bonuses and other staff costs in the first quarter of 2020.

Net other operating revenue/expenses of the Group came in at a negative amount of PLN 673 thousand and decreased by PLN 101 thousand year-on-year. In the first quarter of 2020, the Group posted an operating loss of PLN 25,252 thousand. Operating loss increased by PLN 4,579 thousand compared to the first quarter of 2019, when it amounted to PLN 20,673 thousand.

In the first quarter of 2020, the net finance income/costs of the Group came to a negative amount of PLN 8,942 thousand and decreased by PLN 7,161 thousand year-on-year. This was mainly driven by an increase in interest expenses on credits, loans and leases.

In the period from January 1, 2020 to March 31, 2020, the Group incurred a loss before tax of PLN 34,194 thousand. Loss before tax for the first quarter of 2020 increased by PLN 11,740 thousand from PLN 22,454 thousand in the first quarter of 2019. Income tax for the first quarter of 2020 increased the net result by PLN 4,975 thousand. The positive effect of income tax on the net result decreased by PLN 1,330 thousand year-on-year. The Group's net result for the period from January 1, 2020 to March 31, 2020 stood at PLN -29,219 thousand. The net loss increased compared to the loss for the first quarter of 2019 by PLN 13,070 thousand, which is mainly attributable to lower sales and increased finance costs.

As at the end of the first quarter of 2020, the Group's total assets amounted to PLN 1,475,244 thousand, a decrease by 0.6% compared to total assets at the end of 2019.

Non-current assets increased by PLN 19,221 thousand (i.e. by 3.2% of non-current assets as at December 31, 2019) to PLN 615,587 thousand, while current assets decreased by PLN 28,297 thousand, i.e. by 3.2% as compared to current assets as at December 31, 2019, to PLN 859,657 thousand.

The increase in non-current assets results mainly from the increase in property, plant and equipment by PLN 6,656 thousand to PLN 292,884 thousand as at March 31, 2020, and the increase in goodwill from consolidation by PLN 6,434 thousand to PLN 175,417 thousand as at March 31, 2020.

The decrease in current assets was mainly driven by a decrease in cash and cash equivalents by PLN 49,986 thousand, i.e. by 46.5% as compared to 31 December 2019. Trade and other receivables also decreased – by PLN 17,142 thousand or 4.3% as compared to the end of 2019. On the other hand, assets from contracts with customers

increased by PLN 17,153 thousand or 8.1% to PLN 228,185 thousand. Inventories also increased as compared to the end of the previous year from PLN 135,390 thousand to PLN 155,645 thousand, i.e. by PLN 20,255 thousand.

As at 31 March 2020, the Group's total equity decreased by PLN 15,785 thousand compared to 31 December 2019, reflecting a net loss of PLN 29,219 thousand incurred in the first quarter of 2020 and foreign exchange gains of PLN 12,781 thousand on translation of foreign operations.

As at 31 March 2020, long-term liabilities reached PLN 246,401 thousand and increased by PLN 13,585 thousand or 5.8% as compared to 31 December 2019. Interest-bearing credits and loans increased by PLN 15,942 thousand and stood at PLN 223,799 thousand.

Short-term liabilities stood at PLN 819,144 thousand, having decreased by 0.8%, i.e. by PLN 6,876 thousand compared to the balance as at 31 December 2019. The increase was mainly attributable to an increase in interest-bearing credits and loans by PLN 57,937 thousand. In turn, trade and other payables decreased by PLN 51,623 thousand to PLN 357,143 thousand as at 31 March 2020.

At the beginning of 2020, the Group's cash balance presented in the consolidated statement of cash flows stood at PLN 107,461 thousand, and at the end of the 3-month period it amounted to PLN 57,475 thousand. Net cash flows for the period of 3 months of 2020 were negative and amounted to PLN -49,986 thousand, which is an increase by PLN 16,806 thousand year-on-year.

14. Seasonality and cyclicality

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

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

On February 6, 2020, the conditional increase of the Parent Company's share capital was entered into the register by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register. Accordingly, the Parent Company's share capital was conditionally increased from PLN 69,160,780.80 by not more than PLN 13,023,288 through the issue of not more than 16,279,110 Series D ordinary bearer shares with a par value of PLN 0.80 per share. Series D shares may be subscribed for by holders of series F and G convertible bonds issued by the Parent Company after the balance sheet date, i.e. on May 8, 2020.

The issue of bonds is another element of long-term financing, as announced by the Company in its report on long-term financing.

Therefore, on May 8, 2020 the Company's Management Board adopted a resolution to:

- allot all 11,764,705 Series F secured registered bonds convertible into Series D shares of the Company with a nominal value of PLN 1.70 per share, with a total nominal value of PLN 19,999,998.50 and an issue price equal to the par value ("Series F Bonds") to Agencja Rozwoju Przemysłu S.A. ("ARP") and
- allot all 11,764,705 Series G unsecured registered bonds convertible into Series D shares of the Company with a nominal value of PLN 1.70 per share, with a total nominal value of PLN 19,999,998.50 and an issue price equal to the par value ("Series G Bonds") to COMSA S.A.U ("Comsa").

Series F Bonds and Series G Bonds were issued at an issue price equal to their par value. The Series F Bonds are secured with collateral indicated in the Terms and Conditions of Issue of Series F Bonds, including in particular a highest-ranking contractual mortgage on the Company's real property located in Bieńkowice established in favour of the mortgage administrator. In addition, the Company submitted representations on submission to enforcement under Article 777 § 1(5) of the Code of Civil Procedure for the benefit of the ARP concerning all of the Company's

assets and for the benefit of the collateral administrator concerning the mortgaged property. Series G bonds are unsecured and are subject to contractual subordination in accordance with the Intercreditor Agreement.

The bonds bear interest based on 1M WIBOR plus an agreed margin. Interest will be accrued and paid on a monthly basis, with interest on Series G Bonds to be paid at the earliest upon redemption of Series G Bonds. The Bonds redemption date is December 30, 2022. The Bonds may be redeemed early in cases provided for by law, as well as in the event of occurrence of circumstances that are typical for this type of bonds, as set out in the Terms and Conditions of issue of Series F Bonds and Series G Bonds. The Bonds were issued pursuant to Article 33 (2) of the Bond Act.

Apart from the bonds described above, the Company has not issued, redeemed or repaid other debt and equity securities.

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

In the opinion of the Management Board, in the 3-month period ended March 31, 2020, 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.

17. Description of factors which, in the Group's opinion, will have an impact on the Group's performance at least in the next quarter

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

- the ability to win new construction contracts, which on account of the profile of the Group's activities is determined by expenditures on the railway, energy road and tramway infrastructure in Poland and Lithuania, as well as on new markets;
- Efficiency of opening and signing contracts by the Ordering Party;
- Competition from other entities;
- Lack of market barriers;
- Formation of prices of raw materials, building materials and transport costs;
- The situation on the labor market in Poland and Lithuania;
- Exchange rate developments, in particular the euro exchange rate;
- Monetary policy of the Central Bank, translating into changes in interest rates on loans. In order to finance planned acquisitions, the Group may take out bank loans, which is why it may incur financial costs shaped by the level of interest rates;
- 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,
- Decrease in the number of bidders on the Polish railway market;
- The level of valorisation of construction contracts;
- Results of court cases.

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

- 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.

The most important internal factors having a significant impact on the Group's financial results include:

- The accuracy of estimating the costs of implemented projects, having a direct impact on decisions on the strategy of participating in tenders, the valuation of contracts for tenders and, as a result, the margins achieved on contracts. The accuracy of estimating budgets for contract costs is in turn related to both methodological and external factors, such as changes in prices of materials and prices for subcontractors, Ability to acquire new construction contracts.
- 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".
- Ability to acquire highly qualified staff.
- Ability to implement the development strategy of the Issuer's Group.
- Ability to further diversify operations.
- Ability to obtain external financing.

18. Risk factors

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

- a) Risks relating to the Group's business:
- risk associated with performance of high-value contracts and with limited number of potential customers for the Group's products and services;
 - risk associated with the Group's non-performance or improper performance of contracts;
 - risk associated with non-payment or delayed payment of amounts due under contracts performed by the Group;
 - risk of increase in operating expenses resulting from higher prices of raw materials, construction materials and third-party services and growing employee benefits expense;
 - risk associated with winning new contracts and increasing competition;
 - risk associated with the use of plant and machinery necessary for the Group to perform its contracts;
 - risk associated with technological solutions applied by the Group;

- risk associated with dependence on suppliers;
 - risks associated with potential claims for damages from contractors and subcontractors and associated with potential penalties for failure to perform contracts;
 - risk resulting from macroeconomic conditions and associated with the cyclical development of the infrastructure construction industry;
 - risk associated with joint and several liability of construction consortium members and liability for improper performance of construction work by subcontractors;
 - risk associated with the inability to hire and retain qualified employees, managers and engineers;
 - risk of bankruptcy of subcontractors;
 - risks associated with weather conditions;
 - risks associated with the implementation of the strategy.
- b) Risk factors related to the Group's financial position
- risk associated with the possibility of termination of long-term financing;
 - risk of failure to raise financing necessary for the Group to perform its contracts;
 - risk of failure to maintain sufficient liquidity of the Group (as described in Section 4 of Additional notes and explanations to the condensed separate financial statements);
 - risk of failure to obtain financial guarantees required to acquire and perform contracts;
 - interest rate risk;
 - currency risk;
- c) Risk factors related to legal regulations
- risk related to winning new contracts under the Public Procurement Law;
 - risk related to environmental protection;
 - risk inherent in related-party transactions;
 - risk of changes in tax laws applicable to the Group's operations or their interpretation and changes of private letter rulings.

Extraordinary threats

An extraordinary threat identified as at the date of publication of this report is the risk related to the impact on the Group's operations and financial situation of the COVID-19 coronavirus epidemic and related changes in regulations introduced by the State.

Impact of the SARS CoV-2 (COVID-19) epidemic on the Group's operations and financial position

The rapid spread of SARS CoV-2 virus in Poland and on other markets, where the Company and its subsidiaries conduct business activities, may affect the financial performance of the Company and the Group in 2020.

As at the date of submitting this report, the Management Board anticipates that the current state of epidemic in Poland resulting in, among others,

- limitation of transport and disruption in the continuity of supply of components and raw materials,
- reduced availability and efficiency of subcontractors,

- protracted procedures concerning administrative decisions on construction contracts in progress,
- slowdown in work progress due to the introduction of emergency precautionary measures in line with the guidelines of the Ministry of Health and the Chief Sanitary Inspector and increased staff absenteeism,
- increased costs of some services, such as transport of raw materials and materials,

may lead to delays in the Group's performance of orders under contracts where the Group companies act as contractors or subcontractors and, as a consequence, may translate into a risk of claims for payment of contractual penalties by the Group companies for untimely performance of orders. The above factors may also lead to an extraordinary increase in prices of materials and services, which will result in a decrease in profitability of contracts performed. In addition, the COVID-19 pandemic may result in fewer infrastructure projects scheduled for the coming years.

Measures taken by the Management Board of the parent company

On April 6, 2020, the Management Board signed an agreement with the trade unions under which, as of that date, working hours were reduced by 10% and, consequently, the remuneration of employees paid at a monthly rate was reduced proportionally. This reduction in working hours concerns mainly white-collar workers, allowing to maintain the capacity to execute contracts.

Additionally, it was decided, among other things, to temporarily suspend the payment of bonuses and awards, allowances and severance pays, limit overtime and introduce restrictions related to the use of company cars. In addition, the contribution to the company social benefit fund was reduced by 25%.

The company estimates that the measures taken will generate savings of PLN 1.8 million per month.

In response to the Government's efforts to de-freeze the economy, on April 30, 2020, the Management Board decided to terminate early the austerity measures described above originally scheduled until June 30, 2020.

Due to the fact that as at the date of this report, the exact and final impact of the SARS CoV-2 epidemic on the situation of the Group has not been identified yet, the Company's Management Board monitors the development of the situation on an ongoing basis and analyses the possible impact of the epidemic on the operations, performance and prospects of the Company and the Group, including the need to revise contract valuations and the Group's liquidity ratio.

19. Opinion of the Management Board on the published forecast

The Management Board of Trakcja PRKil S.A. did not publish any financial forecast for 2020.

20. Brief description of significant accomplishments or failures in the first quarter of 2020

In the first quarter of 2020, the Trakcja Group recorded a net loss of PLN 29,219 thousand. PLN, which was lower than in the corresponding period of the previous year by PLN 13,070 thousand, when the Group incurred a net loss of PLN 16,149 thousand. For a description of the factors that had a significant bearing on the Group's performance in the first quarter of 2020, see Section 13 of the Additional notes to the condensed consolidated financial statements.

The Group's significant accomplishments in the 3-month period ended March 31, 2020 include the following:

- Signing new contracts valued at PLN 122 million (excluding the part assigned to consortium partners);
- further rebuilding of the order backlog which, as at March 31, 2020, amounted to PLN 2,959 million for the Group (excluding the portion of revenue attributable to consortium members);

- continued implementation of the Recovery Plan by the Parent Company which provides that the Company will take a number of measures aimed at, among others, obtaining financial benefits by the Company, streamlining internal procedures, optimising the internal structure.

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

Information material for the assessment of the Group's and the Parent Company' employment, assets, financial condition and performance and changes therein, as well as information material for the assessment of the Parent Company's ability to meet its obligations are described in Note 4 of Additional Information and Explanations at the end of the short individual financial statements.

No information material for the assessment of the Group's and the Parent's Company's employment, assets, financial condition and performance and changes therein or for the assessment of the Group's and the Parent Company's ability to meet its obligations is available other than that presented in these condensed consolidated financial statements for the 3-month period ended on March 31, 2020.

22. Change in impairment losses and estimated credit losses

	Goodwill	Inventory	Receivables	Total
As at 1.01.2020	223 957	929	76 595	301 481
<i>Audited</i>				
Recognized	-	-	594	594
Foreign exchanges due to currency translation	-	29	146	175
Used	-	-	(235)	(235)
Reversed	-	(119)	(975)	(1 094)
As at 31.03.2020	223 957	839	76 125	300 921
<i>Unaudited</i>				

23. Provisions

As at 01.01.2020	108 866
<i>Audited</i>	
Recognized	2 970
Foreign exchanges due to currency translation	700
Used	(3 791)
Reversed	(7 430)
As at 31.03.2020	101 315
<i>Unaudited</i>	
including	
- long-term	13 963
- short-term	87 352

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

In the period from January 1 to March 31, 2020, the Group acquired property, plant and equipment and intangible assets in the amount of PLN 11,518 thousand, of which PLN 6,198 thousand are new fixed assets recognised in the balance sheet in accordance with IFRS 16 (whereby the largest amount, i.e. PLN 5,444 thousand, concerns the lease of office space at Al. Jerozolimskie 100 in Warsaw – the new registered office of the Company as of February 24, 2020).

From January 1, 2020 to March 31, 2020, the Group disposed of tangible non-current assets and intangible assets in the total book value of PLN 85 thousand.

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

In the first quarter of 2020, the Group did not change the measurement method for any categories of financial instruments measured at fair value as compared to the annual consolidated financial statements. The carrying amounts of financial assets and liabilities are close to their fair values.

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

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

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

In the first quarter of 2020, no fair value was reallocated to level 1, 2 or 3.

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

In the first quarter of 2020, the Group did not change the classification of financial assets as a result of changing their purpose or use.

27. Assets and liabilities measured at fair value

The Group measures at fair value such categories of assets and liabilities as investment property and financial derivatives. In the period of 3 months ended March 31, 2020 the measurement method for the aforementioned assets and liabilities remained unchanged. The measurement method applied and the unobservable inputs used for measurement are described in detail in the Group's consolidated annual financial statements for 2019.

Items recognized in fair value	Level 1		Level 2		Level 3	
	31.03.2020	31.12.2019	31.03.2020	31.12.2019	31.03.2020	31.12.2019
Derivatives (liability side)	-	-	8	8	-	-
Investment property	-	-	-	-	22 444	22 447
Office properties	-	-	-	-	17 872	17 875
Land properties	-	-	-	-	1 974	1 974
Deposits of natural aggregates	-	-	-	-	2 598	2 598

In the period of 3 months ended March 31, 2020 no reallocations were made to level 1, 2 or 3.

28. Information on segments

Segments are described in the consolidated annual financial statements of Trakcja Group for 2019.

Key customers:

In the period of 3 months of 2020, revenues from transactions with external single customers constituted respectively 10% or more of the total revenues of the Group. Total revenues by type of customers and by segments to which such revenues pertain are presented in the table below:

**The total amount of income obtained
in 3 months ended 31.03.2020 from a single customer (thousand PLN)**

98 289

Civil construction - Poland

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

Operating segments:

For the period from 1.01.2020 to
31.03.2020

Unaudited

	Continued operations						
	Civic building - Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales to external customers	152 075	57 961	7 338	217 374	-	-	217 374
Sales between segments	419	-	430	849	-	(849)	-
Total segment revenues	152 494	57 961	7 768	218 223	-	(849)	217 374
Results							
Depreciation	6 418	2 970	51	9 439	-	-	9 439
Financial income - interests	91	78	166	335	-	(164)	171
Financial expenses - interests	4 859	480	3	5 342	-	(164)	5 178
Gross profit	(21 744)	(11 902)	(550)	(34 196)	-	2	(34 194)

For the period from 1.01.2019 to
31.03.2019

Unaudited

	Continued operations						
	Civic building - Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales to external customers	200 285	20 507	7 712	228 504	-	-	228 504
Sales between segments	303	7	32	342	-	(342)	-
Total segment revenues	200 588	20 514	7 744	228 846	-	(342)	228 504
Results							
Depreciation	6 138	2 910	288	9 336	-	-	9 336
Financial income - interests	336	980	101	1 417	-	(139)	1 278
Financial expenses - interests	2 143	612	29	2 784	-	(139)	2 645
Gross profit	(7 525)	(13 789)	(1 146)	(22 460)	-	6	(22 454)

As at 31.03.2020

Unaudited

	Continued operations						
	Civic building - Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Segment assets	1 136 315	498 580	55 694	1 690 589	-	(274 290)	1 416 299
Assets not allocated to segments							58 945
Total assests							1 475 244
Segment liabilities*	682 489	225 762	5 889	914 140	-	(94 996)	819 144

Other disclosures:

Capital expenditure (1 843) (3 037) (4) (4 884) - - (4 884)

Impairment of non-financial assets - - - - - - -

*short-term liabilities were allocated to assess segment

As at 31.12.2019

Unaudited

	Continued operations						
	Civic building - Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Segment assets	1 145 628	519 117	84 130	1 748 875	-	(319 310)	1 429 565
Assets not allocated to segments							54 755
Total assests							1 484 320
Segment liabilities*	712 263	190 282	27 943	930 488	-	(104 468)	826 020

Other disclosures:

Capital expenditure (5 697) (7 837) (1 692) (15 226) - 101 (15 125)

Impairment of non-financial assets (9 800) (128 815) - (138 615) - - (138 615)

*short-term liabilities were allocated to assess segment

Geographical segments:

**For the period from 1.01.2020 to
31.03.2020**

Unaudited

	Continued operations			Discontinued operations	Exclusions	Total operations
	Domestic	Abroad	Total			
Revenues						
Sales to external customers	157 278	60 096	217 374	-	-	217 374
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	184	-	184	-	(184)	-
Total segment revenues	157 462	60 096	217 558	-	(184)	217 374

**For the period from 1.01.2019 to
31.03.2019**

Unaudited

	Continued operations			Discontinued operations	Exclusions	Total operations
	Domestic	Abroad	Total			
Revenues						
Sales to external customers	206 061	22 443	228 504	-	-	228 504
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	290	7	297	-	(297)	-
Total segment revenues	206 351	22 450	228 801	-	(297)	228 504

As at 31.03.2020

Unaudited

	Continued operations					
	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Operating assets	1 180 775	509 814	1 690 589	-	(274 290)	1 416 299
Segment liabilities*	707 017	207 123	914 140	-	(94 996)	819 144

* short-term liabilities were allocated to assess segment

As at 31.03.2019

Unaudited

	Continued operations					
	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Operating assets	1 192 744	556 131	1 748 875	-	(319 310)	1 429 565
Segment liabilities*	737 838	192 650	930 488	-	(104 468)	826 020

* short-term liabilities were allocated to assess segment

29. Contingent receivables and liabilities

Contingent receivables and liabilities are presented in the table below:

	31.03.2020 Unaudited	31.12.2019 Audited
Contingent receivables		
From related entities due to:	764 459	764 022
Received guarantees and sureties	763 171	762 731
Bills of exchange received as collateral	1 288	1 291
Total contingent receivables	764 459	764 022
Contingent liabilities		
From other entities due to:	8 481 269	8 696 931
Provided guarantees and sureties	889 124	899 060
Promissory notes	521 474	521 671
Mortgages	4 256 299	4 252 519
Assignment of receivables	1 224 625	1 429 992
Assignment of rights under insurance policy	120 137	120 137
Security deposits	17 958	21 900
Registered pledges	1 451 652	1 451 652
Total contingent liabilities	8 481 269	8 696 931

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

As at March 31, 2020, except for the aforementioned contingent receivables and liabilities, the Group had contingent receivables in the amount of PLN 914 thousand (December 31, 2019: PLN 1,245 thousand) arising from the employment contracts signed with employees. If a manager fails to meet his or her obligations defined in Article 1, he or she will pay, immediately and without a termination notice or any demand issued by the Group, a contractual penalty in the amount equal to the PLN equivalent of EUR 25,000 for each failure and the amount equal to the PLN equivalent of EUR 1,000 for each day in which such a failure occurs or continues. Contingent liabilities arising from the employment contracts signed with employees. As at March 31, 2020 - amounted to PLN 6,700 thousand (as compared to PLN 7,712 thousand as at December 31, 2019).

Tax settlements and other fields of business subject to regulations (for example, customs or foreign currency matters) may be subject to inspections by administrative authorities entitled to impose high penalties and sanctions. The lack of reference to the well-established legal regulations in Poland and Lithuania results in the legislation in force being ambiguous and inconsistent. Frequent differences in opinions as to the legal interpretation of tax regulations, both within the state authorities themselves and between such authorities and business entities, create conflicts and uncertainty. Such events result in the tax risk in Poland being much higher than in countries with more advanced tax systems. Tax settlements may be subject to inspection during the period of five years starting from the end of the year in which the tax was paid. As a result of the inspections carried out, any current tax settlements of the Group may be increased by additional tax liabilities. In the Group's opinion, the provisions recognised as at March 31, 2020 are sufficient to mitigate the recognised and measurable tax risk.

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

In the first quarter of 2020, neither the Parent Company nor its subsidiaries did grant any sureties for credits or loans or any guarantees to any entity or its subsidiary, whose total value of existing sureties and guarantees is significant.

31. Significant court cases and disputes

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

Proceedings concerning the Parent Company:

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

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

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

Case against Leonhard Weiss International GmbH

As Leonhard Weiss International failed to respond to the statement including a debit note and a request for payment dated 31 October 2017. The Parent Company decided to take the case to court.

The case against Leonhard Weiss International GmbH ("LWI") for payment due under the sale agreement of 50 % of shares in Bahn Technik Wrocław Sp. z o.o. The Parent Company has responded to the lawsuit. At present, it is not possible to precisely indicate the expected date of completion of the case. The Parent Company expects that an enforceable solution may be issued in the second half of 2019 or in the first half of 2020.

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

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

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

Case against ELTRANS sp. z o.o.

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

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

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

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

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

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

Proceedings against PKP PLK S.A.

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

On 31 October 2017, the Company along with Przedsiębiorstwo Budowlane "FILAR" Spółka z ograniczoną odpowiedzialnością with its registered office in Wrocław, and Berger Bau Polska Spółka z ograniczoną odpowiedzialnością with its registered office in Wrocław, has filed a case against PKP PLK S.A. for reimbursement of additional costs related with the extension of the completion date of the Contract No 90/116/0006/11/Z/I for basic linear construction works at the section Wrocław – Grabiszyn – Skokowa and Żmigród – border of the Dolnośląskie Province within the scope of the project entitled "Modernisation of railway line E 59 at the section Wrocław – Poznań, Stage II – section Wrocław – border of the Dolnośląskie Province". On 29 March 2018, an extension of a

claim pursued as part of the case to include claims of another subcontractor – INFRAKOL Sp. z o.o. Sp.K. The Parent Company's portion of the claim is PLN 11,640,113.77 (including, interest of PLN 1,415,797.02). The case is at the early stage of proceedings and its resolution date is difficult to predict.

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

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

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

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

On 29 November 2018, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 20,934,758.14 PLN (in words: twenty million nine hundred thirty-four thousand seven hundred fifty-eight zlotys and fourteen grosz) along with statutory interest for delay, as reimbursement for the costs of extension of the implementation of Agreement No 90/132/336/00/17000031/10/I/I of 29 November 2010 for "Designing and execution of construction works on the Kraków - Medyka - State border railway line on the Dębica - Sędziszów Małopolski section in km 133.600 - 154.900 as part of the POLiŚ 7.1-30 project "Modernization of the E30 / CE 30 railway line, Kraków - Rzeszów section, stage III" Tender 2.2", due to circumstances within the scope of responsibility

of PKP PLK S.A., both under the provisions of the Contract, as a public procurement contract, as well as general liability for damages specified in the provisions of the Civil Code. The case is at the early stage of proceedings and its resolution date is difficult to predict.

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

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

- a) reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0090/15/Z/I for Construction of civil engineering structures on km 160.857; km 155.170 and km 145.650 of railway line No 271 Wrocław – Poznań, as part of the POIŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempin-Poznań section" – as regards the Partial Contract A – railway viaduct on km 145.650 in Mosina, due to circumstances within the scope of responsibility of PKP PLK S.A.,
- b) reimbursement for the costs of additional works performed by the Company, not provided for in the Contractor's Bid for the contract in question.

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

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

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

barriers. The amount claimed by the plaintiff is PLN 12,301,072. The case is at the early stage of proceedings and its resolution date is difficult to predict.

Proceedings concerning subsidiaries:

AB Kauno Tiltai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, of which a subsidiary, AB Kauno Tiltai, is a member, for a total amount of PLN 68,236,956 (EUR 14,989,556). Pursuant to a decision of the court, this amount was reduced to PLN 4,742,941 (EUR 1,041,878). The share of Trakcja Group in liabilities (if any) that may arise from these proceedings is 65%. The Group refrained from making any other disclosures related to this court case by invoking clause 92 of IAS 37. According to the Management Board of The Parent Entity those disclosures may reveal information to parties of court proceedings, which can be used in the ongoing proceedings against the interests of the subsidiary AB Kauno tiltai.

32. Information on dividends paid and declared

In the first quarter of 2020, the Parent Company did not declare and pay dividends.

33. Information on related entities

In the third quarter of 2020, the Group companies did not make any significant transactions with their related entities on terms other than at arm's length. Transactions made by the Parent Company and its subsidiaries (related entities) are the arm's length transactions and their nature is a result of the current operations conducted by the Parent Company and its subsidiaries.

Please find below the totals of transactions made with related entities from January 1, 2020 to March 31, 2020:

Related entities	Financial year	Sale to related entities	Purchases from related entities od podmiotów powiązanych	Interest revenue	Interest costs	Financial revenue from FX differences	Financial costs from FX differences
Shareholders of Parent entity:							
COMSA S.A.	1.01.20-31.03.20	-	-	-	105	-	-
	1.01.19-31.03.19	45	461	-	-	-	-
Agencja Rozwoju Przemysłu	1.01.20-31.03.20	-	-	-	319	-	-
	1.01.19-31.03.19	-	-	-	-	-	-
Total	1.01.20-31.03.20	-	-	-	424	-	-
	1.01.19-31.03.19	45	461	-	-	-	-

Please find below information on any receivables from and liabilities towards related entities as at March 31, 2020:

Related entities	Reporting date	Receivables from related entities	Liabilities towards related entities	Loans granted	Borrowings received
Shareholders of Parent entity:					
COMSA S.A.	31.03.2020	21	87	-	7 921
	31.12.2019	-	188	-	7 656
Agencja Rozwoju Przemysłu	31.03.2020	-	184	-	27 600
	31.12.2019	-	184	-	27 668
Total	31.03.2020	21	271	-	35 521
	31.12.2019	-	372	-	35 324

34. Significant events in the first quarter of 2020 and after the balance sheet date

Please find below a summary of significant events that took place in the first quarter of 2020.

Other	CR
10.01.2020 The Company made public dates of publication of periodic reports in 2020.	1/2020
14.01.2020 The Company made public the content of resolutions adopted by the Ordinary General Meeting of the Company, which was held on January 14, 2020.	2/2020
14.01.2020 The Company forwarded a list of shareholders holding at least 5% of the total number of votes at the Ordinary General Meeting of the Company, which was held on 14 January 2020 in Warsaw.	3/2020
10.02.2020 The Management Board of Trakcja PRKiI S.A. ("Company") hereby informs that the District Court for the Capital City of Warsaw in Warsaw, 12th Business Division of the National Court Register ("Court") has registered the conditional increase of the Company's share capital as well as changes to the Company's Articles of Association.	4/2020
24.02.2020 The Management Board of Trakcja PRKiI S.A. informed about change of Company's address	5/2020
27.02.2020 The Company published the preliminary estimated financial results for the period of 12 months ended on 31 December 2019.	6/2020
17.03.2020 In connection with the recommendations of the Polish Financial Supervision Authority of 12 March 2020 and own analysis, the Management Board of Trakcja PRKiI S.A. ("Company") hereby informs that the rapid spread of the SARS CoV-2 virus in Poland and on other markets where the Company and its subsidiaries ("Group") conducts business may affect the Company's and the Group's financial situation.	7/2020
18.03.2020 The Company has decided to recognize write-off of the value of investments in subsidiaries in Trakcja PRKiI's balance sheet in the amount of PLN 114.187 thousand and the value of goodwill in Trakcja Group's consolidated balance sheet in the amount of PLN 138.182 thousand.	8/2020

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

Significant construction contracts	CR
<p>The Management Board of Trakcja PRKiI S.A. ("Company", "Issuer") informed that on April 4, 2020 it was notified about the conclusion of an agreement by the Issuer's subsidiary, AB Kauno tiltai (based in Lithuania) with a state enterprise, Lithuanian Airports ("Contracting Authority") for the performance of construction works entitled "Construction works at the Vilnius airport" ("Vilnius").</p> <p>The total net value of the Agreement amounts to EUR 26,784,003.00 [PLN 122 086 122.42].</p> <p>The works under this Agreement are to be performed within 17 months from the commencement of works.</p>	12/2020
<p>The Management Board of Trakcja PRKiI S.A. ("Company", "Issuer") informed that today it was notified about a bilateral signing of an agreement on 7 May, 2020 by Company and the Wrocław Municipality, represented by Wrocławskie Inwestycje Sp. z o.o. based in Wrocław, for the performance of construction works included in the scope of the contract relating to the task entitled: "03940 – The construction of the B. Chrobry bridges within the route of the voivodeship road no. 455 in Wrocław" ("Works"), including: design and performance of the works by the Company in the scope defined by the contract.</p> <p>The agreement's net value is PLN 56,732,013.61. The works are to be completed within 24 month from the date of signing the Agreement. The preparation of the complete project documentation and obtaining the final permit for the performance of a road investment (ZRID) is to be completed within 10 months from the date of the agreement. Other terms of the Agreement do not differ from contractual terms that are usually used for this type of agreement.</p> <p>The Issuer's Management Board decided to publish this notice because the performance of the aforementioned contract constitutes a significant step towards diversification of the Company's activity and its engagement in investments related with bridge construction.</p>	17/2020

Refinancing process	CR
30.04.2020 The Management Board of Trakcja PRKiI S.A. ("Company") informed that on 30 April, 2020 it has signed the Terms of Issue of F Series Shares and G Series Shares convertible to D Series Bonds, with the total nominal value of PLN 27,647,487 (say: twenty seven million six hundred and seventy four thousand four hundred and eighty seven zloty), which were previously approved by a resolution of the Company's Management Board.	11/2020
07.05.2020 The Management Board of the Company informed that on 7 May 2020 the Company signed an annex to the unified Agreement Between Creditors of 13 June 2019 as further amended ("Agreement Between Creditors") with the Company's subsidiaries. Pursuant to the Annex to the Agreement Between Creditors, the company Trakcja Ukraina spółka z ograniczoną odpowiedzialnością – the Company's subsidiary – became a party to the Agreement Between Creditors; additionally, amendments were introduced to the Agreement to account for the rules of cooperation between the parties in connection with the planned issue of bonds convertible to the Company's shares.	13/2020
08.05.2020 The Management Board of Trakcja PRKiI S.A. ("Company") informed that on 8 May 2020 a resolution was adopted on assigning all 11 764 705 secured F series registered bonds, convertible to the Company's D series shares, with the nominal value of PLN 1.70 each and with the total value of PLN 19,999,998.50 ("F Series Bonds") to Agencja Rozwoju Przemysłu S.A. based in Warsaw ("ARP") and assigning all 4 514 405 unsecured G series registered bonds convertible to the Company's D series shares, with the nominal value of PLN 1.70 each and with the total nominal value of PLN 7,674,488.50 ("C Series Bonds") to COMSA S.A.U based in Barcelona ("Comsa.")	14/2020
08.05.2020 The Company received a notification pursuant to Article 19.1 of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (MAR), presented by Comsa S.A.U. based in Barcelona as a person closely related with Fernando Perea Samarra, Miquel Llevat Vallespinosa and Jorge Miarnau Montserrat - members of the Company's Supervisory Board.	15/2020
08.05.2020 The Management Board of Trakcja PRKiI S.A. ("Company", "Issuer") informed that 8 May, 2020 it was presented by COMSA S.A.U. ("COMSA") with a notification delivered pursuant to Article 69b of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005, in connection with COMSA's subscription of the G series registered bonds convertible to the Company's D series shares.	16/2020
11.05.2020 The Management Board of Trakcja PRKiI S.A. ("Company") informed that 11 May, 2020 it was presented by Agencja Rozwoju Przemysłu S.A. based w Warsaw ("ARP") with a notification delivered pursuant to Article 69b of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005, in connection with ARP's subscription of the F series registered bonds convertible to the Company's D series shares.	18/2020
Other	CR
06.04.2020 The Company informed that in account of the existing COVID-19 epidemic in Poland and worldwide, it undertakes measures [jointly referred to as the "Anti-crisis Package"] aiming at reducing the negative impact of the present situation on the Company's operations and results.	9/2020

IV. QUARTERLY FINANCIAL INFORMATION

STANDALONE INCOME STATEMENT

	1.01.2020 - 31.03.2020 <i>Unaudited</i>	1.01.2019 - 31.03.2019 <i>Unaudited</i>
Continued operations		
Sales revenue	140 730	186 455
Cost of goods sold	(138 565)	(180 083)
Gross profit (loss) on sales	2 165	6 372
Cost of sales, marketing and distribution	(452)	(640)
General and administrative costs	(9 865)	(7 728)
Other operating revenues	2 103	903
Other operating costs	(2 809)	(1 506)
Operating profit (loss)	(8 858)	(2 599)
Financial revenues	266	326
Financial costs	(7 224)	(2 286)
Gross profit (loss)	(15 816)	(4 559)
Income tax	2 616	1 232
Net profit (loss) from continued operations	(13 200)	(3 327)
Net profit (loss) from discontinued operations	-	-
Net profit for the period	(13 200)	(3 327)
Profit per share attributable to shareholders in the period (PLN per share)		
- basic	(0,15)	(0,06)
- diluted	(0,15)	(0,06)

STANDALONE STATEMENT OF COMPREHENSIVE INCOME

	1.01.2020 - 31.03.2020 <i>Unaudited</i>	1.01.2019 - 31.03.2019 <i>Unaudited</i>
Net profit for the period	(13 200)	(3 327)
Other comprehensive income:		
Other comprehensive net income that will be reclassified to profit or loss:	(57)	-
Foreign exchange differences on translation of foreign operations	(57)	-
Total other comprehensive income	(57)	-
Total comprehensive income for the period	(13 257)	(3 327)

STANDALONE BALANCE SHEET

	31.03.2020 <i>Unaudited</i>	31.12.2019 <i>Audited</i>
ASSETS		
Non-current assets	618 258	614 028
Tangible non-current assets	169 555	167 605
Intangible assets	50 503	50 510
Investment properties	19 781	19 789
Investments in subsidiaries	311 308	311 308
Other financial assets	8 408	8 340
Deferred tax assets	53 774	51 162
Accruals	4 929	5 314
Current assets	584 570	614 433
Inventory	69 514	64 720
Trade and other receivables	286 145	297 327
Other financial assets	11 152	11 777
Cash and cash equivalents	22 828	47 514
Accruals	13 143	12 813
Assets due to contracts with clients	176 751	175 245
Assets held for sale	5 037	5 037
TOTAL ASSETS	1 202 828	1 228 461
Equity and liabilities		
Equity	336 593	349 925
Share capital	69 161	69 161
Share premium account	340 561	340 561
Revaluation reserve	7 082	7 082
Other capital reserves	182 748	182 823
Retained earnings	(262 878)	(249 678)
Foreign exchange differences on translation of foreign operations	(81)	(24)
Total equity	336 593	349 925
Long-term liabilities	215 352	204 242
Interest-bearing loans and borrowings	211 268	199 909
Provisions	2 968	3 102
Liabilities due to employee benefits	1 116	1 231
Short-term liabilities	650 883	674 294
Interest-bearing loans and borrowings	178 783	159 479
Trade and other liabilities	267 712	293 598
Provisions	78 529	86 440
Liabilities due to employee benefits	8 382	7 867
Accruals	407	455
Liabilities due to contracts with clients	117 070	126 455
TOTAL EQUITY AND LIABILITIES	1 202 828	1 228 461

STANDALONE STATEMENT OF CASH FLOWS

	1.01.2020 - 31.03.2020 <i>Unaudited</i>	1.01.2019 - 31.03.2019 <i>Unaudited</i>
<i>Cash flows from operating activities</i>		
Gross profit from continued operations	(15 816)	(4 559)
Adjustments for:	(31 401)	(51 619)
Depreciation	5 147	4 870
FX differences	1 162	(8)
Net interest and dividends	3 995	1 853
Profit on investment activities	(661)	16
Change in receivables	9 618	(12 975)
Change in inventory	(4 794)	(9 359)
Change in liabilities, excluding loans and borrowings	(27 089)	(10 545)
Change in prepayments and accruals	7	(606)
Change in provisions	(8 044)	(3 808)
Change in settlements in contracts	(10 891)	(21 074)
Other	101	17
Foreign exchange differences on translation of foreign operations	48	-
Net cash flows from operating activities	(47 217)	(56 178)
<i>Cash flows from investment activities</i>		
Sale (purchase) of intangible assets and tangible non-current assets	1 340	107
- acquisition	(962)	(174)
- sale	2 302	281
Financial assets	621	1 562
- granted or acquired	809	3 703
- acquired	(188)	(2 141)
Net cash flows from investment activities	1 961	1 669
<i>Cash flows from financial activities</i>		
Proceeds on account of taken borrowings and loans	31 445	29 104
Repayment of borrowings and loans	(4 105)	(1 771)
Interests and commissions paid	(3 897)	(1 959)
Payment of liabilities under financial lease agreements	(2 873)	(3 815)
Net cash flows from financial activities	20 570	21 559
Total net cash flows	(24 686)	(32 950)
Cash at start of period	47 514	61 451
Cash at end of period	22 828	28 501

STANDALONE STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium account	Revaluation reserve	Other reserve capitals		Foreign exchange differences on translation of foreign operations	Retained earnings	Total
				Actuarial gains/ (losses)	Results from previous years			
As at 1.01.2020 Audited	69 161	340 561	7 082	391	182 432	(24)	(249 678)	349 925
Net profit for the period	-	-	-	-	-	-	(13 200)	(13 200)
Other comprehensive income	-	-	-	-	-	(57)	-	(57)
Total comprehensive income	-	-	-	-	-	(57)	(13 200)	(13 257)
Other changes	-	-	-	-	(75)	-	-	(75)
As at 31.03.2020 Unaudited	69 161	340 561	7 082	391	182 357	(81)	(262 878)	336 593
As at 1.01.2019 Audited	41 120	309 984	5 808	391	269 117	(28)	(86 687)	539 705
Net profit for the period	-	-	-	-	-	-	(3 327)	(3 327)
Total comprehensive income	-	-	-	-	-	-	(3 327)	(3 327)
Other changes	-	-	1	-	-	-	-	1
As at 31.03.2019 Unaudited	41 120	309 984	5 809	391	269 117	(28)	(90 014)	536 379
As at 1.01.2019 Audited	41 120	309 984	5 808	391	269 117	(28)	(86 687)	539 705
Net profit for the period	-	-	-	-	-	-	(249 678)	(249 678)
Other comprehensive income	-	-	1 273	-	-	4	-	1 277
Total comprehensive income	-	-	1 273	-	-	4	(249 678)	(248 401)
Distribution of profit	-	-	-	-	(86 687)	-	86 687	-
Issue of shares	28 041	30 577	-	-	-	-	-	58 618
Other changes	-	-	1	-	2	-	-	3
As at 31.12.2019 Audited	69 161	340 561	7 082	391	182 432	(24)	(249 678)	349 925

V. NOTES TO THE CONDENSED STANDALONE FINANCIAL STATEMENTS

1. Analysis of the financial performance of Trakcja PRKiI S.A. in the first quarter of 2020

Factors that had the most significant bearing on sales revenue and performance in the first quarter of 2020 include seasonality of sales, typical for entities operating in the construction sector and characterised by a much lower level of revenue earned in the first quarter of the year and a significant proportion of sales revenue generated in the second half of the calendar year.

In the first quarter ended March 31, 2020, Trakcja PRKiI S.A. earned sales revenue of PLN 140,730 thousand, down by PLN 24.5% year-on-year. In the first quarter of 2020, cost of sales decreased by PLN 41,518 thousand or 23.1% to PLN 138,565 thousand. In the first quarter of 2020, the Company posted gross profit on sales of PLN 2,165 thousand, which is a decrease by PLN 4,207 thousand as compared to PLN 6,372 thousand in the corresponding period of the previous year. The decrease in revenue and gross profit on sales resulted from lower performance of construction contracts in the Company due to its difficulties in settling payments to subcontractors and material suppliers and, to a small extent, from the general situation related to the SARS – CoV-2 virus pandemic.

The gross profit margin on sales reached 1.5% in the first quarter of 2020. The margin decreased by 1.9 p.p. compared to the margin in the first quarter of 2019.

General and administrative expenses stood at PLN 9,865 thousand and increased by 27.7% or PLN 2,137 thousand year-on-year. The increase in expenses is attributable to an increase in staff costs by PLN 915 thousand, reclassification of PFRON (State Fund for the Disabled) costs of PLN 394 thousand to general and administrative expenses and an increase in the costs of advisory and consulting services, mainly related to the restructuring of financing, by PLN 338 thousand.

In the period under consideration, selling, marketing and distribution expenses decreased by PLN 188 thousand year-on-year to PLN 452 thousand.

Net other operating income/(expenses) was negative at PLN 706 thousand. The loss increased by PLN 103 thousand year-on-year. For the period from January 1, 2020 to March 31, 2020, the Company incurred an operating loss of PLN 8,858 thousand. The operating loss increased by PLN 6,259 thousand relative to the first quarter of 2019, when it stood at PLN 2,599 thousand.

The Company's finance income reached PLN 266 thousand and decreased by PLN 60 thousand year-on-year. Finance costs increased by PLN 4,938 thousand to PLN 7,224 thousand. The increase in finance costs was primarily caused by increased interest expenses on credits, loans and leases by PLN 3,158 thousand, including interest on credits by PLN 1,594 thousand.

In the period from January 1, 2020 to March 31, 2020, the Company incurred a loss before tax of PLN 15,816 thousand. Income tax for the first quarter of 2020 increased the net result on continuing operations by PLN 2,616 thousand. This represents a decrease by PLN 1,384 thousand as compared to the corresponding period of the previous year. The Company's net loss for the period from January 1, 2020 to March 31, 2020 was PLN 13,200 thousand and increased by PLN 9,873 thousand year-on-year.

At the end of the first quarter of 2020, the Company's total assets amounted to PLN 1,202,828 thousand, down PLN 25,633 thousand as compared to the end of 2019.

Non-current assets increased by PLN 4,230 thousand to PLN 618,258 thousand. As compared to the balance as at December 31, 2019, current assets decreased by PLN 29,863 thousand or 4.9% to PLN 584,570 thousand. The decrease was mainly due to a decrease in cash and cash equivalents by PLN 24,686 thousand as compared to the balance as at December 31, 2019. Trade and other receivables also decreased – by 11,182 thousand PLN to PLN

286,145 thousand as at March 31, 2020. On the other hand, inventories increased by PLN 4,794 thousand to PLN 69,514 thousand as at March 31, 2020.

As at March 31, 2020, the Company's equity decreased by PLN 13,332 thousand compared to December 31, 2019.

Long-term liabilities increased by PLN 11,110 thousand compared to December 31, 2019, reaching PLN 215,352 thousand as at March 31, 2020. This increase was mainly driven by the increase in credits, loans and leases by PLN 11,359 thousand. Short-term liabilities stood at PLN 650,883 thousand, having decreased by 3.5%, i.e. by PLN 23,411 thousand compared to the balance as at the end of the previous year. Among short-term liabilities, the largest decrease was recorded for trade and other payables that stood at PLN 267,712 thousand and decreased by PLN 25,886 thousand. Liabilities from contracts with customers also decreased and amounted to PLN 117,070 thousand as at March 31, 2020. On the other hand, interest-bearing credits and loans increased by PLN 19,304 thousand or 12.1% to PLN 178,783 thousand as at March 31, 2020.

At the beginning of 2020, the Company's cash stood at PLN 47,514 thousand, and at the end of the 3-month period it amounted to PLN 22,828 thousand. Net cash flows for the period of 3 months of 2020 were negative and amounted to PLN 24,686 thousand, which is an increase by PLN 8,264 thousand year-on-year. The Company recorded negative cash flows from operating activities of PLN 47,217 thousand, which fell by PLN 8,961 thousand. In the first quarter of 2020, the Company reported positive net cash flows from investing activities of PLN 1,961 thousand, whereas in the corresponding period of 2019 positive cash flows from investing activities amounted to PLN 1,669 thousand. In the first quarter of 2020, net cash flows from financing activities reached a positive balance of PLN 20,570 thousand. The above amount resulted primarily from proceeds from credits and loans in the amount of PLN 31,445 thousand.

2. Seasonality and cyclicity

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

3. Contingent receivables and liabilities

Contingent receivables and liabilities are presented in the table below:

	31.03.2020	31.12.2019
	Niebadane	Badane
Contingent receivables		
From related entities due to:	702 400	702 400
Received guarantees and sureties	702 400	702 400
From related entities due to:	762 505	762 109
Received guarantees and sureties	761 217	760 818
Bills of exchange received as collateral	1 288	1 291
Total contingent receivables	1 464 905	1 464 509
Contingent liabilities		
From related entities due to:	710 400	712 900
Provided guarantees and sureties	702 400	702 400
Own bills of exchange	8 000	10 500
From other entities due to:	8 259 806	8 380 829
Provided guarantees and sureties	731 556	762 550
Promissory notes	516 206	516 402
Mortgages	4 197 672	4 197 672
Assignment of receivables	1 224 625	1 313 768
Assignment of rights under insurance policy	120 137	120 137
Security deposits	17 958	18 648
Registered pledges	1 451 652	1 451 652
Total contingent liabilities	8 970 206	9 093 729

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

As at March 31, 2020, except for the aforementioned contingent receivables and liabilities, the Company had contingent receivables in the amount of PLN 914 thousand (as compared to PLN 1,245 thousand as at December 31, 2019) arising from the employment contracts signed with employees. If a manager fails to meet his or her obligations defined in Article 1 of the Non-Competition Agreement, he or she will pay, immediately and without a termination notice or any demand issued by the Company, a contractual penalty in the amount equal to the PLN equivalent of EUR 25,000 for each failure and the amount equal to the PLN equivalent of EUR 1,000 for each day in which such a failure occurs or continues.

The contingent liabilities arising from employment contracts with employees were at PLN 2,232 thousand as at March 31, 2020 (PLN 4,034 thousand as at December 31, 2019).

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 March 31, 2020 are sufficient to mitigate the recognised and measurable tax risk.

4. Update on the risk of going concern of the Parent Company, as well as undertaken and planned operations of the Management Board of the Parent Company

In regard to note no. 10 to the annual individual financial statements of Trakcja PRKiI S.A. for the financial year ended on December 31, 2019 and note no. 62 to the annual consolidated financial statements of the Trakcja Group for the financial year ended on December 31, 2019, the Management Board of the Parent Company hereunder presents the update on issues discussed in the aforementioned notes to financial statements.

Going concern

The financial statement for the 3 months ended on March 31, 2020 was prepared in account of going concern, therefore it does not include any adjustments due to different rules of valuation and classification of assets and liabilities, which would be required if the assumption of the Company's going concern turned out unjustified.

The Company's Management Board below presents information about the current financial situation of the Company, indicating any risks to going concern within twelve months from the date of preparation of the financial statements.

Risk to going concern

In the period of 3 months ended on 31 March 2020, the Parent Company recorded net loss of PLN 13,200 thousand, and the net negative working capital amounted to PLN 65,906 thousand.

As at March 31, 2020, financial liabilities due to credits and lease of the Parent Company amounted to a total of PLN 390,051 thousand (long-term part PLN 211,268 thousand, short term part PLN 178,783 thousand).

As at March 31, 2020, trade liabilities were at PLN 240,369 thousand, including outdated at PLN 128,510 thousand, which the Company pays from current inflows to a possible extent.

Therefore, there is a risk of a threat to going concern.

General situation of the Company and action undertaken

The parent company recorded the following results for the 3 months ended on March 31, 2020:

- Gross result on sales: PLN 2,165 thousand (Q1 2019: PLN 6,372 thousand)
- EBITDA: PLN -3,711 thousand (Q1 2019: PLN 2,271 thousand)
- Net result: PLN -13,200 thousand (Q1 2019: PLN -3,327 thousand)
- Equity: PLN 336,593 thousand (Q1 2019: PLN 349,925 thousand)

The factors with the most significant effect on sales revenue and the results for Q1 2020 included sales seasonality, characteristic for entities in the building industry, which is linked with a substantially lower level of revenues in quarter one and generating a significant amount of sales revenues in the second half of a calendar year.

As at March 31, 2020, the Company's order backlog was PLN 2,178 million net and increased by approximately 5% as compared to March 31, 2019. In the first quarter of 2020, the Parent Company signed contracts with a total net value of approximately PLN 2.5 million.

In the first quarter of 2020, the Management Board of the Parent Company continued negotiations with PKP PLK in order to settle court disputes. The Company's Management Board negotiates the receipt from PKP PLK of payment

for contractual claims pending before courts. As at the date of publication of this quarterly report, the total gross amount of these claims is approx. PLN 158.6 million (gross amount together with interest capitalised as at the date of filing the statement of claim). The Company is engaged in negotiations with PKP PLK with the participation of the General Counsel's Office. The value of other contractual claims pursued by the Company together with consortium partners and subcontractors is PLN 229.3 million, including PLN 196.5 million attributable to Trakcja PRKiI. At this stage, the Management Board of the Parent Company is not able to determine the date of completion of negotiations and their impact on the financial performance.

New contracts

The Parent Company continues to actively participate in tender procedures on the railway and road market, which comprise of less participants at the moment. Less pressure on the part of competitors results from saturation of the market with investments in comparison to the performance potential of construction companies on the Polish market. The current market trend demonstrates that offers of contractors which substantially exceed investor budgets are more and more often accepted by ordering parties.

In the first quarter of 2020, the Group signed the following significant contracts:

- a) on March 20, 2020, the subsidiary, PRK7 Nieruchomości Sp. z o.o., signed a contract for the "Construction of a Special School and Educational Centre in Pruszków, ul. Wapienna in II stages" (the subsidiary's share – PLN 34.4 million, net);
- a) on March 16, 2020, the subsidiary, PRK7 Nieruchomości Sp. z o.o., signed a contract for the "Construction of Building D at the Maria Grzegorzewska Academy of Special Education in Warsaw" (the subsidiary's share – PLN 29.1 million, net);
- c) on March 2, 2020, the subsidiary, AB Kauno Tiltai, signed a contract for "Renovation of District Road No 4512 on the Skaudvilė-Adakavas-Nemakščiai section from 6 428 km to 12 180 km" (the subsidiary's share – PLN 13.1 million, net).

After the balance sheet date, the Group signed the following significant contracts:

- a) on April 2, 2020, the subsidiary, Trakcja PRKiI, signed a contract for "Upgrade of the 110/15/6 kV Central Station in Łódź" (the subsidiary's share – PLN 18.9 million, net);
- b) on April 29, 2020, the subsidiary, AB Kauno Tiltai, signed a contract for "Reconstruction of the 330kV Lietuvos E - Alytus overhead line (LN 330)" (the subsidiary's share – PLN 67.5 million, net);
- b) on April 30, 2020, the subsidiary, AB Kauno Tiltai, signed a contract for "Construction of local roads and streets in the commune of Vilnius County; repair, maintenance and road safety works" (the subsidiary's share – PLN 22.8 million, net);
- b) on May 4, 2020, the subsidiary, AB Kauno Tiltai, signed a contract for Reconstruction works at Vilnius airport", as announced in detail in current report No 12/2020 (the subsidiary's share – PLN 122.1 million, net);
- e) on May 7, 2020, Trakcja PRKiI signed a contract for "Construction of B. Chrobry bridges within the provincial road No 455 in Wrocław", as announced in detail in current report No 17/2020 (the Company's share – PLN 56.7 million, net);

The Company submitted the best bid in the tender for "Extension of road No 224 on the section Godziszewo – A1 motorway junction, Stanisławie, stage 1 Godziszewo". (share of Trakcja PRKiI S.A. – PLN 10.2 million, net) – the

Company's bid was rejected, the Company is waiting for the National Appeal Chamber to determine the date of appeal.

Active policy on liquidity management of the Parent Company

In addition to activities that contribute to the improvement of future financial performance, the Parent Company's Management Board is also focused on the Company's liquidity situation. The Parent Company pursues an active liquidity management policy by monitoring liquidity on an ongoing basis in the short and long-term perspective (including a weekly monitoring of cash flows), aiming at maintaining a stable level of available financing. In order to maintain liquidity, the Parent Company undertakes actions aimed at winning contracts which provide for advance payments. In addition, the Parent Company pursues an active policy of maintaining a low level of receivables, managing inventories and selling key materials to the ordering party at the initial stage of a contract. It also is in the process of negotiations with subcontractors to extend payment terms. The Parent Company places great emphasis on optimising the invoicing processes by shortening the period between the completion of works and their invoicing.

As at December 31, 2020, the Parent Company held cash and cash equivalents in the amount of PLN 22,828 thousand and unused credit lines in the amount of PLN 8,855 thousand.

As at the day preceding the preparation of these financial statements, the company held cash in the amount of PLN 19,917 thousand and unused credit lines in the amount of PLN 9,694 thousand.

In accordance with the provisions of long-term financing agreements, as at March 31, 2020, the Company together with a financial advisor (Ipopema Financial Advisory Sp. z o.o.) approved by financial institutions revised the financial model for the Trakcja Group's operations in the period 2020–2023. As a result of the aforesaid revision, a financial gap was identified with respect to the Parent Company in the amount of PLN 89 million, assuming raising funds by means of financial instruments. The Management Board believes that the estimated financing gap should be covered by additional funding and proceeds from claims from contracting authorities.

New financing sources

During the first quarter of 2020:

1. The Parent Company continued to issue financial instruments under the credit agreements signed.
2. The subsidiary, BTW Sp. z o.o., concluded a leaseback agreement concerning specialist machines owned by the company, as a result of which it received cash in the amount of PLN 15,000 thousand. BTW extended a loan of PLN 11,000 thousand to the Parent Company.

After the balance sheet date:

On May 7, 2020, an annex to the consolidated intercreditor agreement of June 13, 2019, as amended ("Intercreditor Agreement") was concluded between the Company, its subsidiaries and financial institutions. Under the Annex to the Intercreditor Agreement, the subsidiary, Trakcja Ukraina sp. z o.o., acceded the Intercreditor Agreement as a party and, in addition, amendments were introduced to the wording of the agreement in order to adapt the terms of cooperation between the parties in connection with the planned issue of bonds convertible into the Company's shares, which were acquired by COMSA S.A.U. ("COMSA Convertible Bonds"). Pursuant to the Annex to the Intercreditor Agreement, COMSA's receivables under the Convertible Bonds have been subordinated to the repayment of financial claims resulting in particular from the existing financing of the Company and cannot be repaid before full, final and unconditional repayment of all such claims, expiry of the obligations of all creditors who are parties to the Intercreditor Agreement to provide funds or issue guarantees on the basis of relevant financing documents and expiry of all guarantees issued on the basis of relevant financing documents. At the same time, the parties agreed that the COMSA Convertible Bonds may, without the consent of the creditors, be converted into

shares of the Company, irrespective of their subordination, on the terms and conditions indicated in the Terms and Conditions of Issue of COMSA Convertible Bonds. Apart from the above amendments, no material provisions of the Intercreditor Agreement have been amended.

After the balance sheet date, i.e. on May 8, 2020, the Parent Company issued 1,764,705 Series F registered bonds convertible into the Series D shares of the Company with a par value of PLN 1.70 per share and the total par value of PLN 19,999,998.50 ("Series F bonds") and 4,514,405 Series G registered bonds convertible into the Series D shares of the Company with a par value of PLN 1.70 per share and the total par value of PLN 7,674,488.50 ("Series G bonds").

On May 8, 2020 the Company's Management Board adopted a resolution to allot:

- all Series F Bonds at the issue price equal to the par value to Agencja Rozwoju Przemysłu S.A. and
- all Series G Bonds at the issue price equal to the par value to COMSA S.A.U. ("Comsa").

All Series F Bonds were paid for by bank transfer to the bank account of the Parent Company. The amount due from Comsa as a result of accepting the offer to purchase Series G Bonds was set off against Comsa's claim resulting from the loan granted to the Parent Company.

For more information on the Series F and G Bonds, see Section 15 of the Additional notes and explanations to the condensed consolidated financial statements.

Measures taken by the Company after the balance sheet date

1. The Company expects to receive an advance payment of PLN 24,498 thousand for the contract: "Reconstruction of track system together with auxiliary infrastructure at the E59 railway line, Choszczno–Stargard section as part of the project 'Works on the E59 railway line, Choszczno - Stargard section'". Receipt of the advance payment is currently being processed with the Contracting Authority.
2. In connection with the signing of the long-term financing documentation, the Company also undertook to meet a number of follow-up conditions which include, among other things, ensuring that the collateral documents are registered, establishing additional collateral and implementing a recovery plan. The recovery plan provides that in 2020 the Company will continue a number of measures aimed at, among others, obtaining financial benefits by the Company, streamlining internal procedures, optimising the internal structure. In addition, according to the financial documentation, the Company provides mBank S.A. (facility agent) with a report of the Management Board on the implementation of the Recovery Plan, which is additionally verified by the financial advisor. Such a report is presented at least once a month.
3. The Company is in the process of selling its non-operational assets. The Company plans to sell further non-operational assets, including real estate at ul. Oliwska in Warsaw for the price of PLN 17,500 thousand. The Company assumes the receipt of an advance payment for the sale of real estate at ul. Oliwska in Warsaw. The advance payment is to amount to PLN 3.5 million, which represents 20% of the expected sales price. The closing date of the transaction, at the request of the counterparty, has been postponed for reasons related to the current COVID-19 pandemic. The Company assumes that the transaction will be completed in 2020.
4. The Company expects the finalisation of the real estate sale transaction at ul. Lotnicza 100 in Wrocław, which should take place at the turn of the second and third quarter of 2020, however, the Management Board of the Parent Company takes into account the fact that as a result of the SARS CoV-2 epidemic, the completion of the transaction may be postponed in time.

The Company's Management Board is of the opinion that the analyses carried out and the steps taken neutralise liquidity risk in a satisfactory manner. In the Company's opinion, the measures taken will make it possible to secure the financing of its operations and prepare the Company to execute projects on a larger scale.

Risk of failure of steps taken

The Company's Management Board has prepared the financial statements on the assumption that the Company will continue as a going concern in the period of at least 12 months from the date of approval of these statements for publication. The going concern status of the Company depends on successful implementation of the process of covering the financial gap. Any failure to achieve the expected effects of steps taken with respect to additional financing and negotiation of claims may pose a threat to the Parent Company's ability to continue as a going concern. In addition, future deterioration in liquidity could potentially be affected by factors such as: postponement of the dates for raising cash on account of advances, claims and negative events resulting from the COVID-19 pandemic (the description of risk factors related to the COVID-19 pandemic is provided in Section 18 of the Additional notes and explanations to the condensed consolidated financial statements).

Taking into account possible negative or unforeseen effects of the events described in this section, as well as possible postponement of activities ensuring sufficient financing of the Company's operations, the Company may take additional steps, involving:

1. Entering into negotiations with the Company's creditors regarding the restructuring of debt together with the simultaneous implementation of measures permitted by the applicable laws to protect the Company and the interests of creditors and shareholders.
2. Carrying out operational restructuring consisting in the disposal of assets not used in the core business, including shares in subsidiaries, property, plant and equipment.
3. Reducing the scale of the Company's operations.

Marcin Lewandowski
President of the Management Board

Paweł Nogalski
Vice-President of the Management Board

Arkadiusz Arciszewski
Vice-President of the Management Board

Aldas Rusevičius
Vice-President of the Management Board

Robert Sobków
Member of the Management Board

Adam Stolarz
Member of the Management Board

The person responsible for preparing the report:

Katarzyna Kocerka
Head of Financial Reporting Trakcja Group

Warsaw, May 26, 2020