



# **TRAKCJA CAPITAL GROUP**

CONSOLIDATED ANNUAL REPORT  
OF TRAKCJA CAPITAL GROUP  
FOR FINANCIAL YEAR  
ENDED ON 31 DECEMBER 2016

published pursuant to Article 82.2. 3 of the Regulation of the Minister of Finance dated 19 February 2009 on the current and periodic disclosures to be made by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (Journal of Laws 2014, item 133).

Warsaw, on March 21, 2017.

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

Content of the Annual Report:

- I. Letter from the President of the Management Board to Shareholders
- II. The Management Report on the Activities of Trakcja Capital Group in 2016
- III. Management Board's Statement
- IV. Consolidated annual financial statements of Trakcja Capital Group for the financial year ended on 31 December 2016
- V. Certified Auditor's Opinion and Report

Dear Sirs,

The previous year was a serious challenge for the construction market in Poland. The absence of large tenders, a decline of orders and delays in launching new investment programmes affected the well-being of the whole industry. Trakcja PRKil S.A. successfully complied with this difficult test, yet again proving its high operating efficiency and ability to quickly deploy important decisions. The key challenge involved maintaining the revenues despite the market decline. Owing to a very active tendering policy orientated at smaller projects which in the past fell outside the Company's core business operations, the Company's revenues in the railway segment increased by over 3%. Simultaneously, the Company saw its revenues climbing significantly in the bridge industry and nearly by 18% in the manufacturing segment. The diversification of operations continued and new operational units were opened in Gdańsk, Kraków and Lublin. As a result, the revenues from the road market doubled and the energy segment experienced effective growth. All these efforts have translated into an increase in the Company's revenues by over 8%.

Trakcja PRKil S.A. is comprehensively prepared to perform activities specified in the National Railway Programme. An efficient and fast employment restructuring process resulted in the resources being fully consolidated and a new contract-oriented organisation being developed. New employees also joined our engineering and technical personnel. We have significantly enhanced our contracting capacity by acquiring full control over Bahn Technik Wrocław which has specialised machines and equipment. At the same time, Trakcja PRKil purchased additional high-performance machines and continued modernising those already owned.

Last year saw our active engagement in pursuit of opportunities on international markets. We opened offices in Bulgaria and Ukraine, and our Lithuanian company Kauno Tiltai not only continues to lead on its national market, but also keeps attracting new contracts in Sweden.

Thanks to the effective coordination of its operations, Trakcja Group has been steadily increasing the scope of its activities and entering new markets, while paying special attention to provide for sustainable growth and mitigation of potential risks.

We enjoy a high level of confidence of our customers and contractors, as well as the capital market. Last year, we effectively implemented procedures under both the Market Abuse Regulation and the Market Abuse Directive, which set forth new transparency standards for enterprises. By the end of 2016, we joined the group of companies responsible for the Respect Index, listed on the Warsaw Stock Exchange. Thereby, Trakcja PRKil has proven that it follows the highest management standards in the area of corporate governance, social responsibility and environmental protection.

We are fully aware of the fact that the last difficult year was turned by Trakcja Group to good account and that the directions and strategy of measures adopted by the Company will form the cornerstones for abiding confidence of our customers and shareholders.

Please read our report for 2016 for more information. Yours faithfully,

On behalf of the Company's Management Board

Jarosław Tomaszewski

President of the Board

Trakcja PRKil S.A.



# TRAKCJA CAPITAL GROUP

MANAGEMENT REPORT  
ON THE ACTIVITIES OF TRAKCJA CAPITAL GROUP  
IN 2016

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The Polish original should be referred to in matters of interpretation.

This Report on the Activities of Trakcja Capital Group in 2016 was prepared pursuant to Articles 91 and 92 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information to be published by issuers of securities and on conditions of recognition of information required under non-member state law regulations as equivalent (Journal of Laws 2014, item 133).

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*Figures provided in this Report on the Activities of the Group are presented in thousand Polish zloty, unless explicitly stated otherwise. Financial information in this report originates from the consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union, published and applicable as at December 31, 2016. We would also like to emphasize forward-looking statements (e.g. may, will, expect, assess, estimate), because they are based on certain assumptions subject to risk and uncertainty. Therefore, the Group is not liable for such information.*

## **1. ORGANIZATION OF TRAKCJA GROUP**

### **1.1. General Information about the Group**

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

The main subject of the Group's activity is comprehensive performance of works relating to a widely understood rail and road infrastructure with the use of a modern machine park. The Group specializes in providing engineering/construction services in the following scope: designing, construction and modernization of rail and tram lines, rail and tram electro-traction network, power generation lines, as well as construction of bridges, viaducts, piers, overpasses, tunnels, underpasses, retaining walls, roads and accompanying elements of rail and road infrastructure. In addition, Trakcja Group may perform general construction works in the scope of preparing the building site, constructing and modernizing buildings, as well as building installations and finishing works. The important part of the offer includes the capacity construction both for railway infrastructure purposes (traction substation buildings, switch towers, railway crossing cabins, railway stations, train buildings and other) and general construction (housing and offices). Our services also include the construction of power systems and remote control systems. For over seventy years, the companies within the Group have been implementing complete power installations of medium as well as high voltage, both in new and modernised and also renovated railway power facilities. The Group modernised several thousand kilometres of railway lines and provided power to over 10,000 kilometres of railway lines. We have also constructed and modernised over 450 traction substations and 380 track section cabins.

In the road construction segment, the Group specializes in the construction and alteration of roads, motorways, bridges, viaducts, airports, water ports and installations of public utility infrastructure. From the beginning of its activities, i.e. from 1949, a group company AB Kauno Tiltai belonging to the Group and being the largest company in the infrastructure construction sector among the Baltic countries, built over 100 bridges and viaducts and was responsible for the construction and reconstruction of many roads in the entire Lithuania.

The main attribute of the Group is the possibility of comprehensive performance of investments using own potential in all sectors (rail works, engineering facilities, and overhead contact lines), possessed contracts portfolio, and:

- having at our disposal qualified management and client-oriented team;
- significant experience in professional performance and coordination of works executed in a timely manner according to highest European standards;
- possessing a modern machine park.

The Group has substantial competitive advantage over other companies, and the Group's position on the market of services relating to the rail and road infrastructure in Poland and in Baltic States is grounded and stable.

The long-term market practice allowed the Group to develop techniques for managing projects, which allow the companies to complete their projects within the agreed schedules and simultaneously maintain the required quality and meet special requirements of the investors.

Many of the projects implemented by the Group are financed, inter alia, with the funds granted by the European Union and the Polish government for the implementation of which it is required to apply the European procedures, which additionally influences the quality of the services provided and products manufactured by our Group.

The Group has long-term experience in constructing and repairing roads in Poland and Lithuania. The Group performs comprehensive works as the renowned general contractor, both in cooperation with reliable subcontractors and independently using its own resources. In addition, the Group also perform specialised tasks that comprise resurfacing roads, constructing civil engineering structures, draining systems, lighting

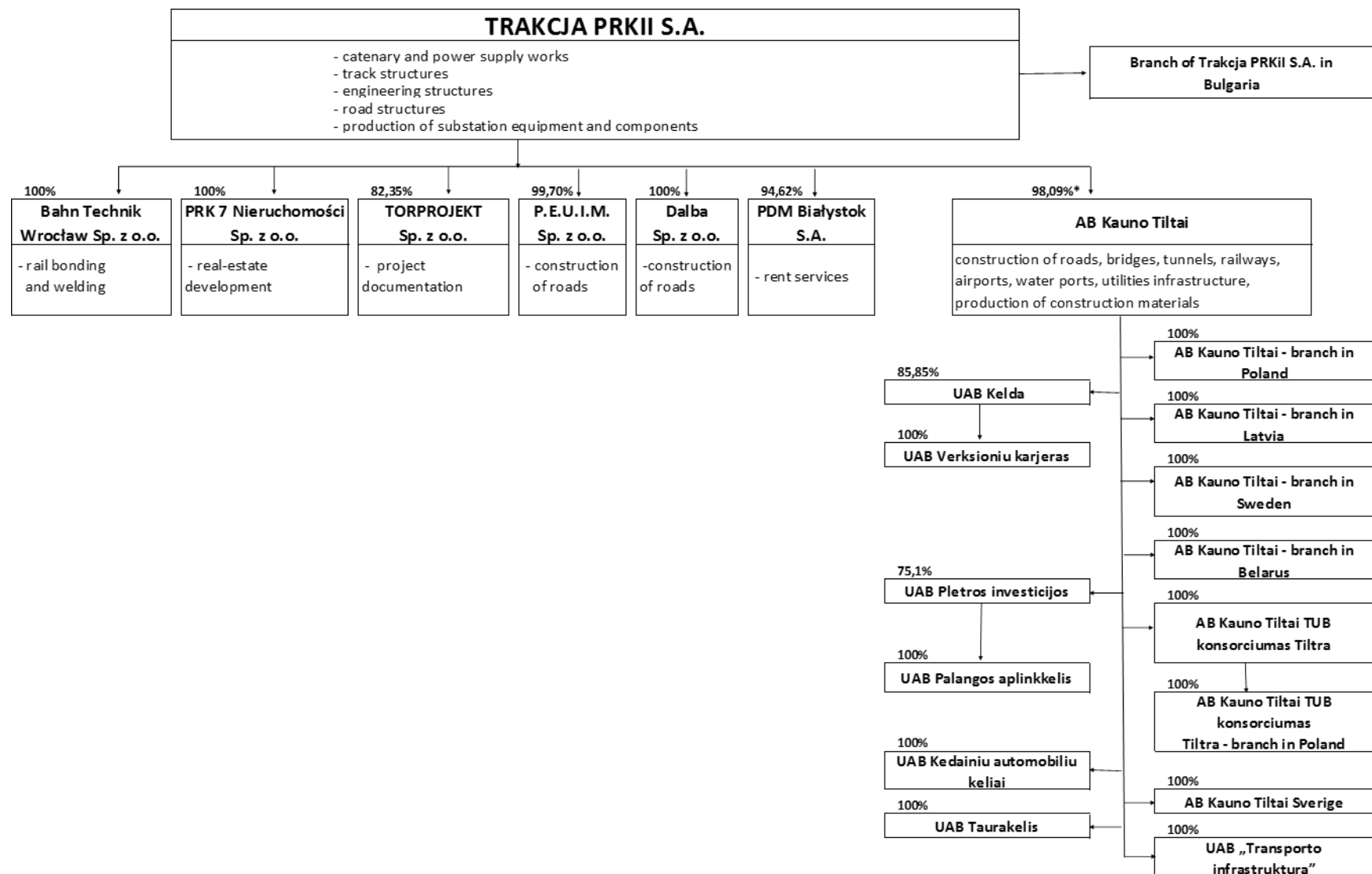


systems, sewage systems and infrastructure for pedestrians and cyclists. The Group owns a bitumen mixing plant which satisfies needs arising from the contracts performed and is a reliable source of materials for external customers.

The Group builds overhead line substations used for powering tramway, trolleybus and railway lines, and also as section cabins, and it equips them with switchboards produced by the Group itself.

## **1.2. STRUCTURE OF THE GROUP**

Trakcja PRKil is the Parent company of Trakcja Group. The Group's composition and structure as at December 31, 2016 are presented in the diagram below.



\*) Trakcja PRKII holds a total of 98.09% shares (96.84% directly and 1.25% indirectly) in the share capital of its subsidiary AB Kauno Tiltai. Indirect shares result from acquisition of own shares by the subsidiary.

### 1.3. Description of the organization of Trakcja Group, indicating entities subject to consolidation

As at December 31, 2016, the Group consists of the Parent company, i.e. Trakcja PRKiI, and its subsidiaries.

Fully-consolidated entities:

*PRK 7 Nieruchomości Sp. z o.o.*

PRK 7 Nieruchomości Sp. z o.o. carries out real estate development activities and has a track record of several successful investments, which include, among others: Lazurowe Osiedle residential project in Warsaw - stage I and II, and the investment at ul. Oliwska in Warsaw, as well as the construction of three multi-family residential buildings in Warsaw at ul. Pełczyńskiego. Currently, the Company is executing an investment involving the construction of three terraced houses at ul. Oliwska in Warsaw.

*Torprojekt Sp. z o.o.*

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

*Bahn Technik Wrocław Sp. z o.o.*

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

The business activities of BTW include: the sale of Strail crossing surface offered by Gummiwerk Kraiburg Elastik GmbH, thermite welding, repair and renovation of turnouts, renovation of railway and tramway crossings, execution of pre-stressed, glued insulation joints type S, welding of tram and railway tracks, tamping and profiling of railway and tram tracks, sale of Perker SR rail lubrication systems and A.Rawie rail buffer stops. In addition, since December 2016, BTW has had the GOTTWALD crane and the DGS track stabilizer. BTW provides its services both in Poland and abroad.

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

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

*Dalba Sp. z o.o.*

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

*PDM Białystok S.A.*

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

*Establishment of Trakcja PRKiI S.A. in Bulgaria*

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

*The AB Kauno Tiltai Group*

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

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

The AB Kauno Tiltai Group is composed of the following entities:

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

The ultimate Parent company is a Spanish company, COMSA SA, which prepares consolidated financial statements that include the data of Trakcja Group.

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

In the period from January 1, 2016 to December 31, 2016, the structure of Trakcja Group changed as described below.

On March 29, 2016, Trakcja PRKil opened an establishment in Bulgaria (Sofia). On September 20, 2014, AB Kauno Tiltai opened its branch in Sweden.

On December 30, 2016, Trakcja PRKil acquired 50% of shares in Bahn Technik Wrocław (BTW) from Leonhard Weiss International GmbH with its registered office in Göppingen. Since then the Group has had full control over BTW. The transaction is described in detail in Note 3.1 of the consolidated financial statements for 2016.

After the balance sheet date, on February 9, 2017, a subsidiary named ТРАКЦІЯ УКРАЇНА ("Trakcja Ukraina" Sp. z o.o.) was established in Dnipro (Ukraine). Its majority owner is PDM Białystok S.A. On March 3, 2017, Trakcja PRKil S.A. opened its branch in Ukraine.

## 1.5. Employment in the Group

Average employment in the Group was as follows:

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
<b>Average employment in the Capital Group during the period:</b>		
Management Board of Parent entity	5	5
Management Boards of subsidiaries	15	12
Administration	223	220
Sales department	35	33
Production division	1 044	951
Other employees	769	687
<b>Total</b>	<b>2 091</b>	<b>1 908</b>

Employment in the Group as at December 31, 2016 is as follows:

	31.12.2016	31.12.2015
	Audited	Modified
<b>Employment in the Capital Group at the balance sheet date</b>		
Management Board of Parent entity	3	5
Management Boards of subsidiaries	13	12
Administration	228	214
Sales department	92	97
Production division	918	882
Other employees	708	692
<b>Total</b>	<b>1 962</b>	<b>1 902</b>

## 1.6. Changes in the basic principles for managing the Company and the Group

The Parent company has the Integrated Management System that consists of:

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

In 2016, additional procedures regarding the construction works were implemented. The system documentation was amended due to changes in the Company's organisational structure.

At the turn of June and July 2015, an audit was performed at Trakcja PRKil facilities by the TUV SUD auditors for the purpose of renewing the Integrated Management System certification. The audit was favourable. Trakcja PRKil was granted a certificate confirming that the aforementioned three systems function properly. The certificate is valid until 2018.

In 2016, the Issuer joined the group of companies responsible for the Respect Index on the Warsaw Stock Exchange. In addition, the Company also developed its CSR strategy based on responsible leadership and management, social commitment, dialogue with shareholders and social innovation. Based on that strategy, Trakcja PRKil S.A. has implemented a new organisational culture. This should in effect ensure its economic, social and environmental sustainability.

In the analysed period, the Company's restructuring process was also launched, which the Company announced in Current Report No. 22/2016. The Management Board of Trakcja PRKil S.A. believes that reduction in employment will result in the fixed costs being decreased significantly in the years to come (starting from 2017).

## 2. ACTIVITY OF TRAKCJA GROUP

### 2.1. Basic products, goods and services

The scope of activities in Trakcja Group includes the following areas of services:

#### ***Comprehensive modernisation of railway lines***

Modernisation of the railway lines includes:

- development and agreement of concepts for all industries, preparation of the project construction documentation, detailed design documentation, obtaining of all permits and permissions and also the preparation of the as-built documentation,
- replacement of railway track substructure and superstructure using the mechanized substructure and track machinery, including the construction of the drainage system;
- disassembly of the traction network, including removal of old foundations and construction of a new traction network with the use of modern methods for positioning foundations by applying the piling method and with the use of trains for stream replacement of the network,
- renovation or complete alteration of civil engineering facilities: culverts, bridges, viaducts,
- construction of power supply systems for railway lines,
- comprehensive modernisation of railway crossings (crossings of roads with railway lines),
- alteration of the railway traffic control system,
- preparation of construction sites,
- construction of complete buildings or parts thereof,
- execution of construction installations, civil engineering works for tracks and roads,
- construction of overhead and underground power distribution lines,
- construction of railway and tram electric traction network and hydraulic engineering.

Moreover, where necessary, the Group cooperates with specialized companies mainly in the area of works related to the protection of railway traffic and telecommunications.

Within the framework of supplementary activities, we produce different types of industrial devices used for modernisation of rail infrastructure, including: 15 kV traction and mobile switchgear centres, 3 kV, 1.5 kV, 1 kV, 0.8 kV direct current switchgear centres, control cabinets, local and remote control devices, network isolating switches, steel constructions for the installation of substations and energetics, selected traction network equipment. In addition, the Group builds all the 110 kV HV lines, both overhead and cable ones, and MV lines, including 15 kV non-traction power lines for the railway infrastructure, along with transformer stations, as well as LV lines for lighting, fire protection, lightning protection, railway traffic control systems and passenger infrastructure, and also other safety systems.

#### ***Building construction***

Construction of buildings executed by Trakcja Group includes the construction of the following:

- multifamily housing development,
- public utility buildings,
- industrial facilities.

#### ***Developer activities***

The scope of activities of PRK 7 Nieruchomości Sp. z o.o., which a company within Trakcja Group, includes:

- construction,
- services related to real estate on its own account,
- leasing of real estate on its own account.

PRK 7 Nieruchomości Sp. z o.o. develops apartment complexes and houses on land previously purchased from Trakcja PRKiI (former PRK-7 SA.) The company implements developer projects in cooperation with the General Contractor.

### **Construction of road infrastructure**

The construction of road infrastructure includes:

- roads - construction and reconstruction of motorways, roads, streets, squares and car parks; services related to road maintenance in winter and summer,
- bridges - construction and reconstruction of bridges, viaducts and flyovers,
- tunnels - construction and reconstruction of tunnels,
- airports - construction and reconstruction of airport runways and landing areas, air plane parks and special purpose spaces.

### **Energy sector construction**

The energy sector construction comprises:

- development of the concept, preparation of the design documentation along with any permits and transmission easements for the transmission power lines and HV substations;
- comprehensive network construction of electric power facilities;
- construction of specialised electric power installations in industrial and public utility facilities;
- construction, maintenance and repairs of the road lighting network;
- Provision of services related to the diagnostics of electric power network, along with its servicing and maintenance.

### **Other areas of activities**

Other scope of activities includes:

- construction of quays - construction and alteration of ports and harbours and other quayside structures,
- engineering infrastructure - construction of water supply systems, sewage systems, water installations and water treatment plants, road and street lighting as well as repair installation and services of light signals,
- construction of sports facilities,
- production of building materials: asphalt concrete, bitumen emulsions including polymer modified, concrete, reinforced concrete products; extraction and processing of building materials.

As at December 31, 2016, the portfolio of construction contracts of Trakcja Group was PLN 1,201 million (excluding the revenues allocated to consortium members). In 2016, the companies within Trakcja Group signed construction contracts with the total value of PLN 911 million (excluding the value of works allocated to consortium members). As at December 31, 2016, the contract portfolio of Trakcja Group provided for the full capacity utilisation in the following financial year. The participation in new tenders in 2016 will allow the Group to secure its contracts portfolio for future periods to an even greater extent.

Trakcja Group mainly performs rail and road contracts on Polish and Lithuanian markets. The equipment and human potential of the Group allows significant contracts valued at several dozen to several hundred thousand, therefore the Group's concentration on local investments is smaller.

The largest contracts complete by Trakcja Group in 2016 are presented in the table below (contract amounts include the construction works allocated to consortium members):

No.	Name of contract	Contract value (mPLN)	Work types
1.	Modernization of the railway line E30 / C-E30 on the section Kraków – Rzeszów, stage III (Podłęże - Bochnia)	625	rail works
2.	Modernization of the railway line E59 on the section Wrocław – Poznań, stage II - section Wrocław - Dolnośląskie voivodeship)	535	rail works
3.	Modernization of the railway line E30 / C-E30 on the section Kraków – Rzeszów, stage III (Dębica - Sędziszów Małopolski)	417	rail works
4.	Development of execution projects and execution of works for Warszawa Okęcie (railway line No. 8)	360	rail works
5.	Modernization of the railway line on the section Warszawa - Łódź, II stage, (Łódź Widzew - Łódź Fabryczna)	345	rail works
6.	Construction of the Trans-European network interchange - Vilnius western bypass Phase III	306	road works
7.	Modernization of the railway line E30 / C-E30 on the section Kraków – Rzeszów, stage III (Sędziszów Małopolski – Rzeszów Zachodni)	303	rail works
8.	Modernization of the railway line E30 on the section Jaworzno Szczakowa - Trzebinia	296	rail works
9.	Design and construction of the expressway S-5, Szubin-Jaroszewo	286	road works
10.	Modernization of the E59 railway line on the section Wrocław - Poznań, stage III (Czempiń - Poznań)	156	road works
11.	Expansion of the E67 (Via Baltica) section Kaunas - Marijampole	142	road works

## 2.2. Sales structure

The sales structure by type of works, production, and other activity is presented in the table below:

	2016		2015	
	value	%	value	%
Railway works	737 043	53,4%	859 606	64,7%
Road works	507 997	36,8%	328 334	24,7%
Bridge works	23 285	1,7%	26 410	2,0%
Tramway works	5 133	0,4%	26 625	2,0%
Energy works	26 054	1,9%	-	0,0%
Production	40 717	2,9%	45 777	3,4%
Other areas of activity	40 944	3,0%	42 429	3,1%
<b>Total revenues from sales</b>	<b>1 381 173</b>	<b>100%</b>	<b>1 329 180</b>	<b>100%</b>

## 2.3. Markets and sourcing

In 2016, the Group rendered its construction and installation services on Polish and Lithuanian markets.

The geographical structure of revenues from sales in 2016 and 2015 is presented in the table below:

	2016		2015	
	Value	%	Value	%
Domestic	869 800	63,0%	842 202	63,4%
Abroad	511 373	37,0%	486 978	36,6%
<b>Total</b>	<b>1 381 173</b>	<b>100%</b>	<b>1 329 180</b>	<b>100%</b>



The Group's main customer is PKP Polskie Linie Kolejowe S.A. ("PKP PLK S.A."); other clients include, amongst others: Lithuanian Road Administration [Litewska Administracja Drogowa] and the Vilnius City Office.

The structure of customers indicates that the Group is dependent from PKP PLK S.A., which held 47% of interest in our revenues from sales in 2016. Since the establishment of the Group, it has been the major customer in the structure of our recipients. The second largest customer, the Lithuanian Road Administration, had a share of 14% in the structure of the consolidated revenues in the same year. None of the aforementioned contractors is formally related to the Group.

The structure of suppliers during the analysed period indicates that the Group is not strongly dependant on any of the contractors. In 2016, the share of any of the suppliers has not exceeded 10% of the value of purchases of materials and services of the Group. The share of the largest supplier in the total purchases of materials and services of the Group amounted to approximately 3%.

In 2016, Trakcja PRKiI opened an establishment in Bulgaria, and AB Kauno Tiltai opened its branch in Sweden. Trakcja Group finds both the Scandinavian and Balkan markets very attractive, and therefore it takes measures aimed at entering these markets and further expanding its activities on them.

## 2.4. Events in 2016

Important events in 2016 years	CR
<b>Significant agreements - construction contracts</b>	
Signing by Issuer's subsidiary AB Kauno tiltai from 16 December 2015 to 29 April 2016 an agreement with the Lithuanian Roads Authority of the Lithuanian Ministry of Transportation, the total net value of agreements calculated in PLN amounted to: PLN 146,595,585.42. The agreement with the largest value was the agreement executed by a consortium, which includes Kauno, with the net value calculated in PLN amounting to: PLN 105,610,072.91.	8/2016
In 24.05.2016 the Company signed with Przedsiębiorstwo Usług Technicznych INTERCOR sp. z o.o. based in Zawiercie (acting as a partner of the consortium) an amendment to the consortium agreement, which had been concluded for the purpose of seeking the award of a public contract for the "Design and construction of the S-5 expressway on the section Nowe Marzy-Bydgoszcz-Kuyavia and Pomerania border with Wielkopolskie Province. Part 4 – Design and construction of the S-5 expressway on the section from the Szubin junction (inclusive of the junction) to the Jaroszewo junction (inclusive of the junction) with the length of approx. 19.3 km" and signed with Przedsiębiorstwo Usług Technicznych INTERCOR sp. z o.o. z based in Zawiercie an amendment to the consortium agreement, which had been concluded for the purpose of seeking the award of a public contract for the Design and construction of the S-5 expressway on the section Nowe Marzy-Bydgoszcz-Kuyavia and Pomerania border with Wielkopolskie Province. Part 1 – Design and construction of the S-5 expressway on the section from the Aleksandrowo junction (inclusive of the junction) to the Tryszczyn junction (inclusive of the junction) with the length of approx. 14.7 km". Under amendments has been agreed a new percentage share in the performance and value of the contract as part of the consortium.	14/2016
In 29.12.2016 the Company signed as the Consortium Leader the agreement with PKP Polskie Linie Kolejowe S.A. on realization of construction works - Tender No. 1 - Modernization of section Jaworzno Szczakowa – Trzebinia (km 1,150 – 0,000 of line No. 134, km 15,810 – 29,110 of line No. 133) the net total value is 296,45 mPLN. The planned share of Trakcja PRKiI amounts to 146,27 mPLN (net value). The works will be realized within 24 months from the beginning of works.	25/2016

### Significant agreements - other

Company signed with Powszechny Zakład Ubezpieczeń S.A. an amendment to the Agreement on regular granting insurance guarantees. Pursuant to the Agreement, a renewable maximum exposure limit of PLN 150,000,000 was established for the period from 21 January 2016 to 20 January 2017. The Agreement is secured with 3 blank promissory notes issued by the Issuer, along with a promissory note declaration.	2/2016
Company concluded with Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. a Cooperation Agreement for providing insurance guarantees within the guarantee limit granted. Pursuant to the Agreement, a renewable maximum exposure limit of PLN 150,000,000 was established. The Agreement is secured with 10 blank promissory notes issued by the Issuer, along with promissory note declarations.	3/2016
Company signed with z HSBC Bank Polska S.A. an amendment to the Agreement of guarantee line up to PLN 70,000,000.00. Under the amendment, the bank guarantee availability period was extended until 30 September 2016.	4/2016
Company signed with mFactoring S.A. announces the mutual signing an amendment to the material agreement of factoring. Under the Amendment, the limit of financing set out in the Agreement was changed, and now it amounts to PLN 50,000,000.00.	6/2016
Company signed with mBank Spółka Akcyjna an amendment to the Framework Agreement, which has increased the amount of guarantee line with guarantee limit granted to the Company by the Bank.	16/2016

### Changes in the Management Board

On September 6, 2016, the Company received a statement from Mr. Nerijus Eidukevicius on resignation from the position of Vice President of Trakcja PRKiI S.A. The resignation was filed with effect on September 8, 2016.	21/2016
On 30 December 2016, the Company received a statement from Mr. Sławomir Raczyński on resignation from the position of Vice President of Trakcja PRKiI S.A. The resignation was filed with effect from 30 December 2016.	27/2016

### Other

Due to the performance of impairment test of goodwill assigned to the cash generating unit, which consists of the following subsidiaries: Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o., Dalba Sp. z o.o. and Przedsiębiorstwo Drogowo-Mostowe Białystok S.A., has decided to write-off the value of that asset in Trakcja Group's consolidated result in the amount of PLN 12 302 thousand. Additionally, the Management Board of Trakcja PRKiI S.A. informs that it has been notified of the provision created by the subsidiary AB Kauno tiltai, which has an impact on the consolidated result of the Trakcja Group of 2015 amounting to PLN 27 800 thousand. The provision was created as on 31 December 2015 with regard to the litigation between the consortium, AB Kauno tiltai constitutes a part of, and the AB Lietuvos geležinkeliai, in which the AB Lietuvos geležinkeliai claim charging a contractual penalty due to a delay in performance of works.	5/2016
The Company received a notice from the shareholder, COMSA S.A. about the change of at least 2% of votes in the General Meeting. Now Comsa S.A. owns 15,843,193 shares which represents 30.82 % of the share capital of the Company and entitles COMSA to 15,843,193 votes at the general meeting of the Company, which represents 30.82 % of the total number of votes.	7/2016

Company was undertaken a resolution with regard to division of profit for 2015, recommending to the General Meeting to assign the profit of PLN 35,161,377.61 as follows: - the amount of PLN 17,475,846.32 (i.e. PLN 0.34 per share) - for dividend payment; - the amount of PLN 17,685,531.29 - for supplementary capital.	9/2016
The Supervisory Board decided to select Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k., as the entity authorized to audit the financial statements.	10/2016
The Supervisory Board passed a resolution confirming its opinion on the recommendation of the Management Board regarding the following division of the Company's 2015 profit in the amount of PLN 35,161,377.61.	11/2016
Convening of the Annual General Meeting of Shareholders on June 16, 2016, 9:00 in Warsaw.	12/2016
Publication of draft resolutions that were on the agenda of the Annual General Meeting on 16 June 2016.	13/2016
Obtainment a draft resolution on the distribution of profit for 2015 from a shareholder representing over one-twentieth of the share capital, namely from Nationale-Nederlanden Otwarty Fundusz Emerytalny represented by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	15/2016
The Company's Management Board made public the wording of the resolutions adopted and rejected at the Annual General Meeting of Shareholders of the Company held on 16 June 2016.	17/2016
The Company's Management Board passed the list of shareholders holding at least 5% of the total number of votes at the Annual General Meeting of Shareholders held on 16 June 2016 in Warsaw.	18/2016
In 16.06.2016 the Annual General Meeting of Shareholders of Trakcja PRKiI S.A. has appointed the Supervisory Board members for a new joint 3-year term of office.	19/2016
In 16.06.2016 the General Meeting of Shareholders of the Company adopted a resolution: - the amount of PLN 17,475,846.32 to pay dividends, - the amount of PLN 17,685,531.29 to increase the supplementary capital.	20/2016
On 22.09.2016, the Management Board with major delay in the financial prospects for 2014-2020 as far as tenders announced on the infrastructural market, mostly railway infrastructure market, having carefully analysed all the business and social aspects, the Company's Management Board decided to optimise the Company's organisational structure in a way that as a result will lead to job losses pursuant to Article 2 para. 3 and 4 of the Act on Specific Rules for Terminating Employment Relationships with Employees for Reasons Beyond the Employees' Control of 13 March 2003.	22/2016
Company created provision for staff restructuring to be covered in the standalone and consolidated financial results for the year 2016. The total value of the provision made and the incurred costs on the result of the Trakcja PRKiI S.A. Company and the Group, estimated as PLN 3.9 million, was presented in the standalone financial statement for the third quarter of 2016 and settled until 30 June 2017.	23/2016
Change of the date of publication of the interim report for 3 Q 2016.	24/2016
In 12.29.2016 Company received pursuant to article 19.1 MAR (Market Abuse Regulation) notification from COMSA S.A. as a person closely associated with Fernando Perea Samarra and Jorge Miarnau Montserrat (Members of Supervisory Board)	26/2016

## **2.5. Important events and achievements of Trakcja Group with significant effect on operations**

The main influence on the financial results generated in 2016 and in subsequent years will come from long-term contracts for construction services executed by the Group. Main contracts executed in 2016 are presented in Section 2.1 hereof. Information regarding major contracts for construction services concluded in 2016 is provided in Section 2.6 hereof. Significant events after the balance sheet date are presented in Section 5.7 hereof.

### *Goodwill impairment*

As a result of the impairment test conducted on March 15, 2017 on goodwill assigned to the cash generating centre comprising the following subsidiaries: Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o., Dalba Sp. z o.o. and Przedsiębiorstwo Drogowo-Mostowe Białystok S.A., the Management Board decided that it is necessary to recognise an impairment loss on goodwill in the consolidated balance sheet of Trakcja Group in the amount of PLN 11,799 thousand, which was charged to the consolidated profit for 2016.

### *Optimisation of the organisational structure of Trakcja PRKiI*

With major delay in the financial prospects for 2014-2020 as far as tenders announced on the infrastructural market, mostly railway infrastructure market, having carefully analysed all the business and social aspects, the Company's Management Board decided to optimise the Company's organisational structure in a way that as a result will lead to job losses pursuant to Article 2 para. 3 and 4 of the Act on Specific Rules for Terminating Employment Relationships with Employees for Reasons Beyond the Employees' Control of 13 March 2003 (Journal of Laws of 2003, No. 90, item 844, as amended). On September 22, 2016, the Company's Management Board announced the Regulations on Collective Redundancies and provided the trade unions that operate in the Company with the relevant information. Information thereabout was also submitted to the competent County Labour Office. The employment contract will be terminated with the group of employees that comprises 300 people in total from September 23, 2016 to June 30, 2017.

The total of the provision created and an expense incurred, which was charged to the Company's and Group's profit for 2016, was PLN 3.9 million. The provision will be used by June 30, 2017.

The Company's Management Board believes that reduction in employment will result in the fixed costs being decreased significantly in the years to come (starting from 2017). A specific amount of savings can only be estimated after the optimisation process is completed. The Management Board will monitor the construction market and actively react to any changes therein.

As at December 31, 2016, the restructuring process affected 112 people and its total cost was PLN 2.1 million.

## **2.6. Agreements significant to the Company's operations**

### **2.6.1. Key contracts for construction services**

Key contracts for construction services concluded by Trakcja Group in 2016 (contract amounts include the construction works allocated to consortium members):

No.	Name of contract	Contract value (mPLN)	Company	Work types
1.	Modernization of the E 30 railway line, section Jaworzno Szczakowa - Trzebinia	296	Trakcja PRKiI S.A.	rail works
2.	Asphalt pavement repairs - Kaunas City Street	64	AB Kauno Tiltai	road works
3.	Design and execution of construction works at the Włoszczowa Północ station	57	Trakcja PRKiI S.A.	rail works
4.	Works on the railway line No. 201, section Nowa Wieś Wielka - Maksymilianowo	55	Trakcja PRKiI S.A.	rail works
5.	Reconstruction of Kaunas Airport	22	AB Kauno Tiltai	other
6.	Expansion of 957 provincial road Krowiarki - Nowy Targ, preparation of design documentation and execution of works	20	Trakcja PRKiI S.A.	road works
7.	Design and execution of construction works, IZ Olsztyn border - Olsztyn station	19	Trakcja PRKiI S.A.	rail works
8.	Works on the railway line No. 66, section Zwierzyniec - Stalowa Wola Południe	19	Trakcja PRKiI S.A.	rail works
9.	Modernization of 16 engineering facilities on railway line No. 4 - Biała Rawska - Strzałki	19	Trakcja PRKiI S.A.	rail works
10.	Skuodo, Marijampole and Fork districts - gravel works	18	AB Kauno Tiltai	road works
11.	Reconstruction of local roads in Kaunas City	17	AB Kauno Tiltai	road works
12.	Birštonas and Prienai districts - gravel works	16	AB Kauno Tiltai	road works
13.	Reconstruction of two level intersections with railway. Marijampolė Armino street.	13	AB Kauno Tiltai	road works
14.	Zatora Bypass - design and execution of construction works	13	Trakcja PRKiI S.A.	road works
15.	Repair of track No. 2 railway line 47 Warszawa Śródmieście WKD - Komorów WKD	13	Trakcja PRKiI S.A.	rail works
16.	Works on the railway line No. 951 Tarnowskie Góry TGA - Tarnowskie Góry TGE, No. 149 Zabrze Makoszowy-Leszczyny, No. 168 Gliwice - Gliwice Łabędy, No. 151 Kedzierzyn Koźle - Chałupki	12	Trakcja PRKiI S.A.	rail works
17.	Other contracts	436	-	different
<b>TOTAL</b>		<b>1 109</b>		

### 2.6.2. Insurance contracts

The Parent company and the companies within the Group have standard insurance policies, with a cover for movable property in the event of damage, as well a civil liability insurance towards third parties in connection with conducted business activity and possessed property, as well as construction risk insurance. Moreover, the Group has standard insurance policies covering civil liability of members of the bodies of the Company and Group companies.

The aforementioned insurance contracts have been concluded with the following insurers: Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A., STU Na Życie Ergo Hestia S.A., Allianz S.A., PZU S.A., AXA Towarzystwo Ubezpieczeń i Reasekuracji S.A., InterRisk Towarzystwo Ubezpieczeń S.A., PZU Lietuva, Lietuvos draudimas AB, Balta AAS, ERGO Insurance SE Lithuanian Branch, ADB Gjensidige and P&C Insurance AS.

The civil liability insurance contracts for the Management Board members have been concluded with AIG Europe Limited Sp. z o.o., Branch in Poland, and Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A.

### 2.6.3. Collaboration and cooperation agreements

The Group has concluded framework agreements on cooperation regarding financial market transactions with mBank S.A., Alior Bank S.A., bank Pekao S.A., Nordea Bank Finland Plc and AB DnB bankas. The subjects of these agreements cover the rules for cooperation in the scope of entering into financial market transactions between the Group and the banks. Trakcja PRKiI and mFactoring S.A. have concluded the recourse factoring agreement for an indefinite period of time.

## 2.7. Major deposits and capital investments

### 2.7.1. Investments of material nature

The Company's CAPEX in 2016 was PLN 32,357 thousand.

In 2016, the Company completed the following projects:

	Acquisition for cash	Leasing	Total
Development investments	14 904	16 275	31 179
Replacement investments	6 003	1 804	7 806
Modernization investments	9 522	-	9 522
<b>Total</b>	<b>30 429</b>	<b>18 079</b>	<b>48 508</b>

In 2015, the Company completed the following projects:

	Acquisition for cash	Leasing	Total
Development investments	9 529	1 009	10 538
Replacement investments	6 963	12 679	19 642
Modernization investments	4 925	5 052	9 977
<b>Total</b>	<b>21 417</b>	<b>18 740</b>	<b>40 157</b>

In individual operational segments, investment outlays amounted to:

- "Civil Building Segment – Poland" – PLN 34,333 thousand (2015: PLN 22,397 thousand).
- "Construction, Engineering and Concession Agreements Segment – Baltic Countries" – PLN 14,174 thousand (2015: PLN 17,671 thousand).
- other segments – PLN 0 thousand (2015: PLN 89 thousand).

Key development projects included the capital expenditure on new equipment resources in Bieńkowice, the purchase of 09-32 CSM tamping machine (under a leaseback agreement) and the acceptance for use of the PUN resurfacing train.

Key replacement projects consisted in the replacement of machinery (in particular, a Liebherr A900 excavator and a CAT D4K2 dozer) and hardware.

Key modernisation projects include expenditure on modernisation of traction posts.

The Group's CAPEX for 2017 is estimated at approx. PLN 56,637 thousand. It is planned that the future projects will be financed, as follows:

Cash	38 778
Financial leasing	7 252
loans and borrowings	10 607
<b>Total</b>	<b>56 637</b>

Until the publication hereof, the Company has signed new finance lease agreements. In the Management Board's opinion, the Group is able to complete future projects using its own funds generated from the core operating activities and making finance lease transactions.

### **2.7.2. Capital investments of the Group, including capital investments outside of the Group, and description of financing method**

In 2016, the Group made capital investments.

The largest capital investment covered the acquisition of 50% of shares (4,000) in BTW with a nominal value of PLN 500 each share, for the total price of PLN 21,500 thousand. Trakcja PRKiI had so far had 50% of shares in BTW. Under the agreement concluded, the Issuer has become the sole shareholder in BTW. The acquisition of shares was financed with a 5-year investment loan of PLN 21,500 thousand. The transaction is described in detail in Note 3.1 of the consolidated financial statements for 2016.

In 2016, an establishment of Trakcja PRKiI S.A. was opened in Bulgaria and a branch of the Issuer's direct subsidiary, i.e. AB Kauno Tiltai was opened in Sweden.

The details concerning new companies were described in Section 1.2 hereof.

### **2.8. Strategy and directions of the Group's development**

In 2016, the Group successfully continued organizational and legal restructuring in order to achieve effects of synergy, operational effectiveness and increasing the financial power.

In 2017 Trakcja Group plans to continue activities aiming at further improvement of the Group's results, driven by the following strategic prerequisites:

- the Group will develop through organic growth;
- implementation of the contract-orientated organisational structure;
- increasing effectiveness and efficiency through a better organization of works, better use of synergy, and incentive systems;
- improvement of the management of cash flow and decreasing the balance of debt;
- more extensive use of own resources during contract execution;
- selective choice of contracts for execution within the consortium formula.

Significant success factors will include incentive systems, encouraging employees to seek further improvements in operations, and knowledge-sharing between various Group companies.

#### **Strengthening of the position of the Polish railway market of construction and installation services**

In 2017 and subsequent years, Trakcja PRKiI plans to focus its operations on the Polish railway market of construction and installation services and to strengthen its market position. This objective can be achieved thanks to effective organisational and financial support for the tendering and contracting area and for the contract implementing area through the establishment of new units, in particular, the Production Preparation and Project Optimisation Department.

The superior goal in the financial management will be a more effective management of working capital. Expected effects include better financial liquidity, minimisation of demand for working capital, and maintaining a safe level of debt in the Group.

#### **Strengthening of the Group's position on other markets**

The Group takes measures that aim at strengthening its position on other geographic markets and in other infrastructure construction segments. The Parent company is present in the tramway segment of the construction and installation service market thanks to the acquisition of new contracts. Trakcja PRKiI also operates on the power supply and road markets.

On March 29, 2016, Trakcja PRKiI opened an establishment in Bulgaria (Sofia). On September 20, 2014, AB Kauno Tiltai opened its branch in Sweden. Trakcja Group finds both the Scandinavian and Balkan markets very attractive, and therefore it takes measures aimed at entering these markets and further expanding its activities on them.

In addition, in March 2017, Trakcja PRKiI obtained a VOB certificate which is required from companies willing to participate in tenders on the territory of Germany. Due to a common recognition in the industry, the VOB construction certificate is frequently required by private customers. The VOB construction certificate gives the Company a much better starting position in the process of industry-based certification which provides access to the very attractive German energy market.

### **Diversification of the Group's operations**

In order to diversify its activities, the Group commenced operating on the energy market through the construction all the 110 kV HV lines, both overhead and cable ones, and MV lines, including 15 kV non-traction power lines for the railway infrastructure, along with transformer stations, as well as LV lines for lighting, fire protection, lightning protection, railway traffic control systems and passenger infrastructure, and also other safety systems.

### **2.9. Prospects for development**

The Management Board has a positive view on the Group's potential for growth in 2017. As at December 31, 2016, the portfolio of contracts was over PLN 1,201 million (excluding the revenues allocated to consortium members).

Trakcja Group has been continuously developing its competences in various infrastructure construction sectors. The Parent company actively participates in the implementation of the railway projects planned for the years to come. According to the National Railway Programme adopted by the Council of Ministers on November 23, 2016, the railway projects are expected to exceed PLN 60 billion by 2023. The Group also plans to bid on road contracts. The projects under the National Road Construction Programme and the project implemented by local road infrastructure managers are expected to be PLN 107 billion. In order to secure future contracts awarded under the National Road Construction Programme, the Group established a network of regional road offices in 4 locations around the country. The Company's plans also involve the expansion on the energy market, and in particular in the area of the construction and modernisation of transmission lines and power distribution.

### **2.10. Description of external and internal factors significant for the Group's development**

Key factors, which in the opinion of the Management Board of the Parent Company have or will have in the nearest future impact on the Group's activities, are presented below. Information on significant proceedings and disputes against companies in the Group as well as penalties is presented in Section 5.6 hereof.

The most important external factors substantially affecting the Group's financial results include:

- The level of expenses on rail and road infrastructure in Poland and in Lithuania.
- The efficiency in opening and concluding contracts by the contracting entities.
- Competition of other entities.
- Absence of market barriers.
- Formation of prices of raw materials and construction materials.
- Formation of currency exchange rates, in particular the Euro rate.
- Influence of the Central Bank's monetary policy on the change of interest rate on credits.
- Timeliness in repayment of liabilities by recipients.
- Changes in law regulations establishing the scope of the Group's activity, including tax regulations as well as provisions on other public charges.

The most important external factors substantially affecting the Group's financial results include:

- The accuracy of estimating the costs of implemented projects as it exerts direct impact on decisions regarding the strategy of participating in tenders, the valuation of contracts for tenders and as a result the margins generated on the contracts.
- Ability to acquire new construction contracts.



- Ability to execute the development strategy of the Issuer's Group.

## 2.11. Risk and threat factors

Within the scope of conducted activity, Trakcja Group is exposed to various types of risks, which may be divided into below groups:

- Industry risk;
- Contract execution risk;
- Financial risk.

### Industry risk

In terms of this risk, the Group is exposed to a risk relating to intensifying competition. The market of railway and road construction in Poland and Baltic States, where the Group conducts activity is attractive due to significant planned investment outlays. Barriers of entry to the Polish railway and road construction market are not high, therefore the number of new participants therein is continuously increasing. Moreover, a significant factor affecting the market position of Trakcja Group are the financial plans of Polish and Lithuanian governments concerning the modernization of infrastructure.

This industry risk may have substantial influence on the Group's development perspectives and its financial situation. A competitive advantage of Trakcja Group is over seventy years of market experience possessed by Group companies, which allowed developing high-quality systems of executing purchase orders of highly valued Partners. The main attribute of the Group is the possibility of comprehensive performance of investments using own potential in all sectors (rail works, engineering facilities, and overhead contact lines), possessed contracts portfolio, and:

- having at our disposal qualified management and client-oriented team;
- significant experience in professional performance and coordination of works executed in a timely manner according to highest European standards;
- possessing a modern machine park.

The Group has substantial competitive advantage over other companies, and the Group's position on the market of services relating to the rail and road infrastructure in Poland and in Baltic States is grounded and stable. The aforementioned strengths of Trakcja Group minimize the risk relating to intensifying competition.

### Contract execution risk

An inseparable risk relating to the operations of Trakcja Group is the contract execution risk. This risk may be affected mainly by the following factors: failure to obtain in due time the administrative decisions provided for, amongst others, in the provisions of the Building Law, the Administrative Procedure Code and the Environmental Protection Law; changes in prices of materials and raw materials; changes of prices for services provided by subcontractors; subcontractors' failure to complete, or delays in completion of works essential to commence project execution; underestimation of costs; potential penalties for infringing contracts; unfavourable weather conditions. The risk of underestimating contract costs may occur in case of works, which are difficult to identify at the stage of preparing the Group's bid and essential to perform the contract, and the price for the works. Within the scope of performing construction contracts, companies in Trakcja Group conclude agreements with subcontractors usually later than the agreement with the investor, which may cause a risk that the adopted price of the service provided for the Group by subcontractors will be higher than the price adopted at the stage of contract valuation and signing. Prices stated in contracts with investors are fixed and cannot be changed during the term of the contract. Trakcja Group incurs the risk of a failure to meet the deadlines for the performance of the subject of concluded construction contracts, as well as performance of guarantee works relating to removal of defects and faults, which, in consequence, is related with the right of the investor to take advantage of the aforementioned collateral or claiming contractual penalties. Also the Group cannot exclude a risk relating to possible disputes concerning improper or untimely performance of contracts. Occurrence of aforementioned factors may adversely affect the Issuer's financial results.

The Issuer's Management Board undertakes relevant actions aiming at minimizing these risks e.g. through implementation of a modern contract management system, which allows managing budgets and schedules of many large projects executed at the same time, based on detailed unit data registered in real time. In addition, the Group continuously monitors the prices of services provided by subcontractors and ensures that signed contracts have proper parameters concerning the term of the contract and the value of the contract adjusted to the market situation. Thanks to the initiative of implementing the system of central procurement for all realized projects and all organizational units of the infrastructure, the Group intends to achieve substantial and permanent cost savings and optimize procurement processes. Moreover, the long-term market practice allowed Trakcja Group to develop techniques for managing projects, which allow us to complete projects entrusted with the Group companies within the agreed schedules and simultaneously maintain the required quality and meet special requirements of the investors.

### **Financial risk**

In terms of financial risk, the Group is exposed to a risk relating to financial contracts and a risk relating to liquidity. The risk relating to financial contracts results from the fact that both banks (in terms of credits and contract guarantees) as well as insurance companies (in terms of contract guarantees) may restrict the availability of sources of financing and other financial instruments, which may cause restrictions in contract performance. In 2016, Trakcja Group significantly expanded the possibilities of obtaining sources of financing, both in terms of credits and loans as well as guarantee products. The Group monitors the capital structure using the financing structure indexes. Indexes analysed by the Group allow maintaining both good credit rating and confirm the capital structure support for the operating activities of Trakcja Group.

A significant factor in assessing the risk of insolvency is the generated level of operational cash flows, volume of cash, and the liquidity factor. The Group monitors the balance of available cash, and maintains a safe level of both external financing and financial liquidity. Any temporary cash surpluses were invested in short-term bank deposits. To avoid potential threats in the future and to minimize the risk relating to a loss of the Group's liquidity, long- and short-term analysis and forecasts are developed, which allow defining the Group's cash requirements. Thanks to these activities, inflows and expenses can be planned in advance and the optimum level of cash can be defined along with the manner of financing future expenditures.

Other factors, apart from the above-mentioned, which may cause fluctuations of prices of shares of Trakcja PRKiI include:

- Change of the rating of the Group's creditworthiness;
- Change in the balance of the Group's debt;
- Sale or purchase of assets by the Group;
- Significant changes in the Issuer's ownership structure;
- Changes made by capital market analysts with respect to their forecasts and recommendations regarding Trakcja PRKiI, its contracting parties, partners and sectors of economy, in which the Group is involved.

Combating the materialization of all these risks constitute the basic goal of activity of the Issuer's Management Board, which conducts discussions with ordering parties, consortium partners and subcontractors, banks and insurers. Managing these risks is performed at the highest management level in the Group.

## **3. ANALYSIS OF TRAKCJA GROUP'S FINANCIAL SITUATION**

### **3.1. Group's financial performance in 2016**

#### **3.1.1. Consolidated income statement of Trakcja Group**

CONSOLIDATED PROFIT & LOSS ACCOUNT	1.01.2016 -	01.01.2015 -	Change	Change %
	31.12.2016	31.12.2015		
	Audited	Audited		
Sales revenues	1 381 173	1 329 180	51 993	4%
Cost of goods sold	(1 233 007)	(1 163 047)	(69 960)	6%
<b>Gross profit on sales</b>	<b>148 166</b>	<b>166 133</b>	<b>-17 967</b>	<b>-11%</b>
Cost of sales, marketing and distribution	(6 261)	(6 156)	-105	2%
General and administrative costs	(61 170)	(71 106)	9 936	-14%
Other operating revenues	14 922	5 091	9 831	193%
Other operating costs	(10 314)	(7 715)	(2 599)	34%
Share of profit of entities consolidated using equity method	248	2 781	(2 533)	-91%
Goodwill impairment	(11 799)	(12 302)	503	-4%
<b>Operating profit</b>	<b>73 792</b>	<b>76 726</b>	<b>-2 934</b>	<b>-4%</b>
Financial revenues	4 525	7 461	(2 936)	-39%
Financial costs	(10 986)	(11 503)	517	-4%
<b>Gross profit</b>	<b>67 331</b>	<b>72 684</b>	<b>-5 353</b>	<b>-7%</b>
Income tax	(10 999)	(20 926)	9 927	-47%
<b>Net profit for the period</b>	<b>56 332</b>	<b>51 758</b>	<b>4 574</b>	<b>9%</b>

In 2016, Trakcja Group's revenues were PLN 1,381,173 thousand and increased by 4% in comparison to the previous year. In the analysed period, own cost of sales increased by 6% and amounted to PLN 1,233,007 thousand. In 2016, the Group's gross profit on sales amounted to PLN 148,166 thousand and was by 11% lower than in the comparable period. In the said period, the gross margin on sales amounted to 10.7% and was lower than in the analogous period of the preceding year (12.5%). The reason behind that decrease is the fact that the higher number of bidders on the market (higher competitiveness) has led to a squeeze on margins.

Selling, marketing and distribution costs amounted to PLN 6,261 thousand and were higher by 2% in relation to those incurred in the comparable period. Overheads reached PLN 61,170 thousand and decreased by 14% i.e. by PLN 9,936 thousand in comparison with the comparable period. The foregoing results mainly from the fact that overheads incurred in 2015 included one-off benefits for the former Management Board members of the Parent company (compensations, non-competition benefits and compensatory payments for annual leave) in the amount of PLN 6,415 thousand. Furthermore, in 2016, the Parent company implemented the cost reduction programme, and in particular, reduced the costs of external services, including the costs of legal, tax and other advisory services by PLN 1,020 thousand. In the analysed period, a new construction contract-orientated organisational structure has also been launched.

Other operating revenues for 2016 were PLN 14,922 thousand and increased by 193%, i.e. by PLN 9,831 thousand as compared to the preceding period, in particular, due to the revaluation of the already held shares in BTW to their fair value in the amount of PLN 7,112 thousand at the acquisition of the remaining shares in that company. In 2016, other operating expenses amounted to PLN 10,314 thousand and were higher by PLN 2,599 thousand in comparison to the expenses in the previous year, due to the recognition of a provision for restructuring process in Trakcja PRKil in the amount of PLN 3,905 thousand.

The Group recognised an impairment loss on goodwill in the amount of PLN 11,799 thousand (2015: PLN 12,302 thousand in connection with the impairment test on goodwill allocated to the cash generating unit that comprised PEUiM Sp. z o.o., PDM Białystok S.A. and Dalba Sp. z o.o. In the discussed period, the Group generated profit on operating activities in the amount of PLN 73,792 thousand and it was lower by 4% i.e. by PLN 2,934 thousand as compared to the preceding year, in which the profit amounted to PLN 76,726 thousand.

The Group's financial revenues for 2016 reached PLN 4,525 thousand and decreased by 39% in comparison to revenues for 2015, which were PLN 7,461 thousand. Financial expenses for the 12-month period ended on December 31, 2016 amounted to PLN 10,986 thousand and decreased in comparison to the previous year.

For the period from January 1, 2016 to December 31, 2016, the Group generated a gross profit in the amount of PLN 67,331 thousand, therefore the gross result decreased by PLN 5,353 thousand, i.e. by 7% in comparison to the analogous period of the previous year, in which the Group generated a gross profit in the amount of PLN 72,684 thousand.

Income tax in 2016 had a negative effect on the net profit in the amount of PLN 10,999 thousand. In 2015, income tax amounted to PLN 20,926 thousand and had also a negative effect on the net result.

Trakcja Group generated a net profit for 2016 in the amount of PLN 56,332 thousand, and the Group's net result increased by 9% as compared to 2015.

### 3.1.2. Consolidated balance sheet of Trakcja Group

The table below presents the annual consolidated report on the financial situation of Trakcja Group – assets.

CONSOLIDATED ASSETS	31.12.2016 Audited	31.12.2015 Modified	Change	Change %
<b>Non-current assets</b>	<b>721 725</b>	<b>683 214</b>	<b>38 511</b>	<b>6%</b>
Tangible non-current assets	247 489	194 232	53 257	27%
Investment properties	21 226	21 976	(750)	-3%
Goodwill from consolidation	337 855	334 718	3 137	1%
Intangible assets	55 291	56 603	(1 312)	-2%
Investments in entities accounted using equity method	-	14 140	(14 140)	-100%
Investments in other units	25	25	-	0%
Other financial assets	46 502	45 564	938	2%
Deferred tax assets	10 707	9 715	992	10%
Construction contracts	-	2 527	(2 527)	-100%
Prepayments	2 630	3 714	(1 084)	-29%
<b>Current assets</b>	<b>675 008</b>	<b>623 143</b>	<b>51 865</b>	<b>8%</b>
Inventory	75 861	84 828	(8 967)	-11%
Trade and other receivables	399 586	246 864	152 722	62%
Other financial assets	8 660	14 830	(6 170)	-42%
Cash and cash equivalents	148 799	251 435	(102 636)	-41%
Prepayments	6 019	8 961	(2 942)	-33%
Construction contracts	36 083	16 225	19 858	122%
<b>Total assets</b>	<b>1 396 733</b>	<b>1 306 357</b>	<b>90 376</b>	<b>7%</b>

As at December 31, 2016, the balance sheet total of Trakcja Group was PLN 1,396,733 thousand, i.e. increased by PLN 90,376 in comparison to the balance sheet total at the end of 2015. Fixed assets increased by PLN 38,511 thousand as compared to 2015 and were PLN 721,725 thousand as at December 31, 2016. In 2016, current assets increased by PLN 51,865 thousand and were PLN 675,008 thousand.

The increase in the balance sheet total and its individual items of both assets and liabilities results, in particular, from the acquisition as at December 31, 2016 by the full consolidation method of BTW through the purchase transaction of additional 50% of its shares (for the details, see Note 3.1 of the consolidated financial statements for 2016).

The highest increase in fixed assets was in tangible fixed assets, which increased by PLN 53,257 thousand, of which PLN 29,192 thousand was the Group's CAPEX on railway and road machines and equipment (for the details, see Note 2.7.2). As a result of changes that occurred in 2016, goodwill on consolidation increased by PLN 3,137 thousand. The Group:

- recognised an impairment loss on goodwill in the amount of PLN 11,799 thousand (for the details, see Note 24 of the consolidated financial statements for 2016),
- recognised goodwill in the amount of PLN 8,606 thousand in relation to the settlement of the acquisition of 50% of shares in BTW, which has given the Group full control over that company, and
- recognised positive foreign exchange differences in the amount of PLN 6,330 thousand.

The value of current assets also increased in regard to the previous year. The effect of the BTW consolidation on the Group's current assets was PLN 12,877 thousand. The largest increase was the increase in trade receivables and other receivables, which resulted mainly from the payment by PKP PLK S.A. and Lithuanian Railways [Koleje Litewskie] a significant amount of their receivables at the end of 2015, and therefore the opening balance of these items was very low at the beginning of 2016. Trade receivables and other receivables were PLN 399,586 thousand as at the balance sheet date and increased by PLN 152,722 thousand, i.e. by 62%.

In relation to the aforementioned situation, at the end of 2016, cash and cash equivalents decreased by 41% in comparison to the previous year down to PLN 148,799 thousand.

The table below presents the annual consolidated report on the financial situation of Trakcja Group – liabilities.

CONSOLIDATED LIABILITIES	31.12.2016 Audited	31.12.2015 Modified	Change	Change %
<b>Equity attributable to shareholders of parent entity</b>	<b>771 137</b>	<b>722 341</b>	<b>48 796</b>	<b>7%</b>
Share capital	41 120	41 120	-	0%
Share premium account	309 984	309 984	-	0%
Revaluation reserve	5 765	6 178	(413)	-7%
Other capital reserves	332 659	299 785	32 874	11%
Retained earnings	54 685	50 203	4 482	9%
Foreign exchange differences on translation of foreign operations	26 924	15 071	11 853	79%
Non-controlling interests	4 830	3 950	880	22%
<b>Total equity</b>	<b>775 967</b>	<b>726 291</b>	<b>49 676</b>	<b>7%</b>
<b>Total liabilities</b>	<b>620 766</b>	<b>580 066</b>	<b>40 700</b>	<b>7%</b>
<b>Long-term liabilities</b>	<b>153 550</b>	<b>120 910</b>	<b>32 640</b>	<b>27%</b>
Interest-bearing bank loans and borrowings	100 666	89 494	11 172	12%
Provisions	27 650	9 202	18 448	200%
Liabilities due to employee benefits	11 134	11 737	(603)	-5%
Provision for deferred tax	8 068	5 549	2 519	45%
Derivative financial instruments	5 957	4 862	1 095	23%
Other financial liabilities	75	66	9	14%
<b>Short-term liabilities</b>	<b>467 216</b>	<b>459 156</b>	<b>8 060</b>	<b>2%</b>
Interest-bearing bank loans and borrowings	22 003	21 625	378	2%
Trade and other liabilities	309 988	288 100	21 888	8%
Provisions	35 353	23 690	11 663	49%
Liabilities due to employee benefits	11 424	10 894	530	5%
Income tax liabilities	4 922	5 167	(245)	-5%
Derivative financial instruments	1 018	981	37	4%
Other financial liabilities	-	148	(148)	-100%
Accruals	361	219	142	65%
Construction contracts	80 432	108 223	(27 791)	-26%
Advances received towards flats	1 715	109	1 606	1473%
<b>Total equity and liabilities</b>	<b>1 396 733</b>	<b>1 306 357</b>	<b>90 376</b>	<b>7%</b>

As at December 31, 2016, the equity of the Group increased by PLN 48,796 thousand, i.e. by 7% as compared to the balance as at December 31, 2015. The increase was mainly caused by a net profit higher by PLN 4,482 thousand, foreign exchange differences higher by PLN 11,853 thousand and the allocation to the reserve capital of a net profit for 2015 in the amount of PLN 32,727 thousand, which reflects the distribution of dividends by Trakcja PRKiI in the amount of PLN 17,476 thousand in 2016.

As at December 31, 2016, long-term liabilities amounted to PLN 153,550 thousand, i.e. increased by PLN 32,640 thousand in comparison to the balance as at December 31, 2015. The value of long-term interest-bearing credits and loans increased by PLN 11,172 thousand and amounted to PLN 100,666 thousand. The provision for deferred income tax netted by the deferred tax asset amounted to PLN 8,068 thousand and increased by PLN 2,519 thousand.

Short-term liabilities slightly increased, i.e. by PLN 8,060 thousand, which constitutes an increase of 2% as compared to 2015. As at the balance sheet date, trade liabilities and other liabilities were PLN 309,988 thousand, i.e. increased by 8% in relation to the comparable year. Short-term interest-bearing loans and credits were at PLN 22,003 thousand and increased slightly by PLN 378 thousand in comparison to the analogous data as at the end of the previous year. In 2016, the Group focused on reducing its debts through the partial repayment of credits and loans and the reduction in the factoring services.

### 3.1.3. Profitability ratios

A gross margin on sales in 2016 decreased by 1.8 pp as compared to the preceding year and amounted to 10.7%. Operating profit, including depreciation and amortisation, as well as the impairment loss on goodwill was PLN 109,009 thousand and decreased by PLN 2,285 thousand as compared to the previous year. The EBITDA margin in 2016 decreased by 0.5 pp and amounted to 7.9%. The operating margin in 2016 amounted to 5.3% and was lower by 0.4 pp in comparison to 2015. The net profit margin increased by 0.2 pp, reaching the level of 4.1% in comparison to the 3.9% in 2015. The return on equity (ROE) increased in comparison to the previous year by 0.1 pp and amounted to 7.5%, whereas the return on assets (ROA) reached 4.2% and was higher by 0.5 pp than in the previous year.

PROFITABILITY RATIOS	31.12.2016 Audited	31.12.2015 Modified	Change
Gross sales profit margin	10,7%	12,5%	-1,8%
EBITDA	109 009	111 294	(2 285)
EBITDA profit margin	7,9%	8,4%	-0,5%
Operating profit margin	5,3%	5,8%	-0,4%
Net profit margin	4,1%	3,9%	0,2%
Return on equity (ROE)	7,5%	7,4%	0,1%
Return on assets (ROA)	4,2%	3,7%	0,5%

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

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

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

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

Operating profit margin = operating profit / revenue on sales

Net profit margin = net profit / revenue on sales

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

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

Other financial ratios are presented in Section 3.2.

### 3.1.4. Consolidated statement of cash flows of Trakcja Group

The main items of Trakcja Group's consolidated statement of cash flows for years ended December 31, 2016 and December 31, 2015 are presented in the table below.

CONSOLIDATED CASH FLOW ACCOUNT	31.12.2016 Audited	31.12.2015 Audited	Change 2016 / 2015	Change %
Cash at start of period	251 317	57 638	193 679	336%
Net cash flows from operating activities	(39 418)	319 776	(359 194)	-112%
Net cash flows from investment activities	(30 967)	(7 474)	(23 493)	314%
Net cash flows from financial activities	(34 572)	(118 623)	84 051	-71%
<b>Total net cash flows</b>	<b>(104 957)</b>	<b>193 679</b>	<b>(298 636)</b>	<b>-154%</b>
Cash at end of period	146 360	251 317	(104 957)	-42%

In 2016, the net cash flows from operating activities were negative and amounted to PLN 39,418 thousand. The net cash flows from operating activities decreased by PLN 359,194 thousand as compared to 2015.

In 2016, the Group's net cash flows from investing activities were negative and amounted to PLN 30,967 thousand, whereas in 2015 the negative balance thereof was PLN 7,474 thousand. The negative

balance from investments in 2016 was mainly caused by the purchases of tangible fixed assets by Trakcja Group and the acquisition of 50% of shares in BTW for PLN 21,500 thousand.

The net cash flows from financial activities in 2016 were negative and amounted to PLN 34,572 thousand. In 2016, it increased by PLN 84,051 thousand as compared to the analogous period of the previous year.

The Group commenced the year 2016 with cash as disclosed in the consolidated statement of cash flows in the total amount of PLN 251,317 thousand and ended 2016 with cash in the amount of PLN 146,360 thousand as presented in the consolidated statement of cash flows. In 2016, cash decreased in total by PLN 104,957 thousand.

Cash as at December 31, 2016 as presented in the balance sheet was PLN 148,799 thousand, while at the end of 2015 it amounted to PLN 251,435 thousand. The high level of cash as at the end of 2015 resulted mainly from the payment by PKP PLK S.A. And Lithuanian Railways of a significant amount of receivables at the end of that year. The absence of such a one-off event in 2016 did not have any adverse impact on the Group's financial condition, and as such did not present any risk to the Group's operations. Cash excluded from the statement of cash flows as at December 31, 2016 comprises cash blocked on development project accounts in the amount of PLN 2,439 thousand (31/12/2015: PLN 118 thousand).

### 3.2. Description of the structure of assets and liabilities of the consolidated balance sheet from the liquidity point of view

In the structure of assets as at December 31, 2016, similarly to the previous year, the share of tangible assets and current assets is close. The largest share in the structure of fixed assets is that of goodwill on consolidation – approx. 47 % (31/12/2015: 49%). The largest share in the structure of current assets is that of trade receivables and other receivables – approx. 59% (31/12/2015: 40%) and cash and cash equivalents – approx. 22% (31/12/2015: 40%).

In the structure of liabilities as at 31 December 2016, the total equity is at 56% (31/12/2015: 56%), long-term liabilities at 11% (31/12/2015: 9%), and short-term liabilities at 33% (31/12/2015: 35%). The largest share in the structure of short-term liabilities is that of trade liabilities and other liabilities, which constitute 22% of the total balance sheet sum (31/12/2015: 22%).

The below indicators of liquidity and financing structure prove the safe level of liquidity.

#### 3.2.1. Liquidity ratios

Working capital of Trakcja Group in 2016 was at a positive level and amounted to PLN 208,152 thousand and was higher by PLN 43,946 thousand than in the previous year.

At the end of 2016, the current liquidity ratio was at 1.44 and was higher by 0.09 than in 2015. The quick liquidity ratio increased by 0.11 and reached 1.28. The immediate liquidity ratio decreased by 0.23 in comparison to the previous year and reached 0.32. The immediate liquidity ratio demonstrates that the Group would be able to immediately repay 32% of its liabilities in cash.

LIQUIDITY RATIOS	31.12.2016 Audited	31.12.2015 Modified	Change
Working capital	208 152	164 206	43 946
Current ratio	1,44	1,36	0,09
Quick ratio	1,28	1,17	0,11
Cash ratio	0,32	0,55	(0,23)

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

Working capital = current assets - short-term liabilities + prepayments

Current ratio = current assets / short-term liabilities

Quick ratio = (current assets - inventory) / short-term liabilities

Cash ratio = cash and cash equivalents / short-term liabilities

### 3.2.2. Financing structure ratios

The Group monitors the capital structure using the financing structure indexes. Indexes analysed by the Group, presented in the below table, allow maintaining both good credit rating and confirm the capital structure support for the operating activities of the Group.

The financing structure ratios changed insignificantly due to the aforementioned events.

The equity to assets ratio in 2016 did not change as compared to 2015 and was 0.55. The equity to fixed assets ratio increased slightly by 0.01 and amounted to 1.07. The total debt ratio remained unchanged and was 0.45 at the end of 2016. The foregoing means that the Group's assets are financed from external financing sources - liabilities - in 45%. At the end of 2016, the debt to equity ratio also remained at the level it had been in 2015, i.e. was 0.81 as at December 31, 2016.

FINANCING STRUCTURE RATIOS	31.12.2016	31.12.2015	Change
	Audited	Przekształcone	
Equity to assets ratio	0,55	0,55	0,00
Equity to non-current assets ratio	1,07	1,06	0,01
Debt ratio	0,45	0,45	0,00
Debt to equity ratio	0,81	0,81	0,00

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

Equity to assets ratio = Equity attributable to shareholders of Parent company / total assets

Equity to non-current assets ratio = Equity attributable to shareholders of Parent company / fixed assets

Debt ratio = (Total assets - Equity attributable to shareholders of Parent company) / total assets

Debt to equity ratio = (Total assets - Equity attributable to shareholders of Parent company) / Equity attributable to shareholders of Parent company

### 3.3. Assessment of financial resources management

At the end of 2016, Trakcja Group had PLN 148,799 thousand in cash and at the same time its financial debt (loans, credits and finance lease) was PLN 122,669 thousand. The Group maintains a safe level of both external financing and financial liquidity. Any temporary cash surpluses were invested in short-term bank deposits.

The Group has unused credit limits (credit limits in the current account and revolving credits) in the amount of PLN 186 million, which guarantees Trakcja Group companies a stable level of financing for current contracting activity. In addition, the Group has a factoring limit granted in the amount of PLN 50,000 thousand.

Trakcja Group conducts extensive cooperation with banks and insurance institutions in order to ensure relevant level of financing and bank/insurance guarantees allowing execution of planned construction contracts.

Trakcja Group, through renegotiating existing credit contracts, repayment of bonds, and initiating business relations with new banks and insurance companies, improves its liquidity position and expands the sources of external financing.

The Group takes advantage of many offered bank products and various sources of financing (credit limits in current account, investment credits, factoring, financial lease) to minimize financial costs and optimize financial liquidity management.

### 3.4. Evaluation of factors and unusual events affecting the financial performance of Trakcja Group in 2016

The main factors and unusual events affecting the results of Trakcja Group in 2016 include:

#### Goodwill Impairment

As a result of the impairment test conducted on March 15, 2017 on goodwill assigned to the cash generating centre comprising the following subsidiaries: Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o., Dalba Sp. z o.o. and Przedsiębiorstwo Drogowo-Mostowe Białystok S.A., the Management Board decided that it is necessary to recognise an impairment loss on goodwill in the consolidated balance sheet of Trakcja Group in the amount of PLN 11,799 thousand, which was charged to the consolidated profit for 2016.



### **Optimisation of the organisational structure of Trakcja PRKiI**

With major delay in the financial prospects for 2014-2020 as far as tenders announced on the infrastructural market, mostly railway infrastructure market, having carefully analysed all the business and social aspects, the Company's Management Board decided to optimise the Company's organisational structure in a way that as a result will lead to job losses pursuant to Article 2 para. 3 and 4 of the Act on Specific Rules for Terminating Employment Relationships with Employees for Reasons Beyond the Employees' Control of 13 March 2003 (Journal of Laws of 2003, No. 90, item 844, as amended). On September 22, 2016, the Company's Management Board announced the Regulations on Collective Redundancies and provided the trade unions that operate in the Company with the relevant information. Information thereabout was also submitted to the competent County Labour Office. The employment contract will be terminated with the group of employees that comprises 300 people in total from September 23, 2016 to June 30, 2017.

The total of the provision created and an expense incurred, which was charged to the Company's profit for 2016, was PLN 3.9 million. The provision will be used by June 30, 2017.

The Company's Management Board believes that reduction in employment will result in the fixed costs being decreased significantly in the years to come (starting from 2017). A specific amount of savings can only be estimated after the optimisation process is completed. The Management Board will monitor the construction market and actively react to any changes therein.

As at December 31, 2016, the restructuring process affected 112 people and its total cost was PLN 2.1 million.

### **3.5. Evaluation of potential completion of investment projects, including capital investments**

Based on the analyses conducted, the Parent company's Management Board believes that Trakcja Group is able to finance current and future investment projects specified in Note 2.7.1 hereof with the funds generated from its operating activities and the debt incurred for that purpose.

### **3.6. Hedging transactions**

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

On June 5, 2013, the subsidiary of the Issuer, i.e. UAB Palangos aplinkkelis concluded an interest rate swap (IRS) to secure future cash flows due to planned interest payments on the term loan. Pursuant to the agreement, the company is a payee of amounts according to a fixed rate, whereas the bank is a payee of amounts according to a variable rate. The date of expiry of the hedging relationship was set at May 31, 2028.

On 8 and 14 October 2015, the subsidiary of the Issuer, i.e. AB Kauno Tiltai concluded two interest rate swaps (IRS) to secure future cash flows due to planned interest payments on the term loan. Pursuant to the agreement, the company is a payee of amounts according to a fixed rate, whereas the bank is a payee of amounts according to a variable rate. The date of expiry of the hedging relationships was set at January 14, 2020.

As at December 31, 2016, the impact of the valuation of the above hedging instruments on liabilities was PLN 6,976 thousand and the impact thereof on other total income was negative and amounted to PLN 564 thousand. The details concerning the classification to appropriate levels are provided in Note 40 of the consolidated financial statements for 2016.

### **3.7. Explanation of differences between the actual and forecast financial performance of Trakcja Group**

Trakcja Group did not publish any financial forecast in 2016.

#### 4. SHARES AND OWNERSHIP STRUCTURE OF TRAKCJA PRKiI

##### 4.1. Shareholding structure

As at December 31, 2016 and as at the publication hereof, the Company's share capital, as entered in the National Court Register, amounted to PLN 41,119,638,40 and was divided into 51,399,548 A-series ordinary bearer shares with nominal value of PLN 0.80 each. Each share entitles to one vote at the Company's General Meeting.

To the knowledge of the Parent company's Management Board, in accordance with the received notifications referred to in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, the shareholders that hold directly or through the subsidiaries, at least 5% of the total number of votes at the Annual General Meeting ("AGM"), as at the approval hereof, are as follows:

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

From the date of publication of the last interim report, i.e. 10 November 2016, no changes in the ownership structure of the Issuer's qualifying holdings occurred.

##### 4.2. Number and nominal value of the Company's shares and interest in the Company's associates held by managing and supervising persons

To the knowledge of the Issuer's Management Board, as at the release hereof, the Management Board and Supervisory Board members do not hold any shares in Trakcja PRKiI or in any members of the Group.

As from the date of delivering the last periodical report, there were no changes in the percentage interest of shares of the Company by managing and supervising persons.

##### 4.3. Agreements concerning potential changes in the shareholding structure

The Management Board has no information about concluded agreements which may result in future changes to the proportions of shares held by the current shareholders

##### 4.4. Employee Share Scheme

In 2016, Trakcja Group did not run any employee share schemes.

##### 4.5. Purchase of own shares

In 2016, Trakcja PRKiI did not acquire own shares.

## 5. OTHER INFORMATION

### 5.1. Information about incurred and terminated credits and loans

As of the balance sheet date, Trakcja Group had the following credits and loans:

Company name	Lender	Type of loan/credit	Amount in agreement currency	Currency	Maturity date	Interests	Outstanding amount (in ths. PLN)
Trakcja PRKiI S.A.	mLeasing	investment loan	22 400	PLN	16.09.2019	WIBOR 1M + margin	13 256
Trakcja PRKiI S.A.	mBank S.A.	overdraft	20 000	PLN	28.04.2017	WIBOR O/N + margin	-
Trakcja PRKiI S.A.	mBank S.A.	working capital	50 000	PLN	28.04.2017	WIBOR 1M + margin	-
Trakcja PRKiI S.A.	mBank S.A.	investment loan	21 500	PLN	30.09.2021	WIBOR 1M + margin	21 502
Trakcja PRKiI S.A.	Pekao S.A.	working capital	20 000	PLN	31.05.2017	WIBOR 1M + margin	-
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	investment loan	1 746	PLN	30.11.2018	WIBOR 6M + margin	1 086
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	overdraft	2 500	PLN	30.05.2017	WIBOR 6M + margin	-
Bahn Technik Wrocław Sp. z o.o.	Bank Zachodni WBK S. A.	overdraft	2 500	PLN	30.06.2017	WIBOR 1M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital	14 000	EUR	31.08.2018	EURIBOR 3M + margin	-
AB Kauno Tiltai	Nordea	working capital	3 000	EUR	31.08.2018	EURIBOR 1M + margin	-
AB Kauno Tiltai	Dnb	working capital	3 000	EUR	31.08.2018	EURIBOR 3M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital project	2 000	EUR	14.01.2020	EURIBOR 3M + margin	5 970
UAB Palangos aplinkkelis	SEB Bank	purpose loans	8 500	EUR	31.05.2028	EURIBOR 3M + margin	35 668
UAB Pletros investicijos	Šiaulių plentas UAB	other units loan	363	EUR	31.12.2028	fixed interest rate	1 231
<b>Total</b>							<b>78 713</b>

#### Credits and loans incurred in 2016

During the period covered by these statements, companies in Trakcja Group signed agreements concerning the following liabilities due to credits or loans.

#### The Parent Company signed the following agreements:

In the period covered hereby, the Company signed the following credit or loan agreements:

- an agreement with mBank S.A. concerning an investment loan for PLN 21,500 thousand with a repayment date up to September 30, 2021 and interest rate of WIBOR 1M plus margin;
- an annex to the agreement concerning an overdraft up to PLN 20,000 thousand between the Company and mBank S.A. Pursuant to the annex, the term of financing was extended to April 28, 2017.

#### The Issuer's subsidiaries signed the following agreements:

- the subsidiary AB Kauno Tiltai signed an annex to the agreement with AB DNB bankas, in accordance with which the term thereof has been changed to August 31, 2018 and the credit limit has been increased to EUR 3,000 thousand ;

- the subsidiary AB Kauno Tiltai signed an annex to the agreement with Nordea Bank Finland Plc, Branch in Lithuania, in accordance with which the term thereof has been changed to August 31, 2018 and the credit limit has been increased to EUR 3,000 thousand ;

- the subsidiary AB Kauno Tiltai signed an annex to the agreement with Nordea Bank Finland Plc, Branch in Lithuania, and AB DNB bankas, in accordance with which the term thereof has been changed to August 31, 2018;

#### Credit and loan agreements terminated or expired in 2016

On July 3, 2016, an agreement between the Parent company and PKO BP S.A. expired, which concerned a revolving loan in the amount of PLN 44,000 thousand with the interest rate of WIBOR 1M plus margin.

## 5.2. Information about loans granted during the financial year

A list of loans granted in 2016 by Group companies, including to associates, is presented in the table below.

Company name	Lender	Amount in agreement currency	Currency	Maturity date	Interests	Amount left to be paid	Capital relationship
Trakcja PRKiI S.A.	PRK 7 Nieruchomości Sp. z o.o.	9 500	PLN	31.03.2017	WIBOR 1 M + margin	3 215	subsidiary
PEUiM Sp. z o.o.	Dalba Sp. z o.o.	200	PLN	31.03.2017	fixed interest rate	203	subsidiary
PDM S.A.	Dalba Sp. z o.o.	200	PLN	31.03.2017	WIBOR+ margin	202	subsidiary
AB Kauno Tiltai	AB Kauno Tiltai Sverige	1 350	EUR	31.12.2016	fixed interest rate	5 972	subsidiary
AB Kauno Tiltai	UAB Transporto infrastruktūra	100	EUR	31.12.2016	fixed interest rate	465	subsidiary

## 5.3. Information about granted and received sureties and guarantees

In 2016, the Issuer or its subsidiaries did not grant any sureties for credits or loans and did not grant any guarantees to one entity or a subsidiary of such entity, the total value of which would constitute an equivalent of at least 10% of the Issuer's equity.

In 2016, no sureties or guarantees were granted to either the Issuer or any of its subsidiaries by any of the related parties.

## 5.4. Inflows from issue of securities

During the period covered by the report, Trakcja PRKiI did not issue any securities, thus it did not obtain any inflows from issue of securities.

## 5.5. Significant off-balance sheet items

	31.12.2016	31.12.2015
	Audited	Modified
<b>Contingent receivables</b>		
<b>From related entities due to:</b>	-	809
Received guarantees and sureties	-	809
<b>From related entities due to:</b>	70 528	98 049
Received guarantees and sureties	65 693	92 547
Bills of exchange received as collateral	4 835	5 502
<b>Total contingent receivables</b>	<b>70 528</b>	<b>98 859</b>
<b>From related entities due to:</b>		
<b>From related entities due to:</b>	-	809
Provided guarantees and sureties	-	809
<b>From other entities due to:</b>	2 289 406	2 717 007
Provided guarantees and sureties	605 412	563 859
Promissory notes	548 593	439 152
Mortgages	152 057	151 067
Assignment of receivables	851 469	1 456 182
Assignment of rights under insurance policy	48 412	41 586
Security deposits	14 280	28 419
Other liabilities	69 183	36 743
<b>Total contingent liabilities</b>	<b>2 289 406</b>	<b>2 717 816</b>

Contingent receivables on account of provided guarantees and sureties include guarantees granted by banks, insurance companies or other entities in favour of Trakcja Group constituting a security of the Group's claims against an investor on account of the performed construction contracts.

Contingent liabilities on account of provided guarantees and sureties include above all guarantees granted by banks and insurance companies in favour of the Group companies constituting a security of their claims against the Group on account of the performed construction contracts. The banks are entitled to back claims against the companies of the Group. Promissory notes constitute another form of collateral of bank guarantees, as stipulated above.

After the balance sheet date and before the publication hereof, the Company concluded new agreements for tender bonds, guarantees of good performance and guarantees of reimbursement of advance payment in the total amount of PLN 133,778 thousand.

## 5.6. Significant court cases and disputes

The Parent company notifies that the total value of the proceedings concerning the Company's claims is PLN 136,781,184.44 and the total value of the proceedings concerning the Company's liabilities is PLN 5,205,986.84.

As at December 31, 2016, the Company was a party to the proceedings, the value of which separately would be at least equivalent to 10% of the equity of Trakcja PRKil S.A.:

*The case concerning summons to a conciliatory settlement regarding reimbursement of fixed costs incurred in two extension periods for the performance of the contract filed against PKP PLK S.A. by the Consortium that comprises Trakcja PRKil S.A. and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie sp. z o. o.*

On December 2, 2016, the Parent company and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie sp. z o. o. applied

for summons to a conciliatory settlement against PKP PLK S.A. for payment of PLN 65,848,167.00 in relation to the extension of the completion term of the contract named: "Design and performance of construction works on the railway line Krakow - Medyka - state border on the section Podłęże - Bochnia, km 16.000 - 39.000 of the Project "Modernization of the railway line E 30/C-E30, section Krakow - Rzeszow, phase 3". The Company's

claims are estimated to be approx. PLN 25 million. The case is at the early stage of proceedings and its resolution date is difficult to predict.

**Other proceedings concerning claims:**

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

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

According to the Parent company's knowledge, a list of claims towards PNI was prepared. Claims of Trakcja PRKiL S.A. were accepted in the amount of PLN 10,569,163.16, including PLN 10,274,533.87 due to unpaid invoices and PLN 294,632.29 due to interest for delay in payment. It was refused to accept receivables due to contractual penalties and other claims in the total amount of PLN 44 956 834.35. The Company does not agree with the refusal to accept the aforementioned part of claims; therefore, an objection was submitted to the judge commissioner concerning the refusal in the aforementioned scope. The court had rejected the objection, therefore the Company filed a complaint which was overruled. On June 8, 2015, the Company received a notice from the trustee in bankruptcy on the change of bankruptcy procedure from arrangement bankruptcy to liquidation bankruptcy. The case is pending and its resolution date is difficult to predict.

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

The Parent company notifies that on March 10, 2015, by the decision of the District Court of the City of Warsaw in Warsaw, Projekt-Bud Sp. z o.o. ("Bankrupt") with the possibility of an arrangement. The Parent company submitted its claims against the Bankrupt in total amount of PLN 9,708,613.62. The total amount of lodged claims comprised claims under lease of locomotives and wagons, equipment rental, sales contracts, performed works and the contractual penalty charged against the Bankrupt. On December 31, 2015, PKP PLK made a direct payment of PLN 7,382,827.30. In view of the above, as at the approval of these financial statements, the Company's claim against the Bankrupt is PLN 2,325,786.32 in consideration of the accrued contractual penalty.

**The most significant proceedings concerning liabilities:**

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

Eiffage Polska Koleje Sp. z o.o. based in Warsaw filed on May 15, 2015 a suit for payment for the amount of PLN 1,634,833.00 against the Parent company, seeking remuneration for additional expenses incurred in the extended term of the contract. The Company filed its reply to the claim and now the case is pending. Its resolution date is difficult to predict.

**Other proceedings:**

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

*PRK 7 Nieruchomości Sp. z o.o.*

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

### AB Kauno Tiltai

Investor AB Lietuvos geležinkeliai filed a lawsuit against the Consortium subsidiary AB Kauno Tiltai is a member of, for a total sum of PLN 66,313,797.20 (EUR 14,989,556.33). The investor brought a claim against AB Kauno Tiltai concerning the contractual penalty for delay in the performance of works. The share of Trakcja Group in liabilities (if any) that may arise from this trial is 65%. Currently, an expertise has been carried out and the hearing date was set for April 20, 2017. As a result of the analysis of risks associated with the ongoing court proceedings, the Group recognised a provision for the proceedings in 2015. As at December 31, 2016, the Group decided to keep the provision unchanged in the amount set since December 31, 2015. The Group refrained from making other disclosures related to this court case by invoking clause 92 of IAS 37.

### 5.7. Significant events after the balance sheet date

Significant events after the balance sheet date	CR
<b>Significant agreements</b>	
In 20.01.2017 Company signed as the Consortium leader the agreement with PKP PLK S.A. on design and realization of construction works - „Works on railway lines No. 140, 148, 157, 159, 173, 689, 691 on the section Chybie – Żory – Rybnik – Nędza / Turze” within the Operational Programme Infrastructure and Environment (POLiŚ) 5.2-5 net value 373,7 mPLN. The planned share of Trakcja PRKiI amounts to 124,5 mPLN (net value). The works will be realized within 30 months from the signing date.	2/2017
<b>Other</b>	
In 9.01.2017 The company has made public the deadlines for the publication of periodic reports in 2017.	1/2017
In 15.03.2017 due to the performance of impairment test of goodwill assigned to the cash generating unit, which consists of the following subsidiaries: Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o., Dalba Sp. z o.o. and Przedsiębiorstwo Drogowo-Mostowe Białystok S.A., Management Board has decided to write-off the value of that asset in Trakcja Group’s consolidated balance sheet in the amount of PLN 11 799 thousand which was recognized in the consolidated results of 2016.	3/2017

### 5.8. Transactions with affiliated parties

All transactions of the Parent company or its subsidiaries with the related parties were made at arm’s length.

Detailed information about transactions with related entities are presented in Note 57 of the consolidated financial statements of Trakcja Group for 2016.

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

The total value of remuneration and other benefits for members of the Management Board of the Parent Company in 2016 is presented in the table below.

Management Board of the Parent Company		Parent company				Subsidiaries			
		Remuneration	Awards	Other benefits	Total	Remuneration	Awards	Other benefits	Total
Jarosław Tomaszewski	President of Management Board	840	450	21	<b>1 311</b>	262	-	-	<b>262</b>
Nerijus Eidukevičius	Vice-President of the Management Board to 8.09.2016	60	147	-	<b>207</b>	544	997	92	<b>1 632</b>
Paweł Nogalski	Vice-President of the Management Board	600	175	42	<b>817</b>	-	-	-	-
Marek Kacprzak	Vice-President of the Management Board	600	157	67	<b>824</b>	-	-	-	-
Sławomir Raczyński	Vice-President of the Management Board to 30.12.2016	600	164	19	<b>783</b>	-	-	-	-
<b>Total</b>		<b>2 700</b>	<b>1 093</b>	<b>149</b>	<b>3 942</b>	<b>806</b>	<b>997</b>	<b>92</b>	<b>1 894</b>

The amount of PLN 3,942 thousand was charged to the expenses of the Parent Company and the remaining amount, i.e. PLN 1,894 thousand was charged to the costs of subsidiaries.

Remunerations and other benefits of members of the Supervisory Board of the Parent Company in 2016 are presented in the table below.

Supervisory Board of the Parent Company		Parent company				Subsidiaries			
		Remuneration	Awards	Other benefits	Total	Remuneration	Awards	Other benefits	Total
Dominik Radziwiłł		104	-	-	<b>104</b>	-	-	-	-
Andrzej Bartos	(to 16.06.2016)	33	-	-	<b>33</b>	-	-	-	-
Michał Hulbój		96	-	-	<b>96</b>	-	-	-	-
Wojciech Napiórkowski		96	-	-	<b>96</b>	-	-	-	-
Łukasz Rozdeiczner-Kryszkowski	(from 16.06.2016)	57	-	-	<b>57</b>	-	-	-	-
Miquel Llevat Vallespinosa		68	-	-	<b>68</b>	262	-	-	<b>262</b>
Jorge Miarnau Monserrat		56	-	-	<b>56</b>	-	-	-	-
Fernando Perea Samarra		68	-	-	<b>68</b>	-	-	-	-
<b>Total</b>		<b>578</b>	<b>-</b>	<b>-</b>	<b>578</b>	<b>262</b>	<b>-</b>	<b>-</b>	<b>262</b>



#### **5.10. Agreements concluded between the Parent Company and managing persons**

The Group's Parent company and the Company's Management Board members have concluded employment contracts, which provide for:

- compensation in the amount of 12 times the gross monthly salary in Trakcja Group received by the employee in the last month preceding the termination of the employment relationship, which is payable in four equal instalments;
- or
- compensation in the amount of 6 times the gross monthly basic salary in Trakcja Group received by the employee in the last month preceding the termination of the employment relationship, which is payable in three equal instalments;

Trakcja PRKiI and the Management Board members have concluded non-competition agreements, under which for a 1-year period from the termination of the employment relationship, a member shall be paid compensation:

- in the amount of 100% of the average monthly salary payable under the employment contract in the last year of employment at the Company, which shall be paid in three equal instalments;
- or
- in the amount of 100% of the basic monthly salary payable under the employment contract in the last year of employment at the Company, this shall be paid in three equal instalments.

#### **5.11. Important achievements in the area of research and development**

In 2016, the Group's Parent company took measures oriented at dealing with the issue of the Parent company's intellectual property, including patents. As a result thereof, two licence agreements have been concluded for the use of the Company's patents. The patents pertain to two licence agreements:

- with Polcynek, Fabryka Urządzeń Kolejowych and Termoprod for the use of patent no. 213109 Installation of Overhead Line Gates on Foundation Piles.
- with Fabryka Urządzeń Kolejowych and Termoprod for the rights to use the technical documentation (individual steel piles) that belongs to the Company.

#### **5.12. Information about the entity acting as the certified auditor**

Pursuant to the resolution of the Supervisory Board of Trakcja Group, the entity authorized to audit the financial statements of the Group and the Parent Company is Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. based in Warsaw at Al. Jana Pawła II 22.

On July 29, 2016, the Parent Company concluded an agreement with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for:

- a review the semi-annual separate and consolidated financial statements prepared as at June 30, 2016 according to the International Accounting Standards;
- an audit of the annual separate and consolidated financial statement prepared as at December 31, 2016 according to the International Accounting Standards.

The agreement was concluded for the period of performing the subject of the contract.

The fee for the audit of the selected entities of Trakcja Group is payable based on separate agreements concluded between the entity authorized to audit financial statements and each of the selected Group companies.

The amount of remuneration of the certified auditor for services provided to the Group is presented in the table below:

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Modified
On account of agreement for financial statement audit	194	185
On account of agreement for financial statement review	72	68
On account of other agreements	5	40
<b>Total</b>	<b>271</b>	<b>293</b>

## 6. REPORT ON CORPORATE GOVERNANCE

### 6.1. Specification of the scope in which the Issuer has renounced to apply the provisions on corporate governance according to the Good Practices for Companies Listed on the Warsaw Stock Exchange 2016 applicable in accordance with resolution 1309/2015 from January 1, 2016 onwards, indication of those provisions and explanation of that renouncement

The Company undertook to observe the corporate governance recommendations and rules included in the document entitled Good Practices for Companies Listed on the Warsaw Stock Exchange 2016, save for the following recommendations and rules:

#### 1. Recommendations and rules specified in Part I of Good Practices:

The Company runs a corporate website and publishes on it, in a readable form and on specified location, the following information, in addition to the information required by law:

I.Z.1.7. information material on the company's strategy and its financial results published by the company.

The Company's comments: The Company does not publish the strategy, because the situation on the markets the Company operates on is so dynamic that the strategy would become outdated too often.

I.Z.1.10. financial forecast, if the company decided to publish it, for at least a 5-year period, along with information about their implementation.

The Company's comments: The Company does not publish any financial forecast. Therefore, the rule does not apply.

I.Z.1.11. information about the content of the company's internal rules related to changing the entity authorized to audit financial statements, or about the lack of such rules.

The Company's comments: The Company does not apply the rule, since the Company complies with the relevant provisions relating to the change of auditor under the Act on Statutory Auditors and their Self-Government, Entities Authorized to Audit Financial Statements and Public Oversight, dated May 7, 2009.

I.Z.1.15. information containing the description of the company's diversity policy in relation to the management of the company and its key managers; the description should cover such elements of the diversity policy as gender, education, age, work experience, and should specify the objectives of the diversity policy used and the manner of its implementation within the reporting period; if the company has not developed and does not implement the diversity policy, it shall publish on its website the grounds behind the decision.

The Company's comments: The Company does not apply the diversity policy in relation to the Company's governing bodies of the and its key managers due to the nature of the markets in which it operates, in particular due to the limited number of key managers who may be obtained from the market.

I.Z.1.16. information on the planned broadcast of the General Meeting of Shareholders - no later than 7 days before the date of the General Meeting.

The Company's comments: Due to the shareholding structure of the Company, the Company does not broadcast general meetings by audio or video transmission.

I.Z.1.20. record of the general meeting proceedings in the audio or video form.

The Company's comments: Due to the shareholding structure of the Company, the Company does not broadcast general meetings by audio or video transmission and does not publish the record of it on the website.

#### 2. Recommendations and rules specified in Part II of Good Practices:

II.Z.1. Internal division of responsibilities for different areas of the company's operations between board members should be formulated clearly and transparently, and the responsibility division should be available on the company's website.

The Company's comments: At the moment, the Company does not apply the specified rule, although the division of responsibility for different areas of the Company's operations between the members of the Board is under preparation and will be published on the Company's website after it becomes effective.

II.Z.7. As regards the responsibilities and functioning of committees of the Supervisory Board, the provisions of Annex I to the Recommendation of the European Commission referred to in Rule II.Z.4 shall apply. In the event the Supervisory Board acts in the capacity of the audit committee, these rules shall apply accordingly.

The Company's comments: The Company applies this rule, provided that the committees of the Supervisory Board consist of independent members of the Supervisory Board but they do not form a majority, as set out in the provisions of Annex I to the Commission Recommendation referred to in Rule II.Z.4.

### 3. Recommendations and rules specified in Part IV of Good Practices:

IV.R.1. The company should strive to convene the annual general meeting as soon as possible after the publication of the annual report, setting this date in compliance with relevant legal provisions.

The Company's comments: The current practice of the Company's is that annual general meetings are to be held usually in May or June which is compliant with the statutory deadline referred to in Article 395 § 1 of the Code of Commercial Companies.

IV.R.2. If it is reasonable due to the shareholding structure or expectations of the shareholders reported to the company, provided that the company is able to provide the technical infrastructure necessary to hold smoothly a General Meeting by means of electronic communication, the Company should enable the shareholders to participate in the General Meeting by means of such measures, including in particular through: 1) real-time broadcast of the meeting, 2) bilateral communication in a real time allowing for the shareholders to express their opinions in the course of the general meeting even though they are in a place other than the venue of the meeting, 3) the exercise, in person or by proxy, of voting rights during the general meeting.

The Company's comments: Due to the shareholding structure of the Company, as well as the lack of the required technical infrastructure, the Company does not broadcast general meetings and does not provide real-time two-way communication by electronic communication means.

IV.R.3. The Company strives to ensure that when securities issued by the Company are traded in various countries (or on different markets) and under various legal systems, the implementation of corporate events related to the acquisition of rights of a shareholder take place on the same dates in all countries they are listed in.

The Company's comments: This recommendation does not apply to the Company, as its issued securities are traded on the Warsaw Stock Exchange S.A. in Warsaw only.

IV.Z.2. If this is reasonable due to the shareholding structure of the company, the company shall provide a widely accessible real-time broadcast of a general meeting of shareholders.

The Company's comments: Due to the composition of the shareholding structure of the Company, the Company does not broadcast a general meeting in real time.

### 4. Recommendations and rules specified in Part V of Good Practices:

V.Z.6. The Company sets out in its internal regulations the criteria and circumstances where a conflict of interest may arise within the Company, as well as the rules of conduct in the face of conflict of interest or the possibility of its occurrence. Internal regulations of the company shall provide for, inter alia, how to prevent, identify and resolve conflicts of interest, as well as rules for excluding a member of the management board or supervisory board from participation in dealing with matters covered by or at risk of conflict of interest.

The Company's comments: At the moment, the Company does not apply the rule, but is in the process of preparing internal regulations concerning the criteria and circumstances where a conflict of interest may arise within the Company and rules of conduct in the face of their occurrence or the possibility of occurrence.

### 5. Recommendations and rules specified in Part VI of Good Practices:

VI.R.1. The remuneration of governing body members and key managers should be based on the remuneration policy adopted.

The Company's comments: The Company does not apply the recommendation as the Company has its own incentive program for members of the Management Board and is in the process of preparing an incentive scheme for key managers.

VI.R.2. The remuneration policy should be closely linked with the company's strategy, its short-term and long-term objectives, long-term interests and performance, and should include solutions for avoiding discrimination on any grounds.

The Company's comments: The Company does not apply the recommendation as the Company has its own incentive program for members of the Management Board and is in the process of preparing an incentive scheme for key managers.

VI.R.3. If the supervisory board contains a committee for remuneration matters, then Rule II.Z.7 applies to its work.

The Company's comments: As regards works of the remuneration committee, Rule II.Z.7 applies, provided however that the three-member remuneration committee shall contain one independent member of the supervisory board, so independent members do not constitute a majority in this committee.

VI.Z.1. Incentive programs should be designed so as to make the level of remuneration for members of the management board of the company and its key managers dependent on the real, long-term financial situation of the company and long-term growth in shareholder value and stability of the company.

The Company's comments: The Company does not apply the rule because the Company has its proprietary incentive program for members of the Management Board and is in the process of preparing an incentive scheme for key managers.

VI.Z.2. To link the remuneration of management board members and key managers with the Company's long-term business and financial objectives, the period between the award of options under the incentive program or other instruments linked to the stock of the company and the possibility of their exercise should be a minimum of 2 years.

The Company's comments: The Company does not apply the rule because the Company has its proprietary incentive program for members of the Management Board and is in the process of preparing an incentive scheme for key managers.

VI.Z.4. The Company, in its report on the activities, presents a report on the remuneration policy, including at least: 1) general information on the system of remuneration adopted by the Company, 2) information on the terms and amount of remuneration for each board member, broken down into fixed and variable components of remuneration, with key parameters determining the variable components of the remuneration and rules for severance payments and other payments due to termination of employment, contract work, or other legal relationship of similar nature - separately for the company and each entity within the group of companies, 3) information on non-financial remuneration components for individual members of the management board and key managers, 4) specification of significant changes, which occurred the past year in the remuneration policy, or information that there was no such change, 5) assessment of the practice of the remuneration policy in terms of implementation its objectives, including in particular long-term growth in value for shareholders and stability of the company.

The Company's comments: The Company does not publish a report on the remuneration policy in its report on Company's activities, but preparations are currently under way to make that kind of report a part of the report on activities.

## **6.2. Description of the manner of operation of the General Meeting of Shareholders, its basic rights, description of shareholder's rights and the manner of exercising them**

The Company's Annual General Meeting ("AGM") operates on the basis of provisions of the Commercial Companies Code, the Company's Statute and the Regulations of the General Meeting of Shareholders. The AGM is convened through announcements made at the Company's website and in the manner specified for publication of current information according to the regulations on the public offering and conditions for introducing financial instruments to organized trading and on public companies. Unless the provisions of the

Commercial Companies Code or the Company's Statute provide otherwise, the AGM resolutions are adopted by an absolute majority of the votes cast however resolutions concerning:

- 1) liquidation of the Company;
- 2) increasing the Company's share capital, redemption of the Company's shares and decreasing the Company's share capital;
- 3) issue of convertible bonds or other securities which grant voting rights to the holder;
- 4) granting options which give the right to acquire shares or other securities of the Company and defining the conditions of such options;
- 5) depriving the Shareholders of the right to acquire new issue shares;
- 6) sale of the enterprise or an organized part thereof;
- 7) removal or suspension of members of the Management Board or Supervisory Board;
- 8) merger of the Company with another company, division and transformation of the Company;
- 9) cancelling dematerialization of the Company's shares;
- 10) changes of the Statute

passed with a majority of 2/3 (two thirds) of votes cast, or higher majority if required by relevant regulations. The General Meeting, save for relevant provisions of the Company's statute, shall appoint members of the Supervisory Board of the Company. Apart from matters listed above, AGM resolutions must be adopted in matters specified in the Commercial Companies Code, especially in the matter of examining and approving the Management Board's report on the activities of the Company and the Group of companies as well as the financial statements of Company and the Group of companies for the previous financial year, discharging members of the Company's corporate bodies on the performance of their duties, division of profit or coverage of loss, selling or leasing the enterprise or its organized part and establishing limited right in rem, issuing convertible bonds or senior bonds, redeeming shares, establishing and liquidating reserve capital; in case of the Company's liquidation, the AGM appoints liquidators and specifies the manner of conducting the liquidation process. The Management Board submits drafts of the AGM resolutions to the Supervisory Board for its prior opinion. The shareholders may participate in the AGM and exercise their voting rights in person or represented by their proxies. The Company's Management Board members and the members of the Supervisory Board participate in the AGM. If the AGM has any financial matters in its agenda, a certified auditor should be present. Media may participate in the AGM, unless the subject matter of the meeting indicates that their presence might cause damage to the Company. A motion to approve presence of media representatives is submitted to voting by the Chairman of the AGM immediately after the attendance list is signed.

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

### **6.3. Composition and operating principles of the Company's management and supervisory bodies and their committees**

#### **6.3.1. Management Board**

As of the publication of this report, the Company's Management Board consisted of:

- Jarosław Tomaszewski – President of the Management Board;
- Marek Kacprzak – Vice-President of the Management Board;
- Paweł Nogalski - Vice-President of the Management Board;

In the last financial year, the following changes in composition of the Company's Management Board took place:

- On September 6, 2016, Mr. Nerijus Eidukevičius made a statement on resignation from the function of a member of the Management Board, Vice-President of the Management Board of the Company, with effect as at September 8, 2016;

This document is a translation.

The Polish original should be referred to in matters of interpretation.

- On December 30, 2016, Mr. Sławomir Raczyński submitted his resignation from the function of a member of the Management Board, Vice-President of the Management Board of the Company, with effect as at December 30, 2016.

The Company's Management Board operates on the basis of provisions of the Commercial Companies Code, the Company's Statute and the Regulations of the Management Board. Pursuant to the Company's Statute, the Management Board consists of no more than 10 persons, appointed and removed by the Supervisory Board, however if due to: (i) a change of Article 13.1, 13.4 of the Statute, (ii) a change of relevant law regulations, (iii) selection of the Supervisory Board in a manner defined in Article 385 § 5 and (or) 6 of the Code of Commercial Companies, the main shareholder of COMSA cannot appoint such number of members of the Supervisory Board that would constitute a majority of its members, COMSA shall be entitled to appoint and remove Management Board members in the number equivalent to 50% of all Management Board members (rounded down to a full number) and additionally one Management Board member. If the number of Supervisory Board members appointed by COMSA stops being a majority of Supervisory Board members then a resolution of the General Meeting concerning removal or suspension of a member (members) of the Management Board appointed by COMSA is undertaken with 2/3 of votes cast.

The Management Board members are appointed for a joint 3-year term of office. The Supervisory Board sets and changes remunerations and determines other terms and conditions of employment of the Management Board members. Pursuant to the Statute, the Management Board manages the Company's affairs and represents the Company in external relationships. The Management Board has the authority to decide on matters which have not been reserved for competences of the General Meeting of Shareholders or the Supervisory Board. The resolutions of the Management Board are adopted by an absolute majority of the votes of members of the Management Board present at the meeting or participating in voting. If there is no majority, the vote of the President of the Management Board shall prevail. Two Management Board members acting jointly or one Management Board member together with the authorised signatory [prokurent] are authorised to make representations and to sign documents on behalf of the Company. An attorney is authorised, pursuant to a resolution adopted by the Management Board, to take certain actions on behalf of the Company (to the extent permitted by the power of attorney).

### 6.3.2. Authorised signatories

The Company's authorised signatories included:

- Elżbieta Okuła
- Jan Sęktas

On December 6, 2016, the Management Board members recalled the authorisation granted to Marek Mazur.

The aforementioned authorized signatories submit statements on behalf of the Company acting jointly with a Management Board member pursuant to Article 20 of the Company's Statute. No new authorised signatories were appointed in the last financial year.

The authorised signatories act on the basis of provisions of the Civil Code, Commercial Companies Code, the Company's Statute and the Company's internal regulations.

### 6.3.3. Supervisory Board.

The Company's Supervisory Board consists of:

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

In the last financial year, the following changes in composition of the Company's Supervisory Board took place:

- On June 16, 2016, the Company's Annual General Meeting appointed the current Supervisory Board for a new joint term of office without Mr. Andrzej Bartos, who was replaced by Łukasz Rozdeiczek-Kryszkowski.

After the balance sheet date no changes in the composition of the Supervisory Board took place.

The Company's Supervisory Board operates on the basis of provisions of the Commercial Companies Code, the Company's Statute and the Regulations of the Supervisory Board. The Supervisory Board of the Company currently consists of seven members. The Supervisory Board consists of its Chairman, two Vice-Chairmen and other members. The term of office of the Supervisory Board is three years.

Members of the Supervisory Board are appointed and removed by the General Meeting, whereas the main shareholder, COMSA S.A. is entitled to appoint and remove four members of the Supervisory Board by way of a written statement submitted to the Company. If the number of members of the Supervisory board is higher or lower than seven due to a change of Article 13.1 of the Statute or relevant law regulations, COMSA will be entitled to appoint and remove members of the Supervisory Board in a number equal to 50% of all Supervisory Board members (rounded down to a full number) and additionally one Supervisory Board member.

One of the Supervisory Board members appointed by the General Meeting should meet the following independence conditions:

- 1) not be a member of the Management Board of the Company or a related company, or fulfil such function during the last five years;
- 2) not be an employee of the Company or a related company, or fulfil such function during the last three years;
- 3) not receive, currently or in the past, significant additional remuneration from the Company or a related company, apart from remuneration received due to fulfilling the function of a Supervisory Board member;
- 4) not be, or not represent, in any manner, a majority shareholder or any shareholder with at least 5% of votes at the General Meeting;
- 5) not have currently, or during the last year, any significant business relations with the Company or a related company, both directly or as a partner, shareholder, director or a key employee of an entity having such relations;
- 6) not be currently or during the last three years a partner or employee of a current or former external auditor of the Company or a related company;
- 7) not be a managing director or an executive director in another company, in which a member of the Company's Supervisory Board is a non-executive director or a supervisory director and not have any other significant relations with members of the Company's Management Board through activity in other companies or entities;
- 8) not fulfil a role of a member of the Supervisory Board for more than three terms of office;
- 9) not be a close family member of an executive director or managing director or persons referred to in Section 1) to 8).

The Supervisory Board, which composition does not include an independent member of the Supervisory Board, regardless of the reasons of such circumstances, has ability to undertake valid resolutions.

If COMSA S.A. does not appoint a Supervisory Board member (members) within twenty one days from the date of expiry of the mandate of a Supervisory Board member (members) appointed by COMSA S.A., such Supervisory Board member (members) should be appointed and revoked by the General Meeting until COMSA exercises its right. In case of COMSA S.A. exercising its right to select the Supervisory Board member, the mandate of a Supervisory Board member (members) appointed by the General Meeting pursuant to this provision shall expire automatically without influencing the term of office of the Supervisory Board.



The Supervisory Board, which due to the expiry of a mandate of a Supervisory Board member (members) (for reasons other than revocation) consists of less than seven but at least five members, has ability to undertake valid resolutions until the appointment of missing Supervisory Board members.

If the Supervisory Board is appointed in the manner defined in Article 385.5 or 6 of the Code of Commercial Companies, the Chairman shall be appointed by COMSA S.A. from among the candidates selected in the manner defined in Article 385.5 or 6 of the Code of Commercial Companies.

The members of the Supervisory Board are appointed for the period of a joint term of office. The Supervisory Board or its individual members appointed by the General Meeting of Shareholders may be recalled by a resolution adopted by the General Meeting of Shareholders before the lapse of the Supervisory Board's term. If a Supervisory Board member is recalled during the term of office and another person is appointed to fill that his or her position, the term of office of the newly appointed person ends upon the lapse of the entire Supervisory Board's term of office. The same also applies when the entire Supervisory Board is recalled during its term of office and a new Supervisory Board is appointed and also when new members are additionally appointed to the Supervisory Board during its term of office. The Chairman and the Vice-Chairman are appointed by the Supervisory Board from among its members.

The works of the Supervisory Board are managed by its Chairman and in the case of his/her absence by the Chairman Deputy. The members of the Supervisory Board may be reappointed for a new term of office. The members of the Supervisory Board shall be involved in the activities of the Supervisory Board personally. The Supervisory Board may also adopt its resolutions without holding meetings of the Board, in writing or with the use of means of direct communication over distance. Meetings of the Supervisory Board shall be convened at least four times per year by the Chairman, who chairs the meeting. In the absence of the Chairman, the meetings are chaired by one of the Vice-Chairmen. The Chairman convenes the meetings of the Supervisory Board also upon a written motion of the Company's Management Board or the Supervisory Board member. The Chairman selects the Secretary of the Supervisory Board. A resolution of the Supervisory Board may be adopted at a meeting if all the board members have been invited in writing (such invitations should be delivered to the Supervisory Board members at least seven days before the day on which the meeting is to take place) and at least half of the members are present at the meeting, including the Chairman and at least one Vice-Chairman. A meeting of the Supervisory Board may also be valid without being formally convened, if all the Supervisory Board members are present at the meeting and none of the members protests against such a meeting being held or against any of the matters included in the agenda. Subject to Article 388.4 of the Code of Commercial Companies, the Supervisory Board may also adopt its resolutions in writing or with the use of means of direct communication at distance. In such case, a draft resolution should be presented to all members of the Supervisory Board by its Chairman, and in case of his absence, by one of the Vice-Chairmen.

The Supervisory Board has the authority to continuously supervise the operations of the Company. The Supervisory Board's resolutions are required in matters reserved for the Supervisory Board in the Commercial Companies Code and in Article 16 and Article 16A of the Company's Statute. The Supervisory Board appoints the Company's certified auditor. Resolutions of the Supervisory Board shall be adopted by a simple majority of votes. If there is no majority, the vote of the Chairperson of the Supervisory Board shall prevail.

On July 25, 2013, the Supervisory Board of the Company set up the Audit Committee composed of Supervisory Board's members, and the Committee is currently composed as follows: Mr Wojciech Napiórkowski (President of the Audit Committee), Mr Fernando Perea Samarra (Member of the Audit Committee) and Mr Dominik Radziwiłł (Member of the Audit Committee).

Detailed rules concerning the activities of the Supervisory Board are outlined in the Rules of the Supervisory Board adopted by the General Meeting.

#### **6.4. Description of basic features of external audit and risk management systems with reference to the process of preparation of financial statements**

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

executive regulations issued on its basis. The Company does not have a separate internal audit unit, and therefore any actions related to internal audit are taken by the Company's Management Board and employees.

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

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

The consolidated financial statements are prepared based on uniform consolidation packages prepared in an electronic form by the respective Group companies. The process of data consolidation is conducted in the Stock Exchange Reporting Department of the Company under the supervision of the Vice-President of the Management Board - Finance Director.

The Supervisory Board assesses the separate and consolidated financial statements and appoints the Audit Committee being an advisory and opinion-generating body operating within the structures of the Supervisory Board. The main goal of the Audit Committee is to support the Supervisory Board in conducting financial supervision and providing the Supervisory Board with measurable information and opinions allowing to effectively make proper decisions in terms of financial reporting, internal control and risk management, and ensuring independence and objectivity of the entity authorized to audit financial statements.

Pursuant to applicable laws, Trakcja PRKiI 's financial statements are annually audited and semi-annually reviewed by an independent certified auditor. The selection of the certified auditor is made by the Company's Supervisory Board from among renowned auditing companies based on recommendations of the Audit Committee. Within the scope of audit works, the certified auditor makes an independent assessment of the reliability and correctness of separate and consolidated financial statements and confirms the effectiveness of the internal control and risk management system.

#### **6.5. Indication of the set of corporate governance rules applicable to the Issuer and the place where it is publicly available**

In 2016, Trakcja PRKiI followed the corporate governance rules provided in the Good Practices for Companies Listed on the Warsaw Stock Exchange 2016 adopted by resolution 1309/2015 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. on December 17, 2015.

The document is available at the registered office of the Warsaw Stock Exchange and at its website devoted to corporate governance issues at <http://corp-gov.gpw.pl> and also at the Company's website in the "Corporate governance" tab.

#### **6.6. Specification of shareholders holding directly or indirectly significant shareholdings**

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

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

#### **6.7. Specification of holders of any securities granting special controlling rights and description of such rights**

All shares in the Company are ordinary shares providing no special rights.

#### **6.8. Specification of any restrictions on voting rights**

Resolutions at the General Meeting are passed with an absolute majority of votes cast, whereas resolutions concerning:

- 1) liquidation of the Company;
- 2) increasing the Company's share capital, redemption of the Company's shares and decreasing the Company's share capital;
- 3) issue of convertible bonds or other securities which grant voting rights to the holder;
- 4) granting options which give the right to acquire shares or other securities of the Company and defining the conditions of such options;
- 5) depriving the Shareholders of the right to acquire new issue shares;
- 6) sale of the enterprise or an organized part thereof;
- 7) removal or suspension of members of the Management Board or Supervisory Board;
- 8) merger of the Company with another company, division and transformation of the Company;
- 9) cancelling dematerialization of the Company's shares;
- 10) changes of the Statute.

passed with a majority of 2/3 (two thirds) of votes cast, or higher majority if required by relevant regulations. Apart from the above restrictions and those following from the commonly applicable regulations, the Company's internal acts do not introduce any additional restrictions.

#### **6.9. Specification of any restrictions on the transfer of the right to securities issued by Trakcja PRKiI**

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

#### **6.10. Description of rules for appointing and recalling managers and their competences, in particular the right to make decisions on issuing or redeeming shares**

Pursuant to the Company's Statute, the Management Board is appointed and revoked by the Supervisory Board based on the resolution, however if due to: (i) a change of Article 13.1, 13.4 of the Statute, (ii) a change of relevant law regulations, (iii) selection of the Supervisory Board in a manner defined in Article 385 § 5 and (or) 6 of the Code of Commercial Companies, the main shareholder of COMSA cannot appoint such number of members of the Supervisory Board that would constitute a majority of its members, COMSA shall be entitled to appoint and remove Management Board members in the number equivalent to 50% of all Management Board members (rounded down to a full number) and additionally one Management Board member. If the number of Supervisory Board members appointed by COMSA stops being a majority of Supervisory Board members then a resolution of the General Meeting concerning removal or suspension of a member (members) of the Management Board appointed by COMSA is undertaken with 2/3 of votes cast. The Management Board members are appointed for a joint 3-year term of office. Pursuant to the Statute, the Management Board manages the Company's affairs and represents the Company in external relationships. The Management Board has the authority to decide on matters which have not been reserved for competences of the General Meeting of Shareholders or the Supervisory Board. Two Management Board members acting jointly or one Management Board member together with the authorised signatory [prokurent] are authorised to make representations and to sign on behalf of the Company. An attorney is authorised, pursuant to a resolution adopted by the Management Board, to take certain actions on behalf of the Company (to the extent permitted by the power of attorney). Rules concerning decisions about issuance or purchase of shares (increasing or decreasing the share capital) are reserved for the General Meeting, which undertakes resolutions with a majority of 2/3 of votes cast.

#### **6.11. Description of rules for changing the Statute of Trakcja PRKiI**

The rules for making changes to the Company's Statute do not differ from the rules set forth in the commonly applicable provisions of law.

#### **6.12. Information on sponsoring policy**

As a responsible member of business community, Trakcja Group has been continuously supporting cultural and social initiatives of local communities, both in Poland and abroad, where it carries out its business activities. The Group supports higher education and development of academic projects implemented by research institutions, and also activities aimed at promoting new technologies in the transport infrastructure construction activities. The Group is also engaged in projects whose promotional and image-building potential is essential for its brand. One of its subsidiaries is a key sponsor of the legendary Lithuanian basketball club Žalgiris Kaunas. In 2016, Trakcja Group's expenses on sponsoring and corporate social responsibility activities were PLN 3,895 thousand.

Warsaw, on March 21, 2017

Jarosław Tomaszewski

President of the Board

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

## MANAGEMENT BOARD'S STATEMENT

To the best of our knowledge, the consolidated financial statements of Trakcja Group for the period from January 1, 2016 to December 31, 2016 and the comparable data for the period from January 1, 2015 to December 31, 2015 have been prepared in compliance with the accounting principles in force and reflect the Group's assets and financial standing as well as its financial profit or loss in a true, reliable and clear manner. The Management Board's report on the activities of the Issuer's Group presents a true picture of the development, achievements, risks, threats and condition of Trakcja Group.

We also represent that the entity authorised to audit the financial statements which examines the annual consolidated financial statements of Trakcja Group for the 12-month period ended December 31, 2016, Deloitte Polska Sp. z o.o., was appointed in accordance with the provisions of law. The aforementioned entity as well as the statutory auditors, who conducted the audit, fulfilled the conditions for expressing an unbiased and independent opinion about the audit, as required by the applicable provisions of law and professional standards.

Jarosław Tomaszewski

President of the Board

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

*Warsaw, on 21 March 2017*

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



# TRAKCJA CAPITAL GROUP

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR  
ENDED ON DECEMBER 31, 2016

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

## APPROVAL OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENT

The Management Board of Trakcja PRKiI SA has approved the consolidated financial statements of Trakcja Capital Group for the period from January 1, 2016 to December 31, 2016.

The annual consolidated financial statements for the period from January 1, 2016 to December 31, 2016 was prepared in line with the International Financial Reporting Statements ("IFRS") approved by the European Union, applicable as at December 31, 2016. Information included herein is presented in the following sequence:

1. Consolidated income statement for the period from January 1, 2016 to December 31, 2016 presenting net profit amounting to PLN **56,332** thousand.
2. Consolidated statement of comprehensive income for the period from January 1, 2016 to December 31, 2016 presenting total comprehensive income amounting to PLN **68,035** thousand.
3. Consolidated balance sheet as at December 31, 2016 presenting the assets and liabilities in the amount of PLN **1,396,733** thousand.
4. Consolidated statement of cash flows for the period from January 1, 2016 to December 31, 2016 presenting a decrease in net cash balance by PLN **104,957** thousand.
5. Consolidated statement of changes in equity for the period from January 1, 2016 to December 31, 2016 presenting an increase in consolidated equity by PLN **49,676** thousand.
6. Additional information and explanations.

The annual consolidated financial statements were prepared in thousand Polish Zloty, except where expressly indicated otherwise.

Certain financial and operational data included in these consolidated financial statements have been rounded. Therefore, total amounts in the given column or row in certain tables presented in the statements may differ from the total amount presented for such column or row.

Jarosław Tomaszewski

President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

*Warsaw, March 21, 2017*



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**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	Note	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015
		Audited	Audited
<b>Continued operations</b>			
Sales revenues	13	1 381 173	1 329 180
Cost of goods sold	14	(1 233 007)	(1 163 047)
<b>Gross profit on sales</b>		<b>148 166</b>	<b>166 133</b>
Cost of sales, marketing and distribution	14	(6 261)	(6 156)
General and administrative costs	14	(61 170)	(71 106)
Other operating revenues	15	14 922	5 091
Other operating costs	16	(10 314)	(7 715)
Share of profit of entities consolidated using equity method	27.1	248	2 781
Goodwill impairment	24	(11 799)	(12 302)
<b>Operating profit</b>		<b>73 792</b>	<b>76 726</b>
Financial revenues	17	4 525	7 461
Financial costs	18	(10 986)	(11 503)
<b>Profit before tax</b>		<b>67 331</b>	<b>72 684</b>
Income tax	19	(10 999)	(20 926)
<b>Net profit from continued operation</b>		<b>56 332</b>	<b>51 758</b>
<b>Discontinued operations</b>			
Net profit (loss) from discontinued operations	20	-	-
<b>Net profit for the period</b>		<b>56 332</b>	<b>51 758</b>
<b>Attributable to:</b>			
Shareholders of Parent entity		54 685	50 203
Non-controlling interest		1 647	1 555
<b>Profit per share attributable to shareholders in the period (PLN per share)</b>			
Basic	21	1,06	0,98
Diluted	21	1,06	0,98

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Note	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015
		Audited	Audited
<b>Net profit for the period</b>		<b>56 332</b>	<b>51 758</b>
<b>Other comprehensive income:</b>			
<b>Other comprehensive income that will not be reclassified into profit or loss under certain conditions:</b>		<b>541</b>	<b>(106)</b>
Profit from revaluation referred into revaluation reserve		(413)	-
Actuarial gains/(losses)	37	954	(106)
<b>Other comprehensive income that will be reclassified to profit or loss:</b>		<b>11 162</b>	<b>389</b>
Foreign exchange differences on translation of foreign operations		11 926	(148)
Cash flow hedging instruments	40	(764)	537
<b>Total other comprehensive income</b>		<b>11 703</b>	<b>283</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>68 035</b>	<b>52 041</b>
<b>Attributable to:</b>			
Shareholders of Parent entity		66 520	50 342
Non-controlling interest		1 515	1 699

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**CONSOLIDATED BALANCE SHEET**

<b>Assets</b>	<b>Note</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
		Audited	Modified
<b>Non-current assets</b>		<b>721 725</b>	<b>683 214</b>
Tangible non-current assets	22	247 489	194 232
Intangible assets	25	55 291	56 603
Goodwill from consolidation	24	337 855	334 718
Investment properties	23	21 226	21 976
Investments in entities accounted using equity method	27.1	-	14 140
Investments in other units		25	25
Other financial assets	26	46 502	45 564
Deferred tax assets	19.3	10 707	9 715
Construction contracts	32	-	2 527
Prepayments	28	2 630	3 714
<b>Current assets</b>		<b>675 008</b>	<b>623 143</b>
Inventory	29	75 861	84 828
Trade and other receivables	30	399 586	246 864
Other financial assets	26	8 660	14 830
Cash and cash equivalents	31	148 799	251 435
Prepayments	28	6 019	8 961
Construction contracts	32	36 083	16 225
<b>Total assets</b>		<b>1 396 733</b>	<b>1 306 357</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of Parent entity</b>	<b>34</b>	<b>771 137</b>	<b>722 341</b>
Share capital		41 120	41 120
Share premium		309 984	309 984
Revaluation reserve		5 765	6 178
Other capital reserves		332 659	299 785
Retained earnings		54 685	50 203
Foreign exchange differences on translation of foreign operations		26 924	15 071
<b>Non-controlling interest</b>	<b>35</b>	<b>4 830</b>	<b>3 950</b>
<b>Total equity</b>		<b>775 967</b>	<b>726 291</b>
<b>Long-term liabilities</b>		<b>153 550</b>	<b>120 910</b>
Interest-bearing loans and borrowings	38	100 666	89 494
Provisions	36	27 650	9 202
Liabilities due to employee benefits	37	11 134	11 737
Provision for deferred tax	19.3	8 068	5 549
Derivative financial instruments	40	5 957	4 862
Other financial liabilities		75	66
<b>Short-term liabilities</b>		<b>467 216</b>	<b>459 156</b>
Interest-bearing loans and borrowings	38	22 003	21 625
Trade and other liabilities	41	309 988	288 100
Provisions	36	35 353	23 690
Liabilities due to employee benefits	37	11 424	10 894
Income tax liabilities		4 922	5 167
Derivative financial instruments	40	1 018	981
Other financial liabilities	39	-	148
Accruals	45	361	219
Construction contracts	32	80 432	108 223
Advances received towards flats	46	1 715	109
<b>Total equity and liabilities</b>		<b>1 396 733</b>	<b>1 306 357</b>

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## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Financial year ended	
		31.12.2016	31.12.2015
		Audited	Audited
<b>Cash flows from operating activities</b>			
Gross profit from continued operations		67 331	72 684
Gross profit (loss) from discontinued operations		-	-
Adjustments for:		(106 749)	247 092
Depreciation		23 418	22 266
FX differences		837	(722)
Net interest and dividends		5 497	6 688
Profit on investment activities		(1 445)	9 017
Share of profits of entities consolidated using equity method		(248)	(2 781)
Change in receivables		(142 446)	277 102
Change in inventory		10 185	(20 359)
Change in liabilities, excluding loans and borrowings		22 744	(100 000)
Change in prepayments and accruals		(536)	(5 289)
Change in provisions		27 799	6 501
Change in construction contracts		(46 940)	70 272
Change in financial derivatives		892	(668)
Income tax paid		(10 919)	(17 644)
Other		606	1 540
Foreign exchange differences on translation of foreign operations		3 807	1 169
<b>Net cash flows from operating activities</b>		<b>(39 418)</b>	<b>319 776</b>
<b>Cash flows from investment activities</b>			
Sale (purchase) of intangible assets and tangible non-current assets		(20 587)	(17 946)
- acquisition		(36 955)	(26 066)
- sale		16 368	8 120
Sale (acquisition) of shares and stocks		(21 272)	-
- acquisition		(21 272)	-
Financial assets		10 608	8 055
- sold or repaid		15 980	20 914
- granted or acquired		(5 372)	(12 859)
Loans		-	1 948
- granted		-	1 948
- repaid		-	-
Interest received		284	469
<b>Net cash flows from investment activities</b>		<b>(30 967)</b>	<b>(7 474)</b>
<b>Cash flows from financial activities</b>			
Repayment of bonds		-	(32 536)
Proceeds on account of taken borrowings and loans		33 146	166 212
Repayment of borrowings and loans		(33 269)	(195 939)
Dividends paid to shareholders of parent company		(17 476)	-
Dividend paid to non-controlling interests		(580)	(66)
Interest paid		(6 226)	(7 241)
Payment of liabilities under financial lease agreements		(9 842)	(10 172)
Payment of other financial liabilities		-	(38 931)
Other		(325)	50
<b>Net cash flows from financial activities</b>		<b>(34 572)</b>	<b>(118 623)</b>
<b>Total net cash flows</b>		<b>(104 957)</b>	<b>193 679</b>
Net FX differences		-	-
<b>Cash at start of period</b>		<b>251 317</b>	<b>57 638</b>
<b>Cash at end of period</b>	<b>31</b>	<b>146 360</b>	<b>251 317</b>
- with limited access		-	928

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of Parent entity										
	Share capital	Share premium	Revaluation reserve	Other reserve capitals		Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interest	Total equity	
				Hedging instruments	Actuarial gains/(losses)	Results from previous years					
<b>Audited</b>											
<b>As at 1.01.2016</b>	<b>41 120</b>	<b>309 984</b>	<b>6 178</b>	<b>(3 598)</b>	<b>(1 363)</b>	<b>304 746</b>	<b>15 071</b>	<b>50 203</b>	<b>722 341</b>	<b>3 950</b>	<b>726 291</b>
Corrections of errors	-	-	-	-	-	-	-	-	-	-	-
Changes of accounting standards	-	-	-	-	-	-	-	-	-	-	-
<b>As at 1.01.2016 After adjustments</b>	<b>41 120</b>	<b>309 984</b>	<b>6 178</b>	<b>(3 598)</b>	<b>(1 363)</b>	<b>304 746</b>	<b>15 071</b>	<b>50 203</b>	<b>722 341</b>	<b>3 950</b>	<b>726 291</b>
Net profit for the period	-	-	-	-	-	-	-	54 685	54 685	1 647	56 332
Other comprehensive income	-	-	(413)	(564)	959	-	11 853	-	11 835	(132)	11 703
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(580)	(580)
Distribution of profit	-	-	-	-	-	32 727	-	(32 727)	-	-	-
Dividend payment	-	-	-	-	-	-	-	(17 476)	(17 476)	-	(17 476)
Other	-	-	-	-	-	(248)	-	-	(248)	(55)	(303)
<b>As at 31.12.2016 Audited</b>	<b>41 120</b>	<b>309 984</b>	<b>5 765</b>	<b>(4 162)</b>	<b>(404)</b>	<b>337 225</b>	<b>26 924</b>	<b>54 685</b>	<b>771 137</b>	<b>4 830</b>	<b>775 967</b>

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Equity attributable to shareholders of Parent entity											
	Share capital	Share premium	Revaluation reserve	Other reserve capitals			Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interest	Total equity
				Hedging instruments	Actuarial gains/(losses)	Results from previous years					
<b>Modified</b>											
<b>As at 1.01.2015</b>	<b>41 120</b>	<b>309 984</b>	<b>6 790</b>	<b>(3 994)</b>	<b>(4 744)</b>	<b>257 996</b>	<b>15 221</b>	<b>49 537</b>	<b>671 910</b>	<b>2 593</b>	<b>674 503</b>
Corrections of errors	-	-	-	-	-	-	-	-	-	-	-
Changes of accounting standards	-	-	-	-	-	-	-	-	-	-	-
<b>As at 1.01.2015 After adjustments</b>	<b>41 120</b>	<b>309 984</b>	<b>6 790</b>	<b>(3 994)</b>	<b>(4 744)</b>	<b>257 996</b>	<b>15 221</b>	<b>49 537</b>	<b>671 910</b>	<b>2 593</b>	<b>674 503</b>
Net profit for the period	-	-	-	-	-	-	-	50 203	50 203	1 555	51 758
Other comprehensive income	-	-	-	396	(107)	-	(150)	-	139	144	283
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(358)	(358)
Distribution of profit	-	-	-	-	-	49 537	-	(49 537)	-	-	-
Changes in ownership shares in subsidiaries which do not lead to a loss of control	-	-	-	-	-	(102)	-	-	(102)	20	(82)
Transfer within equity	-	-	(612)	-	3 488	(2 876)	-	-	-	-	-
Other	-	-	-	-	-	191	-	-	191	(4)	187
<b>As at 31.12.2015 Audited</b>	<b>41 120</b>	<b>309 984</b>	<b>6 178</b>	<b>(3 598)</b>	<b>(1 363)</b>	<b>304 746</b>	<b>15 071</b>	<b>50 203</b>	<b>722 341</b>	<b>3 950</b>	<b>726 291</b>

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**ADDITIONAL INFORMATION AND EXPLANATIONS****1. General information**

These consolidated financial statements of the Group cover the financial year ended on December 31, 2016 and comparable data.

Trakcja Group ("Group") includes the Parent Company, Trakcja PRKił S.A. ("Trakcja PRKił", "Parent Company" or "Company") and its subsidiaries, as well as companies classified as joint ventures according to IFRS 11 (see Note 2).

Trakcja PRKił in its present form was established on November 30, 2004 as a result of taking over the control of Trakcja Polska S.A. holding company by Przedsiębiorstwo Kolejowych Robót Elektryfikacyjnych S.A. ("PKRE S.A."). The name of the Company at the time was Trakcja Polska S.A. and it was changed pursuant to the Resolution No. 2 of the Extraordinary Shareholders Meeting of November 22, 2007. The change was confirmed by an entry in the National Court Register on December 10, 2007. The earlier name of the Company was Trakcja Polska - PKRE S.A. The Company operates on the basis of Articles of Association in the form of a notarial deed on January 26, 1995 (Repertory 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 an overtaking company, with Przedsiębiorstwo Robót Komunikacyjnych-7 S.A., as an overtaken company. The merger of the companies has been settled and recognized, as of August 31, 2009, in the accountancy books of the company, to which the property of the merged companies was transferred, i.e. Trakcja Polska S.A., according to the pooling of interest method. The actual merger, according to IFRS 3, took place at the acquisition of control, i.e. on September 1, 2007.

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 on the basis of 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 name from Trakcja – Tiltra S.A. to Trakcja S.A. The above change was registered pursuant to the Resolution no. 3 of the Extraordinary Shareholders Meeting of 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 of the companies has been settled and recognized, as of December 31, 2013, in the accountancy books of the company, to which the property of the merged companies was transferred, i.e. Trakcja S.A., according to the pooling of interest method.

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 name from Trakcja S.A. to Trakcja PRKił S.A. The above change was registered on the basis of Resolution No. 4 adopted by the Extraordinary General Meeting 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 at ul. Złota 59 in Warsaw. Period of operation of the Parent company and other companies included in the Group is indefinite.

According to the articles of association, the Parent Company is engaged in specialist construction and installation services within the scope of railway and tram lines electrification. The Company specialises in the following types of activity:

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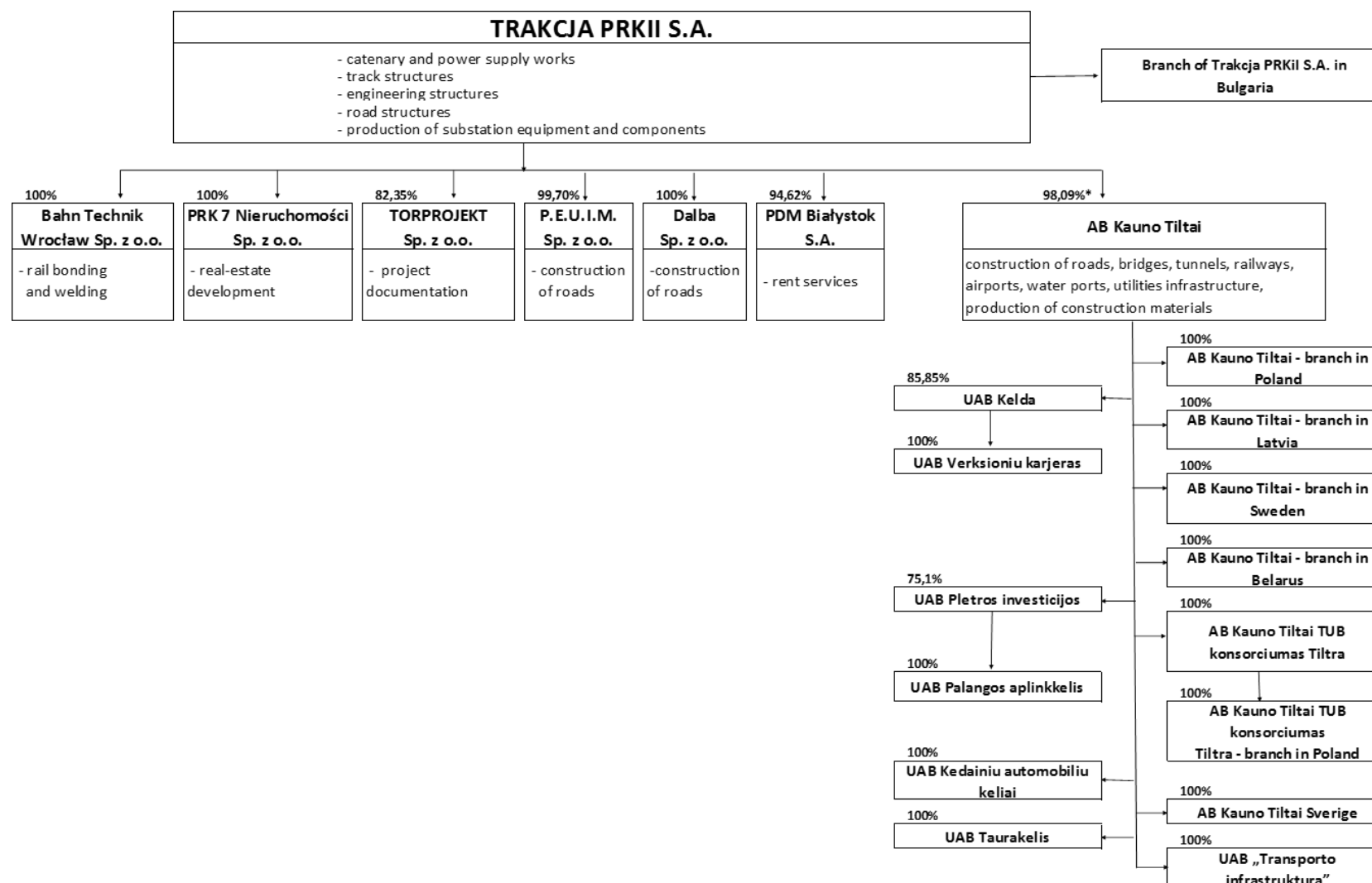
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- foundation and network works,
- installation of traction substations and section cabs,
- installation of high and low voltage overhead and cable lines,
- installation of local supply and control cables,
- manufacturing of products (high, medium and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

## 2. Group members

Trakcja PRKil is the Parent company of Trakcja Group. The Group's composition and structure as at 31 December 2016 are presented in the diagram below.



\*) Trakcja PRKII holds a total of 98.09% shares (96.84% directly and 1.25% indirectly) in the share capital of its subsidiary AB Kauno Tiltai. Indirect shares result from acquisition of own shares by the subsidiary.

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As at December 31, 2016, the Group consists of the Parent company, i.e. Trakcja PRKiI, and its subsidiaries.

Fully-consolidated entities:

*PRK 7 Nieruchomości Sp. z o.o.*

PRK 7 Nieruchomości Sp. z o.o. carries out real estate development activities and has a track record of several successful investments, which include, among others: Lazurowe Osiedle residential project in Warsaw - stage I and II, and the investment at ul. Oliwska in Warsaw, as well as the construction of three multi-family residential buildings in Warsaw at ul. Pełczyńskiego. Currently, the Company is executing an investment involving the construction of three terraced houses at ul. Oliwska in Warsaw.

*Torprojekt Sp. z o.o.*

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

*Bahn Technik Wrocław Sp. z o.o.*

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

The business activities of BTW include: the sale of Strail crossing surface offered by Gummiwerk Kraiburg Elastik GmbH, thermite welding, repair and renovation of turnouts, renovation of railway and tramway crossings, execution of pre-stressed, glued insulation joints type S, welding of tram and railway tracks, tamping and profiling of railway and tram tracks, sale of Perker SR rail lubrication systems and A.Rawie rail buffer stops. In addition, since December 2016, BTW has had the GOTTWALD crane and the DGS track stabilizer. BTW provides its services both in Poland and abroad.

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

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

*Dalba Sp. z o.o.*

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

*PDM Białystok S.A.*

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

*The AB Kauno Tiltai Group*

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

AB Kauno Tiltai with its registered office in Kaunas is a subsidiary in relation to the Parent company, Trakcja PRKiI, and at the same time the Parent company in the AB Kauno Tiltai Capital Group.

The AB Kauno Tiltai Group is composed of the following entities:

- UAB Kelda – a subsidiary with registered office in Vievis (Lithuania); the company's subsidiary is:

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- UAB Verksioniu karjeras - a subsidiary, company with its registered office in Bagoteliu K (Lithuania);
- UAB Taurakelis – a subsidiary with its registered office in Tauragė (Lithuania);
- UAB Kedainiu Automobiliu Keliai – a subsidiary with its registered office in Kėdainiai (Lithuania);
- TUB Konsorciumas Tiltra – a subsidiary with its registered office in Kaunas (Lithuania);
- UAB Pletros investicijos – a subsidiary with its registered office in Vilnius (Lithuania);
- UAB Palangos aplinkkelis - a subsidiary with its registered office in Vilnius (Lithuania) established to perform contracts in the framework of public-private partnerships;
- AB Kauno Tiltai Branch in Poland – a branch of AB Kauno Tiltai with its registered office in Białystok (Poland);
- AB Kauno Tiltai Branch in Latvia – a branch of AB Kauno Tiltai with its registered office in Rēzekne (Latvia);
- AB Kauno Tiltai Branch in Belarus – a branch of AB Kauno Tiltai with its registered office in Minsk (Belarus);
- AB Kauno Tiltai Branch in Sweden – a branch of AB Kauno Tiltai with its registered office in Norsborg (Sweden);
- AB Kauno Tiltai Sverige – a subsidiary with its registered office in Malmö (Sweden);
- UAB Transporto infrastruktūra – a subsidiary with its registered office in Vilnius (Lithuania).

The ultimate Parent company is a Spanish company, COMSA SA, which prepares consolidated financial statements that include the data of Trakcja Group.

### 3. Changes in the Group

In the period from January 1, 2016 to December 31, 2016, the structure of Trakcja Group changed as described below.

On March 29, 2016, Trakcja PRKil opened an establishment in Bulgaria (Sofia). On September 20, 2014, AB Kauno Tiltai opened its branch in Sweden. Trakcja Group finds both the Scandinavian and Balkan markets very attractive, and therefore it takes measures aimed at entering these markets and further expanding its activities on them.

After the balance sheet date, on February 9, 2017, a subsidiary named ТРАКЦІЯ УКРАЇНА (“Trakcja Ukraina” Sp. z o.o.) was established in Dnipro (Ukraine). Its majority owner is PDM Białystok S.A. On March 3, 2017, Trakcja PRKil S.A. opened its branch in Ukraine.

#### 3.1. Information on the acquisition of 50% of shares in Bahn Technik Wrocław Sp. z o.o.

On November 10, 2016, a conditional share purchase agreement was concluded between Trakcja PRKil S.A. (the purchaser) and Leonard Weiss International GmbH (the seller) which was one of the shareholders in Bahn Technik Wrocław Sp. z o.o. (“BTW”). The agreement covered the acquisition of 50% of, i.e. 4,000, shares in BTW with a nominal value of PLN 500 each share, for the total price of PLN 21,500 thousand, for all the shares purchased. The acquisition of shares was financed with a 5-year investment loan of PLN 21,500 thousand. On December 21, 2016, the issuer was granted the consent of the President of UOKiK [Competition and Consumer Protection Office], and on December 30, 2016 the ownership of the aforementioned shares was transferred to Trakcja PRKil S.A.

Trakcja PRKil had so far had 50% of shares in BTW. Under the agreement, the issuer has become the sole shareholder in the company. BTW performs rail works, including welding, regeneration of turnouts and assembly of railway tracks. BTW is well-equipped with specialised machinery for rail and track works. Having acquired full control over BTW, the Group will be able to strengthen its position on the railway construction market owing to access to the BTW’s specialised equipment. That will enhance the Group’s competitiveness and independence.

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Until December 30, 2016, BTW was classified as a joint venture in accordance with IFRS 11 and consolidated under the equity method. The Company has been fully controlling BTW since December 30, 2016.

### Payment for the acquisition of BTW (fair value)

	<b>31.12.2016</b>
	<b>Audited</b>
Cash	21 500

Other costs related to the acquisition of shares (in particular, the costs of legal services and due diligence) have been recognised in the operating expenses of the current year in the consolidated income statement.

### Analysis of assets and liabilities of BTW as at the acquisition of control

	<b>Fair value at the acquisition date</b>
<b>Non-current assets</b>	<b>29 734</b>
Tangible non-current assets	29 192
Intangible assets	24
Deferred tax assets	518
<b>Current assets</b>	<b>12 877</b>
Inventory	607
Trade and other receivables	11 888
Cash and cash equivalents	228
Prepayments	155
<b>Long-term liabilities</b>	<b>3 267</b>
Interest-bearing bank loans and borrowings	504
Provision for deferred tax	2 763
<b>Short-term liabilities</b>	<b>4 951</b>
Interest-bearing bank loans and borrowings	588
Trade and other liabilities	3 462
Provisions	657
Liabilities due to employee benefits	245
<b>Net assets</b>	<b>34 394</b>

### Goodwill recognised as a result of the acquisition of full control over BTW and revaluation of the existing shares to fair value

As at December 31, 2016, having initially accounted for the acquisition of full control over BTW, the Group recognised goodwill in the amount of PLN 8,606 thousand in its consolidated balance sheet. At the same time, the Group remeasured the already held shares to fair value, and the revaluation amount of PLN 7,112 thousand was recognised in other operating revenues in the consolidated income statement.

Goodwill was recognised as a result of the acquisition of full control over BTW:

	<b>31.12.2016</b>
	<b>Audited</b>
Transfer payment (fair value)	21 500
50% shares of BTW held by Trakcja PRKiI S.A.	21 500
Net assets fair value	(34 394)
<b>Goodwill from taking control over companies</b>	<b>8 606</b>

It was allocated to the cash generating unit that comprised Trakcja PRKiI, Torpojekt Sp. z o.o. and BTW.

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The gain from revaluation to fair value of 50% of shares already held in BTW by Trakcja PRKiI:

	<b>31.12.2016</b>
	<b>Audited</b>
Fair value of 50% shares of BTW	21 500
Book value of 50% shares of BTW (-)	(14 388)
<b>Profit/loss from shares revaluation</b>	<b>7 112</b>

### Non-controlling interest

Due to the acquisition of full control over BTW as at December 31, 2016, no changes were made in non-controlling interest.

### Net cash flows from the acquisition of control

	<b>Financial year</b>
	<b>ended</b>
	<b>31.12.2016</b>
	<b>Audited</b>
Total cash payment (-)	(21 500)
Acquisition of total cash and cash equivalents	228
<b>Net cash flows/(outflows)</b>	<b>(21 272)</b>

### The effect of the acquisition of full control over BTW on the Group's performance

In the financial year ended December 31, 2016, the Group consolidated the financial data of BTW under the equity method and recognised a 50% share in the BTW's net profit for 2016 as a separate item in the consolidated income statement (for the details see Note 27 hereof). Due to the fact that full control over BTW was acquired on December 31, 2016, i.e. at the end of the financial period, the Group did not recognise any revenues or profits as a result of the full consolidation of BTW.

If BTW was acquired on January 1, 2016, the Group's revenues from continuing operations would have been PLN 1,407,798 thousand (an increase by PLN 26,625 thousand as compared to the published financial data of the Group), and its net profit for 2016 from continuing operations would have been PLN 56 580 thousand (an increase by PLN 248 thousand as compared to the published financial data of the Group).

## 4. Composition of the Mother company Management Board

As at December 31, 2016, the Management Board of the Parent Company was composed of the following persons:

- Jarosław Tomaszewski – President of the Management Board;
- Marek Kacprzak – Vice-President of the Management Board;
- Paweł Nogalski – Vice-President of the Management Board.

In the period from January 1, 2016 to December 31, 2016, the composition of the Management Board of the Parent company was changed as described below.

On September 6, 2016, the Company was notified by Mr. Nerijus Eidukevičius of his resignation from the position of Vice-President of the Management Board of Trakcja PRKiI S.A. The resignation was submitted with effect from September 8, 2016.

On December 30, 2016, the Company was notified by Mr. Sławomir Raczyński of his resignation from the position of Vice-President of the Management Board of Trakcja PRKiI S.A. The resignation was submitted with effect from December 30, 2016.

After the balance sheet date, there were no changes in the composition of the Parent company's Management Board.

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## 5. Supervisory Board members

As for December 31, 2016, the Supervisory Board of the Parent Company was composed of the following persons:

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

As the term of office of the Supervisory Board of Trakcja PRKił S.A. expired in the reporting period from January 1, 2016 to December 31, 2016, the composition of the Supervisory Board has been changed. On June 6, 2016, exercising its powers resulting from the Articles of Association, COMSA S.A. notified that it appointed four members of the Supervisory Board. Thereafter, on June 16, 2016, the Annual General Meeting of Trakcja PRKił S.A. adopted Resolutions 24 to 26 appointing three members of the Supervisory Board. The seven members of the Supervisory Board have been appointed for a new joint three-year term of office that commenced as at date of the Annual General Meeting. Six out of the aforementioned members of the new Supervisory Board had already been members of the Supervisory Board of Trakcja PRKił S.A. It is only Mr. Łukasz Rozdeiczner-Kryszkowski who was appointed as a member of the Supervisory Board for the first time by a resolution adopted by the Annual General Meeting of Trakcja PRKił S.A. on June 16, 2016.

After the balance sheet date, there were no changes in the composition of the Parent company's Supervisory Board.

## 6. Approval for publication of the annual consolidated financial statement

These annual consolidated financial statements have been approved for publication by the Management Board of the Parent company on March 21, 2017.

## 7. Significant values based on professional judgement, estimates and assumptions

In the process of applying the accounting principles (policy), such factors are important as the accounting estimates, assumptions and professional judgement of the entity's management. The assumptions and estimates made are based on the past experience and factors considered reasonable, and their results are a basis for the professional judgement on the carrying amounts of the relevant assets and liabilities. The estimates and assumption related thereto are verified as at the balance sheet date. Despite the fact that the estimates are based on the best information regarding the current conditions and operations performed by the Group, the actual performance may differ from the estimates.

If a transaction is not regulated by any standard or interpretation, the Management Board uses its considerable judgement in developing and applying an accounting policy that results in information provided in the financial statements that is relevant and faithful and in the financial statements that:

- represent truly, clearly and fairly the Group's assets and financial position, as well as its financial performance and cash flows,
- reflect the economic substance of transactions,
- are neutral,
- are prudent, and
- complete in all material respects.

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

### **7.1. Professional judgement**

#### *Fair value of financial instruments*

Fair values of the financial instruments for which active market does not exist, are estimated by means of appropriate estimation methods. When selecting the methods and assumptions, the Group follows the professional judgement. The assumptions made are presented in Note 48 of the Notes. In 2016, the Group did not change the valuation method for financial instruments measured at the fair value. The carrying amounts of financial assets and liabilities are close to their fair values.

#### *Classification of leases*

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

#### *Investment property*

The Group classifies a property as a tangible fixed asset or an investment property depending on its intended use by the Group.

#### *Allocation of goodwill to cash generating units*

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

#### *Control over the related parties*

The Parent company exercises control over the related parties, if it is exposed or has rights to variable returns from its involvement, and when it is in a position to use its powers over the entity to exert an effect on such returns. The Parent company's Management Board states that it exercises control over individual entities based on the following:

Trakcja PRKiI is the sole shareholder in PRK 7 Nieruchomości Sp. z o.o. and has control over the subsidiary. Trakcja PRKiI became the shareholder in PRK 7 Nieruchomości owing to the merger between Trakcja and PRK 7 S.A. which in turn owned PRK 7 Nieruchomości Sp. z o.o.

Trakcja PRKiI is the sole shareholder in Bahn Technik Wrocław Sp. z o.o. and has full control over the subsidiary. On December 30, 2016, Trakcja PRKiI S.A. acquired the remaining 50% of shares in BTW and therefore became its owner.

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

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

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

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

Trakcja PRKiI holds 98.09% of shares in AB Kauno Tiltai and has control over the subsidiary. Trakcja PRKiI S.A. has become the owner of AB Kauno Tiltai through the acquisition of its shares. AB Kauno Tiltai is the Parent company of the AB Kauno Tiltai Group. The Group's composition and shareholdings are presented in Note 2 of the Notes which describes the Group's composition and structure.

From December 30, 2016 onwards Trakcja PRKiI is the sole shareholder in Bahn Technik Wrocław Sp. z o.o. and has full control over the subsidiary. Trakcja PRKiI has become the owner of BTW through the acquisition of its shares. For the details, see Note No. 3.1 hereof.

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### *Classification of joint contractual arrangements*

The Group verifies whether it exercises joint control and determines the type of joint venture in which it is involved by considering its rights and obligations under a given arrangement and the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangement and other facts and circumstances. Until the acquisition of control over BTW, i.e. December 30, 2016, the Group classified the shares held in Bahn Technik Wrocław Sp. z o.o. as a joint venture in accordance with IFRS 11.

## **7.2. Assumption and estimation uncertainty**

### *Revenue recognition*

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

### *Provisions for correcting works*

Provisions for additional works have been 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. A provision for additional works depends on the segment in which the companies operate and is based on the Group's historical data. It is subject to individual review and may be increased or decreased when necessary. Any change in the estimates affects the value thereof. The carrying amount of provisions for additional works as at December 31, 2016 is specified in Note 36 of the Additional Information and Explanations.

### *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 provisions for contractual penalties as at December 31, 2016 is specified in Note 36 and 32 of the Additional Information and Explanations.

### *Measurement of employee benefit liabilities*

Employee benefit liabilities in respect of severance and pension payments and jubilee prizes have been estimated using actuarial methods. They depend on many factors that are applied as assumptions of the actuarial method. The key assumptions include the discount rate and the average expected pay increase. The assumptions made and the carrying amount of the employee benefit liabilities as of December 31, 2016 are presented in Note 37 of the Additional Information and Explanations.

### *Component of deferred tax assets*

The Group recognizes a component of assets by virtue of deferred tax based on the assumption that tax profit shall be attained in the future allowing its utilisation. Deterioration of the obtained tax results in the future could cause that such assumption would be unjustified. The Parent company's Management Board verifies the estimated recoverability of deferred tax assets on the basis of changes in the factors taken into account, new information and past experiences. The likelihood that deferred tax assets will be utilised against future taxable profits is assumed in the Group's forecast. The Group's companies recognise deferred tax assets up to the amount corresponding to the likely amount of future taxable profit that will allow for negative temporary differences to be deducted. The Group's companies, which generated losses in the past and whose financial forecast does not project future taxable profits that would allow for negative temporary differences to be deducted, do not recognise any deferred tax assets in their books. The carrying amount of deferred tax assets as at December 31, 2016 is specified in Note 19.3 of the Additional Information and Explanations.

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#### *Depreciation rates*

The amount of depreciation rates is set based on the expected period of economical usability of material components of fixed assets and intangible property. The Group every year performs verification of the adopted periods of economical usability based on current estimations.

#### *Investment property*

Investment property is measured at their fair value. The value of investment property was determined by independent appraisers that 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 the provisions of the Real Estate Management Act and 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 is measured applying valuation techniques that require a maximum use of observable data. The details on the carrying amount of investment property as at December 31, 2016 is provided in Note 23 of the Additional Information and Explanations.

#### *Goodwill impairment*

Pursuant to IAS 36, cash-generating units to which goodwill has been allocated are tested for impairment annually by the Parent company's Management Board. The tests performed consist in the estimation of the value in use of cash generating units ("CGU") on the basis of future cash flows generated by them, which are next adjusted to their present value with a use of a discount rate. As at December 31, 2016, goodwill was tested for impairment by the Group. The assumptions of and key information on the tests performed are presented in Note 24 of the Additional Information and Explanations. As a result of the tests performed, as at December 31, 2016 an impairment loss on goodwill, which was allocated to the cash generating unit that consisted of PEUiM Sp. z o.o., Dalba Sp. z o.o. and PDM Białystok S.A., was recognised in the amount of PLN 11,799 thousand. The details on the impairment loss are presented in Note 24 of the Additional Information and Explanations.

#### *Write-downs of inventories*

The Management Board assesses whether there are any indications that inventories may need to be written down in accordance with Note 9.12. For that purpose, the Group estimates net realisable value of those inventories that lost their functional properties or are no longer useful. The details are presented in Note 29 of the Additional Information and Explanations.

#### *Impairment of trade receivables and other receivables*

The Management Board assesses whether there are any indications that trade receivables and other receivables may need to be impaired. The value of receivables is verified, taking into account the degree of probability of their payment, by way of recognising an impairment loss. Impairment losses depend on the likelihood of collection and detailed analysis of key components of receivables. Depending on the type of customer and the source of receivables, the recoverability of receivables is assessed either on the basis of the individual analysis of individual receivables or on the basis of statistical recoverability ratios estimated for collective receivables grouped by age. The recoverability ratios are calculated based on the past recoverability and customer behaviour, including also other factors which in the opinion of the Management Board may affect the recoverability of the current accounts receivable. The details are presented in Note 30 of the Additional Information and Explanations.

#### *Fair value and its measurement*

Some assets and liabilities of the Group are measured at their fair value for the purposes of financial reporting. The Group measures fair value of assets or liabilities based on the market data observable to the extent possible.

Information regarding measurement techniques and input data used for measuring fair value of individual assets and liabilities is disclosed in Note 23, 40 and 47 of the Additional Information and Explanations.

### **8. Basis for preparing the annual consolidated financial statement**

The annual consolidated financial statements have been prepared according to the historical cost principle, except for the financial derivatives and investment property, which are measured at fair value.

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The annual consolidated financial statement is presented in złoty (PLN, zł), and all values, if not identified otherwise, are given in thousand złoty.

Some financial data, included herein, have been rounded. Therefore, total amounts in the given column or row in certain tables presented in the statements may differ from the total amount presented for such column or row.

These annual consolidated financial statements have been prepared on the basis of the assumption that the Company will remain a going concern in the foreseeable future. At the day of approving these consolidated financial statements, there are no circumstances threatening the ongoing operations of the Group.

In addition, for the purposes of financial reporting, measurements at fair value are classified according to three levels, depending on the degree up to which the input data for the measurement of fair value is observable and on the importance of input data for the measurement of fair value in its entirety. The levels are as follows:

- Level 1: input data is quoted prices (unadjusted) in active markets for identical assets or liabilities, to which the entity has access at the measurement date.
- Level 2: input data is any data other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: input data is data for the asset or liability that are not based on observable market data.

### **8.1. Declaration of conformity**

The annual consolidated financial statements for the period from January 1, 2016 to December 31, 2016 were prepared in line with the International Financial Reporting Statements ("IFRS") approved by the European Union, applicable as at December 31, 2016.

The standards that did not come into force on December 31, 2016 and were not approved by the European Union at the day of preparing this consolidated financial statement are presented in Note 10.

The IFRS include standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee ("IFRIC").

#### *Currency of measure and currency of financial statements*

The currency of measure of the Parent company and some companies of the Group located in Poland and the reporting currency in these annual consolidated financial statements is Polish zloty. The currencies of measure of the Group's companies that operate abroad are as follows:

- companies with their registered offices in Lithuania – euro (EUR);
- AB Kauno Tiltai Sverige and AB Kauno Tiltai Branch in Sweden with their registered offices in Sweden – Swedish crown (SEK);
- AB Kauno Tiltai Branch in Belarus – Belarusian rouble (BYR);
- Trakcja PRKiI Branch in Bulgaria – Bulgarian lev (BYN).

## **9. Significant accountancy principles**

### **9.1. Consolidation principles**

The consolidated financial statements include the financial statements of Trakcja PRKiI and the financial statements its subsidiaries prepared each time as at December 31.

The subsidiaries are subject to consolidation within the period from the day of taking over the control by the Group and stops being consolidated at the moment the control terminates. In case of loss of the control over the affiliated company, the consolidated financial statement takes into consideration the results from this part of the year covered by the statement, in which the Group had the aforementioned control.

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The financial statements of the affiliated companies are prepared for the same reporting period as the statement of the Parent company, using coherent accountancy principles applied to economic transactions and events of similar character.

All entities within the Group, except for Bahn Technik Wrocław Sp. z o.o., Torprojekt Sp. z o.o., Dalba Sp. z o.o. and PDM Białystok S.A. keep their accounting books according to the International Accounting Standards. Bahn Technik Wrocław Sp. z o.o., Torprojekt Sp. z o.o., Dalba Sp. z o.o. and PDM Białystok S.A. keep their accounting books according to the accounting principles set forth in the Accounting Law of September 29, 1994 ("Law") as amended and in the regulations issued on its base ("Polish Accounting Standards", "PAS"). Their financial data is converted for the purposes of the Group.

All balances and transactions between entities of the Group, including not realized profits resulting from transactions within the Group, have been completely eliminated. Not realised losses are eliminated, unless they prove the impairment.

Shares that do not have the control right, represent this part of the financial result and net assets, that does not belong to the Group Shares that do not have the control right, are presented in separate item in the consolidated income statement, in the consolidated statement of comprehensive income and in the equity of the consolidated balance sheet separately from the equity of the shareholders of the Parent company. In case of acquiring shares that do not have the vote right, difference between the purchase price and the balance sheet value of the acquired share in net assets is posted in equities.

## 9.2. Conversion of item in foreign currency

The currency in force of the Mother company is Polish Zloty.

Transactions expressed in foreign currencies are converted by the companies composing the Group into their currency in force using the exchange rate applicable at the transaction day.

As at the balance sheet date, the cash assets and liabilities expressed in foreign currencies are converted to Polish zloty using respectively the average exchange rate applicable at the end of the reporting period for the given currency, announced by the National Bank of Poland. The exchange rate differences caused by the conversion are properly posted in the financial incomes (costs) item.

Non-cash assets and liabilities recognised at cost expressed in foreign currency are disclosed at cost as at the transaction date. Non-cash assets and liabilities recognised at fair value expressed in foreign currency are converted into Polish zlotys at the exchange rate as at the measurement at fair value.

The following exchange rates are adopted for the needs of the balance sheet appraisal:

<b>Exchange rate on the reporting date:</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
PLN/USD	4,1793	3,9011
PLN/EUR	4,4240	4,2615
PLN/SEK	0,4619	0,4646
PLN/BYN*	2,1589	0,0002
PLN/BGN	2,2619	-
<b>The average exchange rate, calculated as the arithmetic average of the rates prevailing on the last day of each month during the period:</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
PLN/USD	3,9680	3,7928
PLN/EUR	4,3757	4,1848
PLN/SEK	0,4624	0,4491
PLN/BYN*	2,1428	0,0002
PLN/BGN	2,2387	-

\* On July 1, 2016, the Belarusian rouble was redenominated 1:10000, so 1 new Belarusian rouble used to be 10,000 old Belarusian roubles.

At the balance sheet day, financial statements of foreign entities are converted to Polish currency in the following manner:

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- appropriate balance sheet items at the average exchange rate set by the National Bank of Poland (Narodowy Bank Polski) at the balance sheet date; apart from equity items which are converted into Polish currency at the historic exchange rate from the date of taking control over the foreign entity;
- appropriate items of income statement and total income report at the exchange rate representing the arithmetical mean of average monthly exchange rates set by the National Bank of Poland (Narodowy Bank Polski) for the period covered by the financial statements;
- appropriate items of the statement of cash flows (investment and financial activities) at the exchange rate representing the arithmetical mean of average monthly exchange rates set by the National Bank of Poland (Narodowy Bank Polski) for the period covered by the financial statements; Exchange rate differences arising from such conversions are recognised as foreign exchange differences from conversion of foreign units in the statement of cash flows.

Exchange rate differences arising from such conversions are recognised directly as a separate item of the equity, i.e. as foreign exchange differences from conversion of foreign units.

At the moment of selling a foreign entity, the accumulated exchange rate differences posted in the equity, related to the foreign entity, are transferred from the equity to the income statement (as an adjustment resulted from the re-classification) at the moment of posting profit or loss on selling the entity.

### 9.3. Tangible fixed assets

#### 9.3.1. Fixed assets

Fixed assets are appraised according to the value of purchase or cost of producing reduced by write offs and any write downs by virtue of value loss. The initial value of fixed assets cover their purchase value increased by all costs directly related to purchase and adaptation of the property component for use. The cost consists of costs of replacement of spare parts in machines and devices at the moment they are incurred, if the recognition criteria are met. Costs incurred after the date the fixed asset is transferred for utilization, such as maintenance and repair costs, burden the income statement at the moment they are incurred.

The carrying amount of the fixed asset includes costs of modernisation, but the costs of regular, significant overhauls which are necessary to prevent failures and whose value significantly differs in individual reporting periods is recognised as prepayments. Possible remaining balance sheet value of costs of previous overhaul is removed from the balance sheet value of the fixed asset.

Fixed assets (excluding own lands that do not serve for output of useful minerals using open pit methods) are amortized using the linear method within the period of expected economic life. The fixed assets, which are the objects of the financial lease agreements, are depreciated according to the method determine by the Company for its own fixed assets. However, if the transfer of the ownership title to the subject of the agreement is not certain, the fixed assets under the financial lease agreements are depreciated during the shorter of the two periods: their expected useful life or the lease term.

The fixed assets which are not handed over directly for use, but requiring previous assembling, adaptation, other additional works or efforts, are included in the fixed assets in progress until their transfer for use.

Fixed assets not used, withdrawn from use, identified for liquidation or sale are assessed at value no higher than their sales price net that can be obtained.

Fixed assets are depreciated according to the linear method. The applied amortization rates correspond to the period of economic life of fixed assets.

Periods of economic life of fixed assets accepted in the Group are as follows:

- hardware	3 years or a contractual term,
- tools and instrumentation	5 years,
- ground containers	22 years,
- boilers and furnaces	from 14 to 25 years,
- metalwork machinery	from 5 to 14 years,

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- gas compressors	from 10 to 20 years,
- power generation devices	13 years,
- heavy-duty building machinery	from 5 to 30 years,
- small equipment and machines	10 years,
- technological wagons	from 14 to 25 years,
- storage, workshop and utility wagons	from 14 to 20 years,
- storage and utility containers	from 5 to 25 years,
- passenger vehicles and delivery vehicles (up to 3.5 t)	from 5 to 7 years,
- trucks (above 3.5 t)	from 5 to 10 years,
- office and social facilities	from 10 to 26 years.

The final value, lifetime and the method of amortization of the assets components are verified every year and if necessary - corrected if the correction falls at the beginning of the following fiscal year.

A given item of material fixed assets may be removed from the balance sheet after its sale or in case when no economical profits resulting from further use of such assets component are expected. All profits or losses resulting from removing such assets component from the balance sheet (calculated as the difference between possible incomes on sales net and the balance sheet value of the given item) are included in the income statement in the period when such removal took place.

### 9.3.2. Fixed assets in progress

Fixed assets in progress are assessed in the amount of total costs which are in the direct relation with their purchase or production. Such costs include financial costs net related to operation and securing the liabilities financing the fixed assets in progress incurred (paid and treated) since the day of their transfer for use.

Fixed assets in progress waived, destined for liquidation or sale are assessed at value no higher than their sales price net that can be obtained.

Fixed assets in progress are not subject to amortization until completion of the construction and transfer of the fixed asset for use.

Each time, during performing a repair, cost of the repair is included in the balance value of material fixed assets, if the posting criteria are met.

### 9.3.3. Right of perpetual usufruct of land

The Group has the right of perpetual usufruct of land. The Group classifies the right of perpetual usufruct of land according to the method of its acquisition:

- the right of perpetual usufruct of land obtained free of charge based on an administrative decision – recognised as operating lease in the off-balance sheet.
- the right of perpetual usufruct of land acquired against consideration or through the acquisition of subsidiaries – recognised in tangible fixed assets as land at the acquisition price less any depreciation. Depreciation charges are disclosed in the income statement as general costs and administrative costs.

The right of perpetual usufruct of land is depreciated over the period for which it has been granted. This period is 99 years.

### 9.3.4. Leasing

The financial lease agreements, which transfer all the risk and all benefits resulting from possessing the leased item to the Group, are included in the balance at the date the leasing starts according to the lesser of the below two values: the fair value of the asset subject to the lease or the present value of the minimum lease charges. The leasing fees are divided to financial costs and reduction of the balance of liability by virtue of the lease in a way

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that enables obtaining fixed interest rate on the remaining part of the liability. Financial expenses are charged directly to the income statement.

The fixed assets, which are the objects of the financial lease agreements, are depreciated according to the method determine for own fixed assets. However, if the transfer of the ownership title to the subject of the agreement is not certain, the fixed assets under the financial lease agreements are depreciated during the shorter of the two periods: their expected useful life or the lease term.

The lease agreements, according to which the lessor maintains basically all the risk and all benefits resulting from possessing the leased object, are included among the operating lease agreement. The lease fees by virtue of the operating lease and further lease instalments are included as costs in the income statement using the linear method within the period the lease is in force.

#### **9.3.5. Assets held for sale**

The group includes the components of material fixed assets and investment real estates if their balance-sheet value is recovered principally through a sale transaction rather than through continuing use. The Group measures non-current assets classified as intended for sale at the lower amount than its balance-sheet value and fair value less costs necessary to complete sale, and depreciation of such assets has been stopped. Assets as intended for sale are assets available for immediate sale in its present state under conditions which normally apply to the sale of such assets, the sale is highly probable and the management is committed to actively seek a buyer.

Assets classified as held for sale are presented as a separate item in the balance sheet.

#### **9.4. Investment property**

The Group's investment property consists of investments in buildings and land held to earn rentals or for capital appreciation. Investment property purchased in a separate transaction is initially measured at cost, including transaction costs. In any other cases, for example, the acquisition as a result of a takeover transaction of other business entity, such assets are initially recognised at their fair value.

Subsequently to the initial recognition, all the investment property is measured at fair value.

The Group estimates investment property as at December 31 based on the valuation made at that date by an independent appraiser. Throughout the year, as at the consecutive balance sheet dates, i.e. March 31, June 30 and September 30, the Group assesses whether there are any indications that the fair value may need to be changed.

The fair value may be determined through:

- its revaluation on the basis of an appraisal prepared by an independent appraiser with recognition and suitable professional qualifications and also experience in evaluating properties with the location and characteristics similar to those of the property appraised;
- the analysis of data derived from an active market and current market prices for similar investment property with similar location and in a comparable condition.

Assets are recognised and derecognised as investment property only if it is clear that their intended use is changed.

Any changes to the fair value of investment property over the financial year are recognised in the income statement. If the Group's asset is allocated from fixed assets to investment property, any difference between its fair value and its carrying amount shall be recognised in the revaluation reserve and any further changes thereto in the income statement.

If an entity determines that the fair value of an investment property under construction which has so far been measured at cost is reliably determinable, it measures that investment property under construction at its fair value. At the completion of the investment property that has been measured at its fair value, any difference between its fair value at the completion date and its earlier carrying amount shall be recognised in the income statement.

### 9.5. Loss of non-financial assets value

At each balance sheet date, the Group evaluates whether there are any premises indicating that loss of value of any of the assets components could take place. If so, or in case it is necessary to perform annual inspection testing if loss of value took place, the Group performs evaluation of the recoverable value of the given assets component.

The recoverable value of assets component corresponds to fair value of such assets component or centre generating cash, reduced by costs of sale or use value, depending on whichever is higher. Such value is set for individual assets, unless the given assets component does not generate alone cash incomes, which mostly are independent from those generated by other assets of groups of assets. If the balance sheet value of assets component is higher than the recoverable value, loss of value occurs and write down to the set recoverable value is performed. When estimating the use value, expected cash flows are discounted to their current value using the discount rate before taking into consideration of the taxation effects, that reflects current, market estimation of money value in time and the risk typical for the given asset type. Impairment losses on assets used in the ongoing business activities are recognised in other operating costs.

At each balance sheet date, the Group evaluates whether there are any premises showing that the write off by virtue of loss of value, which was included in the previous periods in relation to the given assets component is needless or should be reduced. If the premises exist, the Group evaluates the recoverable value of such assets component. The previously posted write down by virtue of value loss is inverted when and only when, if since the time of the last write down, a change of estimated values took place, which were used to set the recoverable value of the given asset component. In such a case, balance sheet value of the assets component is increased to the value of its recoverable value. The increased value cannot exceed the balance sheet value of the assets component that would be set (after deducting the depreciation), if within the previous years, the write off by virtue of value loss in relation to the assets component was not posted at all. The inversion of the write down by virtue of value loss of the assets component is immediately included as income in the income statement unless the given assets component is shown in the overestimated value, in which case inversion of the write down by virtue of value loss is treated as increase of revaluation capital. Having inverted the write down, within the following periods, the amortization expense related to the given component is corrected in a way that allows within the remaining use period to systematically write off its verified balance sheet value reduced by the final value.

### 9.6. Costs of external financing

Costs of external financing related to the acquisition, construction or production of the adapted components of assets, are capitalized by the Group within the scope of cost of this assets component according to IAS 23. All remaining external financing costs are posted in the income statement at the moment of transfer.

### 9.7. Intangible assets

Intangible assets acquired within the scope of separate transaction are included in the balance sheet according to the purchase price. Intangible assets acquired within the scope of taking over an economic entity, are included in the balance sheet according to the fair value at the day of the takeover. After initial posting, intangible assets are shown at the purchase price or cost of production reduced by write offs and write downs by virtue of value loss.

Outlays paid for intangible assets produced within own scope, except the activated outlays paid in aid of development works, are not activated and posted in the costs of the period they were paid.

Intangible assets of limited lifetime are amortized within the use time and subjected to tests related to value loss whenever there are premises indicating such value loss. Period and method of amortization of intangible assets of limited lifetime are verified at least at the end of each fiscal year. Changes in the expected period of use or expected method of consuming economic benefits resulting from the given assets component are included by means of change of either the period or method of amortization and treated as changes of estimated values. The amortization expense of intangible assets components of limited lifetime is included in the income statement in the category that corresponds to the function of the given component of intangible asset.

Intangible assets of limited lifetime and those which are not used are being annually verified for possible value loss in relation to individual assets or at the level of the centre generating capital.

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**9.7.1. Cost of research and development works**

The costs of research works are included in the income statement at the moment they are paid. Outlays paid for the development works performed within the scope of the given company are transferred to the following period, if it is expected that they can be recovered in the future. After initial posting of outlays for development works, the model of historical costs is applied, which requires that assets components are posted according to the purchase prices reduced by the cumulated amortization and cumulated write downs by virtue of value loss. Any outlays transferred to the following period are amortized within the expected period of receiving profits on sale from the given company.

Costs of development works are each year subjected to evaluation from the point of view of possible value loss if an asset component has not yet been put into use or more frequently, if during the reporting period, there shall be a premise of value loss indicating that their balance sheet value would not be recovered.

At each balance sheet date, costs of development work in progress are presented among intangible assets as separated item "Intangible assets in progress".

Summary of principles applied in relation to the intangible assets of the Group, is as follows:

	Patents and licences	Cost of development works	Computer software
<b>Lifetime</b>	In case of patents and licences used based on agreements for definite period of time, such time is adopted considering additional period for which the use can be extended.	3 years	2 years
<b>Applied amortization method</b>	Linear method	Linear method	Linear method
<b>Internally produced or acquired</b>	Acquired	Internally produced	Acquired
<b>Verification as regards value loss</b>	Annual assessment whether premises on value loss exist	Annual assessment whether premises on value loss exist	Annual assessment whether premises on value loss exist

Profits of losses resulting from removing the intangible assets from the balance sheet are assessed according to the difference between incomes on sales net and the balance sheet value of the given asset component and are posted in the income statement at the moment they are removed from the balance sheet.

**9.7.2. Goodwill**

The goodwill by virtue of taking over an economic entity is initially posted according to the purchase price representing the surplus of costs of merging economic units over the share of the entity taking over in fair value net of possible to be identified assets, liabilities and conditional liabilities. After the initial posting, goodwill is disclosed according to the purchase price reduced by any cumulated write downs by virtue of value loss. Tests for value loss are carried out once per year or more frequently, if any premises exist. The goodwill is not subject to amortization.

At the day of taking over, the goodwill is allocated to each of the centre generating cash that could make use of the merge synergy. Each of the centres or set of centres which are assigned with the goodwill should:

- correspond to the lowest level in the Group where the goodwill is monitored for the external management needs and
- be no higher than one segment of business activity according to the definition of Group segments specified based on IFRS 8 Operational segments before aggregation.

Loss of value is set by estimating the recoverable value of the centre generating cash, to which the given goodwill was allocated. In case when recoverable value of the centre generating cash is lower than the balance sheet value, depreciation by virtue of loss of value is posted. Such a loss is not reversible in the following reporting standards. In case when the goodwill represents a part of the centre generating cash and part of the company shall be sold within the scope of this centre, while establishing profits or losses on sale of such business, the goodwill related to the sold business shall be included to its balance sheet value. In such circumstances, the sold goodwill is established based on relative value of sold business and the value of retained part of the cash generating centre.

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## 9.8. Financial instruments

The financial assets can be divided to the following categories:

- financial assets kept until maturity,
- financial assets assessed according to the fair value by the financial result,
- granted loans and own receivables,
- financial assets available for sale.

The financial liabilities are divided to:

- financial liabilities assessed according to the fair value by the financial result,
- financial liabilities assessed at amortized cost.

The financial assets kept to the maturity are investments of specified or possible to be specified payments and determined maturities, which the Group intends to sell and is able to keep them until that time, except for loans and own receivables of the Group. The financial assets kept to maturity are assessed according to the amortized costs using the effective interest rate. The financial assets kept to maturity are qualified as fixed assets if their maturities exceed 12 months since the balance sheet date.

The financial assets purchased in order to generate profit thanks to short-term variations of price, are classified as financial assets assessed in fair value by the financial result. The financial assets assessed in fair value by the financial result are assessed in fair value considering their market value at the balance sheet date. Changes in the fair value of these financial assets are taken into account in incomes or financial costs, except the change of value of currency contract with fixed date. The financial assets assessed in the fair value by the financial result are accounted for current assets if the Management Board intends to realize them within 12 months since the balance sheet date.

Loans and own receivables are financial assets not accounted for derivative instruments, of fixed or possible to be fixed payments, not quoted at the active market. The granted loans are included according to the amortized cost. They are included to current assets unless their maturity does not exceed 12 months since the balance sheet date. Loans and own receivables with maturity exceeding 12 months from the balance sheet date are disclosed as fixed assets.

The remaining financial assets are the financial assets available for sale. The financial assets available for sale are posted according to the fair value without deducting transaction costs, considering market value at the balance sheet date. In case of absence of the exchange quotation at the active market and if it is not possible to reliably specify their fair value using alternative methods, the financial assets available for sale are assessed at the purchase price corrected by the depreciation by virtue of value loss, if they were assessed in historical values.

Positive and negative difference between the fair value and the purchase value, after reducing by the deferred tax, of assets available for sale, if the market price exists that is set at the controlled active market or of which the fair value can be set in other reliable manner, relates to the reserve capital from the revaluation. Drop of value of assets available for sale caused by loss of value is posted at the income statement as the financial cost.

The derivative instruments, which are not specified as security instruments, are classified as financial assets or liabilities assessed according to fair value by the financial result and shown in fair value with the assessment effect posted in the income statement.

The Group concludes contracts with investors, subcontractors and suppliers in foreign currencies which terms meet the criteria of built-in derivative instruments. Due to the fact that the concluded contracts which are not the financial instruments are expressed in currencies in which contracts for supply of specified goods or services are commonly concluded at the national market, the Group does not perform assessment of the built-in financial instruments separately from the main contract.

Component of the financial assets is given in the balance sheet when the Group becomes a party to the contract, from which the assets component result.

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The financial assets component is removed from the balance, when the Group loses control over contractual rights composing the given financial instrument. This is in case of sale of the instrument or when all cash flows attributed to the given instruments pass to an independent third party.

Purchase or sale of the financial assets is recognized at the moment of performing the transaction. At the moment of the initial posting, they are assessed at the purchase price, i.e. fair value including the transaction costs.

#### **Loss of financial assets value**

At each balance sheet date, the Group evaluates whether impartial premises of value loss by the financial asset component of financial assets group exist. If any of the premises exist, the Group shall test financial assets for impairment. Negative test results are recognised in the income statement for a given period.

#### **Financial liabilities**

The financial liabilities are assessed at the moment of their positing in the books at fair value. During the initial assessment, costs of transactions are included, except for financial liabilities accounted for the category assessed at fair value by the financial result. The transaction costs of sale of the financial liabilities component are not taken into account during further assessment of such liabilities. Component of the financial liabilities is given in the balance sheet when the Group becomes a party to the contract, from which the financial liability results.

#### **Financial liabilities at fair value through profit or loss**

This category includes two groups of liabilities: financial liabilities destined for turnover and financial liabilities determined at the moment of their initial posting as assessed at fair value by the financial result. The financial liabilities destined for turnover are liabilities which were incurred mostly for sale or repurchase within close time frame or represent the part of portfolio of specified financial instruments which are managed in common and for which it can be confirmed that they generate short-term profits or which represent the derivative instruments.

Within the Group, the financial liabilities assessed at fair value by the financial result include derivative instruments of negative fair value. Liabilities accounted for the financial liabilities assessed at the fair value, are assessed at each reporting date at fair value and all profits or losses are posted to incomes on operational business. Assessment of the derivative instruments at fair value is performed at the balance sheet date and at each end of the reporting period based on the assessments performed by the banks realizing the transactions. Fair value of the debenture instruments is represented by future cash flows discounted by the current market interest rate proper for similar instruments.

#### **Financial liabilities assessed at amortized cost.**

Remaining financial liabilities, not included in the financial liabilities assessed at fair value by the financial result, are accounted for the financial liabilities assessed at amortized cost. In this category, the Group includes mainly trade liabilities, credits and loans incurred, liabilities arising from lease, factoring and bonds. Liabilities included in this category are assessed at the amortized costs, using the effective interest rate.

### **9.9. Investments in the co-controlled entity**

The Group has a share in the co-controlled entity, in which according to the concluded agreement, partners have established a co-control over its economic operations. The investment was classified as a joint venture in accordance with IFRS 11, and therefore in the consolidated financial statements it was consolidated under the equity method.

### **9.10. Financial derivatives**

The derivative financial instruments used by the Group in order to secure against the risk related to currency exchange rate differences, are mainly IRS contracts. These derivative financial instruments are assessed according to the fair value. Derivative instruments are posted as financial assets when their value is positive and as financial liabilities in case the value is negative.

Profits and losses by virtue of the fair value change of the derivative instruments, which do not meet the conditions that allow application of special principles of security accountancy, are directly posted in the income statement.

Fair value of currency IRS contracts is set by referencing to current interest rates present in case of contracts of similar character.

#### **9.11. Hedge accounting**

A hedging instrument is a designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

At the initial recognition, the entity recognises a financial asset or a financial liability at fair value equivalent to the amount for which the asset can be exchanged or the liability can be settled between the interested and well-informed parties on market terms.

A cash flow hedge that meets the hedge accounting conditions is recognised as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised as a change in the hedged item;
- the ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement.

Cash flow hedges determined as effective are recognised in the equity until the asset or liability hedged has been recognised.

#### **9.12. Inventory**

Inventory is assessed according to the purchase price or costs of production not higher than their sale price possible to be achieved at the balance sheet date.

The production cost does not include the following costs:

- resulting from unused production capacities and production losses,
- storage costs, unless its payment is necessary during the production process,
- margin on internal turnover (margin on services performed by auxiliary business in aid of the main business and margin on internal sale between different divisions of the main business), that is subject to elimination in relation to the costs of internal turnovers,
- general cost of management and costs of sale, marketing and distribution.

Expenditure of inventory is assessed at prices (costs) of these assets components, which the Group purchased (manufactured) earlier – applying FIFO method (First-In-First-Out). The write downs on the inventory made in relation to permanent loss of value or caused by assessment leading their value to sales price possible to be obtained, reduce the item value in the balance sheet and are posted in the own cost on sale.

Inversion of the write downs on the inventory value is posted as reduction of own costs on sale.

Sale price possible to be obtained is the estimated sale price made during the business operations, reduced by the costs of finishing and estimated costs necessary to complete the sale.

#### **9.13. Trade receivables and other receivables**

Trade receivables whose maturity is usually 30 working days are recognised and disclosed at their initially invoiced amounts less any write downs of bad debts. In case the money in time influence is significant, value of receivables is set by discounting the expected future cash incomes at the current value, using the discount rate reflecting the actual market estimation of the value of money in time. If the method consisting in discounting is applied, the increase of receivables in relation to the time is posted as financial incomes.

In case the receivables are threatened, disputable, asserted in court, vindicated or doubtful due to any other reasons, specific write downs are created in full amount of the receivables value reduced by the fair value of

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possessed reliable securities. The write down of doubtful receivables value is estimated when vindication of the whole amount is no longer probable. Particularly, receivables outstanding more than 180 are considered doubtful receivables. Bad receivables are written off if they are found impossible to collect. The write downs on receivables reduce their value in the balance sheet and are posted to own cost on sale or financial costs adequately, based on the type of receivables the write down applies to. Inversion of the write downs on the receivables value is posted as reduction of own costs on sale. In certain events, write downs of receivables may decrease revenues from sales.

#### **9.14. Cash and cash equivalents**

Cash and short term investment shown in the balance sheet include cash in bank and cash register and short term investments of initial maturity not exceeding three months.

The Group discloses cash on trust accounts and accounts blocked for development projects as cash and cash equivalents in the consolidated balance sheet, and in the consolidated statement of cash flows both the opening and closing balance of cash is reduced by the aforementioned cash, and their balance sheet change is recognised in the cash flows from operating activities.

#### **9.15. Equities**

Equities are posted in the accountancy books with distribution to types and according to principles stipulated by the law and articles of association of the Parent company and subsidiaries.

Share capital is disclosed at nominal value, in the amount in conformity with the Articles of Association of the Parent company and the entry in the commercial register.

Any declared, but unpaid, contributions to share capital are recognised in called-up share capital. Own shares and due contributions in aid of the share capital reduce the equity of the Group.

Reserve capital is created according to the stipulation of the commercial law, that necessitate that equity is increased by at least 8% of the profit in the given fiscal year, until the capital reaches at least on third of the initial capital.

Capital on sale of shares above their nominal value is created from the price emission surplus over their nominal value.

Costs of shares emission incurred while establishing the joint stock company or increasing the initial capital, reduce the capital on shares sale above their nominal value to the value of emission surplus over the nominal value of shares.

Other reserve capital comprises:

- previous years' profits/losses,
- hedging instruments,
- actuarial gains (losses).

Retained earnings include the profit/loss for the current reporting period.

#### **9.16. Interest bearing bank credits, loans and debt securities**

At the moment of initial posting, all bank credits, loans and debt securities shall be posted according to the purchase price corresponding to the fair value of cash, reduced by costs related to obtaining the credit or loan.

After the initial posting, the interest bearing credits, loans and debt securities and liabilities by virtue of financial lease are then assessed according to the amortised cost using the method of effective interest rate.

When establishing the amortized cost, one considers the costs related to obtaining the credit or loan and discounts or premiums obtained while settling the liability.

Profits and losses are posted in the income statement at the moment of removing from the balance sheet and also as a result of adding the write off.

**9.17. Trade liabilities and other liabilities**

Short term liabilities by virtue of supplies and services are posted in the amount that needs to be paid. The financial liabilities which are not financial instruments assessed in the fair value by the financial result, are assessed according to the amortized cost using the method of effective interest rate.

Financial liabilities other than those assessed at the fair value by the financial result are assessed at the balance sheet date, according to the amortized cost (i.e. discounted using the effective interest rate method). In case of short term liabilities with maturity up to 365 days, assessment corresponds to the amount that needs to be paid.

**9.18. Reserves**

The reserves are created when the Group is burdened with an obligation (legal or customary) resulting from the past events, and when it is probable that meeting this obligation shall cause the outflow of economic benefits and reliable estimation of the liability amount may be performed. If the Group expects that cost covered by the reserve shall be returned, for example based on the insurance contract, then such return is posted as separated component of assets, but only when it is practically sure that the return shall take place. Costs related to the given reserve are posted in the income statement after reduction by any returns.

In case the money in time influence is significant, value of reserve is set by discounting the expected future cash incomes at the current value, using the gross discount rate reflecting the actual market estimation of the value of money in time and possible risk related to the given liability. If the method consisting in discounting is applied, the increase of reserve in relation to the time is posted as financial costs.

**9.19. Severance and pension payments and jubilee prizes**

According to the company remuneration system, employees of the Group's companies are entitled to jubilee prizes and severance and pension payments. The jubilee prizes are paid to the employees who worked for the set amount of years. The severance payments are paid one time at the moment an employee retires. The amount of severance and pension payments and jubilee prizes depends on the seniority and average remuneration of an employee. The Group creates a reserve for future liabilities by virtue of severance and pension payments and jubilee prizes in order to assign costs to periods which they relate to. According to IAS 19, the jubilee prizes are long term employee benefits and severance payments are programs of specified services after the employment period. Current value of these liabilities at the balance sheet date is calculated based on commonly accepted actuarial methods. Calculated liabilities are equal to the discounted payments which shall be made in the future considering the employment turnover and relate to the period from the balance sheet date. Demographic information and information of employment turnover are based on the history. Actuarial gains and losses arising from the measurement of retirement and pension benefit schemes are recognised in other comprehensive income in the period, in which they arise, and actuarial gains (losses) arising from the measurement of jubilee prizes are recognised in the income statement. Other expenses related to the aforementioned benefits are recognised in profit or loss on a one-off basis in the period, in which they are incurred.

**9.20. Accruals**

Prepayments and accruals include in particular:

- rents paid in advance,
- insurances,
- subscriptions,
- outsourced services paid in advance that shall be performed in the future periods.
- inspection repairs,

Prepayments are accounted for in relation to the lapse of time or the amount of benefits. Time and method of settlement is justified by the character of settled costs, providing caution principle.

In case of prepayments and accruals falling in the following periods, which settlement shall not be completed within 12 months since the balance sheet date, such settlements are presented as a separate item in the balance sheet related to long term prepayment and accruals.

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## 9.21. Sales and costs

Incomes are posted in the amount in which it is probable that the Group shall obtain economic benefits related to the given transaction and when the amount of income can be reliably assessed.

The incomes are recognized after reducing by the goods and services tax (VAT) and rebates. When posting the incomes, the below criteria apply.

The Group posts the incomes on sale according to the entries given in articles of association of the companies included in it.

### 9.21.1. Sale of goods and products

The incomes are posted if the significant risk and benefits resulting from the property right to the goods and products were passed on to the purchaser and when the incomes amount can be reliably assessed.

### 9.21.2. Construction contracts

Revenues from uncompleted long-term services completed as of the balance sheet date to a significant degree are recognised as of the balance sheet date proportionally to the degree of progression in their completion, if their amounts can be determined in a reliable manner. The progress is measured by the share of costs incurred from the day of concluding the contract to the day of setting the incomes in the estimated overhead costs of the service or by the share of the performed work in relation to the total works.

Progress set according to the above principles is used to specify the sale value in relation to the incomes value resulting from the stipulations of the concluded contract. Difference between such set (booked) sales value and the invoiced value for customers (service recipients) is posted to the "Construction contracts" item in assets - for positive differences or in liabilities - for negative differences, respectively.

If the extent of non-completed service cannot be reliably set at the balance sheet date, the income is established in the amount of costs incurred within the given reporting period, however no higher than costs which compensation by the ordering party in the future is probable.

In case when it is probable that total costs of executing the contract shall exceed the total incomes by virtue of the contract, the expected loss is posted as the cost of the period in which it was revealed.

Expenses related to the provision of uncompleted services include costs incurred from the conclusion of the appropriate contract to the balance sheet date. Production costs incurred before conclusion of the contract, related to realization of its object, are accounted for assets if the compensation of such costs in the future by the profits obtained from the ordering party is probable. Next, they are recognised as costs of construction contracts in progress.

The Group performs certain contracts based on consortium agreements, according to which it acts as the consortium leader. In accordance with IFRS 11, the Group does not recognise any revenues or expenses allocated to the consortium members in its income statement.

Simultaneously, the Group recognises in its balance sheet only such assets and liabilities as are allocated to the Group in the jointly co-controlled operation.

#### Principles of calculating the set incomes on sale:

Income on performing a construction and installation service covered by uncompleted contract is actually borne costs increased by the assumed margin in the given contract calculated in %.

Actual incomes booked in the given period are corrected against the incomes set in order to receive the margin stipulated in the given contract, according to the below formula:

$$Su = K/(1-m)$$

where:

Su – established sale

K – sustained actual costs

m – margin in % assumed for the given contract, resulting from the developed costs budget

Incomes established for the contracts settled in Euro are calculated according to the following principles:

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- margin in % in case of contracts in Euro is calculated every month and it is a function of PLN / EUR exchange rate calculated based on the following formula:

$$M = (Pp - Kp) / Pp$$

where:

Pp – conversion incomes

Cc – conversion costs

Conversion revenues (Cr) are calculated according to the following formula:

$$Pp = Pz + Pf * krPLN/EUR$$

where:

Pz – incomes booked in Polish Zloty

Pf – incomes to be invoiced in Euro in the future

krPLN/EUR – average Euro exchange rate at the end the given month (announced by the National Bank of Poland)

Conversion costs (Kp) are calculated according to the below formula:

$$Kp = Kz + Kf PLN + Kf EUR * krPLN/EUR$$

where:

Kz – costs booked in Polish Zloty

Kf PLN – costs to be invoiced in Polish Zloty in the future

Kf EUR – costs to be invoiced in Euro in the future

The calculated conversion sale and conversion costs are put in the formula related to margin, and then the calculated margin in % is put in the established sale formula.

### 9.21.3. Interests

Incomes by virtue of interests are posted successively along the accrual period (considering the effective interest rate method) in relation to the balance sheet value net of the given financial assets component.

### 9.21.4. Dividends

Dividends are posted at the moment of establishing the rights of shareholders or stockholders until their collection.

### 9.21.5. Developer activities

The item "Production in progress" in the inventories includes the costs incurred during realization of the investment task, which is directly related to the investment, and: costs of interests, commission on credits, fee by virtue of perpetual usufruct of land and other.

Advance payments paid by the customers for purchase of apartments are shown in the liabilities in item advance payments received in aid of apartments. Land, where the investment is built is given in item: "semi-finished products and production in progress". Settlement of these items takes place after completion of the investment, accepting it for use and transferring the property right to the customer (notarial deed). Advance payments from customers are transferred to the income statement to item "Incomes on sale". Costs activated in item "Production in progress" are transferred to the income statement to item "Own cost on sale".

## 9.22. Taxes

### 9.22.1. Current tax

Income tax on income generated in Poland is calculated in accordance with Polish tax regulations and income generated by entities that operate abroad is taxed in accordance with local tax regulations, with the consideration of the agreement on the avoidance of double taxation. The income tax rate applicable in Poland is 19% and in Lithuania is 24%.

Liabilities and receivables by virtue of current tax for the current period and previous periods are assessed in the amount of expected payment in aid of tax bodies (subject to return from the tax bodies) using the tax rates and regulations which legally or factually were in force at the balance sheet date.

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### 9.22.2. Deferred tax

Deferred tax is calculated using the method of balance sheet liabilities in relation to all temporary differences present at the balance sheet date between the tax value of assets and liabilities and their balance sheet value shown in the consolidated financial statement.

Reserve for the deferred tax is posted in relation to all positive temporary differences:

- except the situation where the reserve for deferred tax is created as a result of the initial posting of the goodwill and initial posting of assets component of liability during transaction that does not represent the merge of economic entities and at the moment of conclusion did not influence the gross financial result and income subject to taxation or tax loss and
- in case of negative temporary differences resulting from the investment in subsidiaries or affiliated entities and shares in joint ventures – except the situation where the period of inverting the temporary differences are subject to the investor's control and where it is probable that in the predictable future, the temporary differences shall not invert.

Assets by virtue of deferred tax are posted in relation to all negative temporary differences as well as not used tax assets and not used tax losses transferred to the following years in the amount in which it is probable that the taxable income shall be obtained that shall allow using the above mentioned difference, assets and losses:

- except the situation where the assets by virtue of the deferred tax related to negative temporary differences are created as a result of the initial posting of the assets or liabilities component during transaction that does not represent the merge of economic entities and at the moment of conclusion did not influence the gross financial result and income subject of taxation or tax loss and
- in case of negative temporary differences by virtue of the investment in subsidiaries or affiliated companies and shares in joint ventures, assets component by virtue of deferred tax is posted in the balance sheet only in the amount in which it is probable that in the predictable future, the above mentioned differences shall invert and taxable income shall be obtained that shall allow deducting negative temporary differences.

The balance sheet value of the assets component by virtue of deferred tax is verified at each balance sheet date and is subject to gradual reduction by the amount which is no longer probable to obtain the taxable income sufficient to partially or completely execute the assets component by virtue of deferred income tax.

Assets by virtue of the deferred income tax and the reserve for the deferred tax are assessed using the tax rates which according to expectations shall be in force during the period when the assets component shall be executed or reserve settled, assuming as the base the tax rates (and tax regulations) applicable at the balance sheet date or which applicability in the future is sure at the balance sheet date.

The income tax related to the items posted directly in equity is posted in the equity, not in the income statement.

The Group compensates the assets by virtue of deferred income tax with the reserves by virtue of deferred income tax when and only when it possesses the option to execute the legal right to performing compensations of receivables with reserves by virtue of current tax and the deferred income tax is related to the same taxpayer and the same tax body.

### 9.22.3. Goods and services tax

Incomes, costs, assets and liabilities are posted after reducing by the goods and services tax value, except:

- when the goods and services tax paid during the purchase of assets or services is not possible to be recovered from the tax bodies; then it is posted appropriately as a part of the purchase price of assets component or as a part of cost item
- receivables and liabilities which are disclosed considering the goods and services tax amount.

The goods and services tax net amount that is possible to be recovered or payable in aid of the tax bodies is posted in the balance sheet as a part of receivables or liabilities.

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### 9.23. Net profit per share

The net profit per share for each period is calculated by way of dividing the net profit assigned to the shareholders of the Parent Company for the given period by the weighted average number of shares during the given reporting period. Diluted net profit per share for each period is calculated by way of dividing the net profit assigned to the shareholders of the Parent Company for the given period by the sum of the weighted average number of ordinary shares during the given reporting period and all potential diluted shares.

Shares are included in the weighted average number of shares from the date consideration is receivable (which is generally the date of their issue). Ordinary shares issued as a part of the payment transferred at the merge of the entities are considered in determining the weighted average number of shares from the merge date. Ordinary shares which can be issued if certain conditions are met (shares issued conditionally) are treated as present during the period and included in the calculation of profit per share only from the date on which there has been compliance with all the required conditions. Ordinary shares occurring during the year which are contingently returnable are not treated as present and are excluded from the calculation of basic profit per share as long as they are subject to possible return.

### 9.24. Concession contracts

The Group concluded service concession contracts within the scope of public and private partnership (Lithuanian Road Authority) and the operator (subsidiaries of the Issuer - UAB Palangos aplinkkelis). A service concession contract sets forth the principles of performance, pricing mechanisms and other terms. The Group recognises and measures revenues and expenses concerning service concession contracts in accordance with IAS 11 and 18 for services it provides. If more than one service is provided (e.g. construction, maintenance and modernisation services) under a single contract, the amount of remuneration paid or payable is determined through the reference to the relative fair value of the services provided, if the amounts can be determined separately. The Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services.

The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator:

- specified or determinable amounts or
- the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

IAS 32, IAS 39 and IFRS 7 apply to the financial asset recognised. The amount payable by or at the direction of the grantor is accounted for in accordance with IAS 39 as receivables, including interest calculated using the effective interest method are recognised in the income statement.

Pursuant to IAS 23, any costs of external financing related to the contract are recognised as expenses in the period in which they are incurred, unless the operator has a contractual right to receive an intangible asset (a right to charge users of the public service).

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

In this consolidated financial statement, the Group did not make the decision on early application of published standards and interpretations before they came into force.

At the moment, the IFRS in the shape approved by the European Union do not differ significantly from the regulations issued by the International Accounting Standards Board (IASB), except for the new standards, amendments to standards and new interpretation listed below, which as at March 21, 2017 have not yet been approved for application in the EU:

- **IFRS 14 Regulatory Deferral Accounts** (effective for annual periods beginning on or after January 1, 2016) – The European Commission decided not to approve this temporary standard for application in the EU until its final version has been issued;
- **IFRS 16 Leases** (effective for annual periods beginning on or after January 1, 2019);

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- **Amendments to IFRS 2 Share-based Payment** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018);
- **Amendments to IFRS 4 Insurance Contracts** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after January 1, 2018 or as at the first application of IFRS 9 Financial Instruments);
- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (the entry in force has been deferred until the research project on the equity method has been concluded);
- **Amendments to IFRS 15 Revenue from Contracts with Customers** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2018);
- **Amendments to IAS 7 Statement of Cash Flows** – Disclosure Initiative (effective for annual periods beginning on or after January 1, 2017);
- **Amendments to IAS 12 Income Taxes** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after January 1, 2017);
- **Amendments to IAS 40 Investment Property** – Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- **Amendments to various standards – Annual Improvements to IFRS Standards 2014–2016 Cycle** – the amendments made under the annual improvement implementation procedure to the IFRS (IFRS 1, IFRS 12 and IAS 28) were mainly focused on clarifying guidance and wording (Amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2017, and Amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018);
- **IFRIC 22 Foreign Currency Transactions and Advance Consideration** (effective for annual periods beginning on or after January 1, 2018).

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

Still, the hedge accounting for a portfolio of financial assets or liabilities, whose principles has not been approved for application in the EU, continue to remain outside the regulations approved for application in the EU.

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

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

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

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

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

**Amendments to standards and interpretations applied for the first time in 2016**

The following amendments to the existing standards issued by the International Accounting Standards Board ("IASB") and approved for application in the EU shall enter into force in 2016:

- **Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures** – Entities: Applying the Consolidation Exception –

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approved for application in the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018);

- **Amendments to IFRS 11 Joint Arrangements** – Accounting for Acquisitions of Interests in Joint Operations – approved for application in the EU on November 24, 2015 (effective for annual periods beginning on or after January 1, 2016);
- **Amendments to IAS 1 Presentation of Financial Statements** – Disclosure Initiative – approved for application in the EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016);
- **Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets** – Clarification of Acceptable Methods of Depreciation and Amortisation – approved for application in the EU on December 2, 2015 (effective for annual periods beginning on or after January 1, 2016);
- **Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture** – Bearer Plants – approved for application in the EU on November 23, 2015 (effective for annual periods beginning on or after January 1, 2016);
- **Amendments to IAS 19 Employee Benefits** – Defined Benefit Plans: Employee Contributions – approved for application in the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015);
- **Amendments to IAS 27 Separate Financial Statements** – Equity Method in Separate Financial Statements – approved for application in the EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016);
- **Amendments to various standards – Annual Improvements to IFRS Standards 2010–2012 Cycle** – the amendments made under the annual improvement implementation procedure to the IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) were mainly focused on clarifying guidance and wording – approved for application in the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015).
- **Amendments to various standards – Annual Improvements to IFRS Standards 2012-2014 Cycle** – the amendments made under the annual improvement implementation procedure to the IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) were mainly focused on clarifying guidance and wording – approved for application in the EU on December 15, 2015 (effective for annual periods beginning on or after January 1, 2016).

The aforementioned amendments to the existing standards have not had any significant impact on the Company's financial statements for 2006. IAS 41 Agriculture: Bearer Plants does not apply to the activities of the Group.

### Changes introduced by the Group independently

In 2016, the Group changed the disclosure method for deferred tax assets and provisions for deferred income tax in the balance sheet. The change made involves offsetting deferred income tax assets against provisions for deferred income tax. In the opinion of the Management Board, such a disclosure method allows for the balance sheet items to be presented in a more reliable manner.

In the approved annual consolidated financial statements for the period of 12 months ended on December 31, 2015, the Group disclosed both deferred income tax assets and provisions for deferred tax in their full amounts. According to the change made, the current consolidated financial statements reflect the aforementioned change and therefore the balance sheet total decreased by PLN 21,064 thousand, as compared to 2015. In the analysed period, the effect of the offset on the balance sheet total was PLN 40,560 thousand. Please find the effect of the change on the balance sheet as at December 31, 2015 presented in the table below.

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	31.12.2015	Netting deferred tax assets and liabilities	31.12.2015
	Published		Modified
<b>Assets</b>			
<b>Non-current assets</b>	<b>704 278</b>	<b>(21 064)</b>	<b>683 214</b>
Deferred tax assets	30 779	(21 064)	9 715
<b>Current assets</b>	<b>623 143</b>		<b>623 143</b>
<b>Total assets</b>	<b>1 327 421</b>	<b>(21 064)</b>	<b>1 306 357</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of Parent entity</b>	<b>722 341</b>		<b>722 341</b>
<b>Non-controlling interests</b>	<b>3 950</b>		<b>3 950</b>
<b>Total equity</b>	<b>726 291</b>		<b>726 291</b>
<b>Long-term liabilities</b>	<b>141 974</b>	<b>(21 064)</b>	<b>120 910</b>
Provision for deferred tax	26 613	(21 064)	5 549
<b>Short-term liabilities</b>	<b>459 156</b>		<b>459 156</b>
<b>Total equity and liabilities</b>	<b>1 327 421</b>	<b>(21 064)</b>	<b>1 306 357</b>

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**11. Selected financial data**

Average exchange rates of Polish Zloty in relation to Euro within the period covered by the consolidated financial statement:

Financial year ended	Average exchange rate in the period*	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
31.12.2016	4,3757	4,2355	4,5035	4,4240
31.12.2015	4,1848	3,9822	4,3580	4,2615

\*Average exchange rate in force at the last day of each month within the given fiscal year.

Basic items of the consolidated balance sheet in conversion to Euro:

	31.12.2016		31.12.2015	
	kPLN	kEUR	kPLN	kEUR
Non-current assets	721 725	163 139	683 214	160 323
Current assets	675 008	152 578	623 143	146 226
<b>Total assets</b>	<b>1 396 733</b>	<b>315 717</b>	<b>1 306 357</b>	<b>306 549</b>
Equity	775 967	175 399	726 291	170 431
Long-term liabilities	153 550	34 709	120 910	28 373
Short-term liabilities	467 216	105 609	459 156	107 745
<b>Total equity and liabilities</b>	<b>1 396 733</b>	<b>315 717</b>	<b>1 306 357</b>	<b>306 549</b>

When converting the data of the consolidated balance sheet, the exchange rate established by Narodowy Bank Polski [The National Bank of Poland] at the last day of the turnover year was adopted.

Basic items of the consolidated income statement in conversion to Euro:

	For the period of 12 months ended		For the period of 12 months ended	
	31.12.2016		31.12.2015	
	kPLN	kEUR	kPLN	kEUR
Sales revenues	1 381 173	315 646	1 329 180	317 623
Cost of goods sold	(1 233 007)	(281 785)	(1 163 047)	(277 924)
<b>Gross profit (loss) on sales</b>	<b>148 166</b>	<b>33 861</b>	<b>166 133</b>	<b>39 699</b>
Operating profit (loss)	73 792	16 864	76 726	18 335
<b>Gross profit (loss)</b>	<b>67 331</b>	<b>15 387</b>	<b>72 684</b>	<b>17 369</b>
Net profit (loss) from continued operations	56 332	12 874	51 758	12 368
Net profit (loss) from discontinued operations	-	-	-	-
<b>Net profit for the period</b>	<b>56 332</b>	<b>12 874</b>	<b>51 758</b>	<b>12 368</b>

When converting the data of the consolidated income statement, average Euro exchange rate was adopted, calculated as the arithmetical mean of rates in force at the last day of each month within the given fiscal year, established by Narodowy Bank Polski [The National Bank of Poland] at this day.

Basic items of the consolidated statement of cash flows in conversion to Euro:

	For the period of 12 months ended		For the period of 12 months ended	
	31.12.2016		31.12.2015	
	kPLN	kEUR	kPLN	kEUR
Cash flows from operating activities	(39 418)	(9 008)	319 776	76 414
Cash flows from investment activities	(30 967)	(7 077)	(7 474)	(1 786)
Cash flows from financial activities	(34 572)	(7 901)	(118 623)	(28 346)
<b>Total net cash flows</b>	<b>(104 957)</b>	<b>(23 986)</b>	<b>193 679</b>	<b>46 282</b>

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When converting the above data of the consolidated statement of cash flows, average Euro exchange rate was adopted, calculated as the arithmetical mean of rates in force at the last day of each month within the given fiscal year, established by Narodowy Bank Polski [The National Bank of Poland] at this day.

	31.12.2016		31.12.2015	
	kPLN	kEUR	kPLN	kEUR
Cash at start of period	251 317	58 974	57 638	13 898
<b>Cash at end of period</b>	<b>146 360</b>	<b>33 083</b>	<b>251 317</b>	<b>58 974</b>

To calculate the above data of the consolidated cash flow account, the following rates were adopted:

- exchange rate set by Narodowy Bank Polski [The National Bank of Poland] at the last day of each fiscal year - for item "Cash at the end of the period".
- exchange rate set by Narodowy Bank Polski [The National Bank of Poland] at the last day of the fiscal year prior to the given fiscal year - for item "Cash at the beginning of the period".

Euro exchange rate at the last day of the fiscal year that ended on December 31, 2014 was 4.2623 PLN.

## 12. Information concerning segments

Organization and management of the Group are executed with division into segments, in account of the type of offered goods and services, and segments handling other markets. Due to a relatively uniform character of operation of the companies composing the Group, the below segments overlap with individual entities of the Group.

In effect, the following operational reporting segments have been identified:

- Civil Building Segment - Poland, dealing with engineering and construction/assembly works (Trakcja PRKiI, BTW, Torprojekt, PEUiM, Dalba and PDM Białystok);
- Construction, Engineering and Concession Agreements Segment – Baltic States, dealing with engineering and construction/assembly works in the road and rail sector in Baltic States (AB Kauno Tiltai Group);
- Other - Residential Construction Sector, dealing with widely comprehended developer activity (PRK 7 Nieruchomości).

The Management Board monitors separately the operational results of the segments in order to take the decision concerning allocation of resources, assessment of the effects of such allocation and results of operations. The grounds for business results evaluation is gross profit or loss. The income tax is monitored at the Group level and in relation to this, it is not subject to allocation to segments.

The rules concerning operational segments relating to determining financial results, assets and liabilities of segments including defining, which of these elements are monitored at the Group level, are unchanged.

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**Key customers:**

In 2016 and the comparable period, revenues from transactions with external singular customers were respectively 10% or more of the total revenues of the Group. Total revenues by type of customers and by segments in which they are generated are presented in the table below.

<b>Total revenue obtained in 2016 by a single recipient (TPLN)</b>	<b>Segments presenting the revenues</b>
652 175	Civic building segment - Poland
193 884	Construction , engineering and concession contracts - Baltic countries

The Management Board of the Parent Company withdrew from presenting revenues from external clients, divided into goods and services, due to excessive cost of obtaining such information, which is consistent with IFRS 8.

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**Operating segments**

For the period from 1.01.2016 to 31.12.2016

Audited

	Continued operations			Total	Discontinued operations	Exclusions	Total operations
	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments				
<b>Revenues</b>							
Sales to external customers	864 847	511 297	5 028	1 381 173	-	-	1 381 173
Sales between segments	7	-	-	7	-	(7)	-
<b>Total segment revenues</b>	<b>864 854</b>	<b>511 297</b>	<b>5 028</b>	<b>1 381 179</b>	<b>-</b>	<b>(7)</b>	<b>1 381 173</b>
<b>Results</b>							
Depreciation	14 214	9 148	56	23 418	-	-	23 418
Share of profit of entities consolidated using equity method	248	-		248	-	-	248
Financial revenues - interests	912	3 699	40	4 651	-	(194)	4 457
Financial expenses - interests	4 143	3 051	204	7 398	-	(194)	7 204
<b>Gross profit</b>	<b>24 201</b>	<b>66 503</b>	<b>107</b>	<b>90 811</b>	<b>-</b>	<b>(23 480)</b>	<b>67 331</b>

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## For the period from 1.01.2015 to 31.12.2015

Audited

	Continued operations			Total	Discontinued operations	Exclusions	Total operations
	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments				
<b>Revenues</b>							
Sales to external customers	827 850	484 586	16 744	1 329 180	-	-	1 329 180
Sales between segments	15	1	62	78	-	(78)	-
<b>Total segment revenues</b>	<b>827 865</b>	<b>484 587</b>	<b>16 806</b>	<b>1 329 258</b>	<b>-</b>	<b>(78)</b>	<b>1 329 180</b>
<b>Results</b>							
Depreciation	13 451	8 733	82	22 266	-	-	22 266
Share of profit of entities consolidated using equity method	2 781	-	-	2 781	-	-	2 781
Financial revenues - interests	1 122	4 816	73	6 011	-	-	6 011
Financial expenses - interests	5 041	2 697	3	7 740	-	-	7 740
<b>Gross profit</b>	<b>33 543</b>	<b>52 378</b>	<b>2 514</b>	<b>88 435</b>	<b>-</b>	<b>(15 751)</b>	<b>72 684</b>

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As at 31.12.2016 Audited	Continued operations						
	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
<b>Segment assets</b>	806 362	702 631	44 275	1 553 269	-	(167 243)	1 386 026
Assets not allocated to segments							10 707
<b>Total assets</b>							<b>1 396 733</b>
<b>Segment liabilities</b>	322 596	185 287	7 305	515 188	-	(47 972)	467 216
<b>Other disclosures:</b>							
Capital expenditures	(34 333)	(14 174)	-	(48 508)	-	-	(48 508)
Impairment of non-financial assets	(12 961)	-	-	(12 961)	-	-	(12 961)

As at 31.12.2015 Modified	Continued operations						
	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
<b>Segment assets</b>	680 874	707 032	44 306	1 432 212	-	(135 570)	1 296 642
Assets not allocated to segments							9 715
<b>Total assets</b>							<b>1 306 357</b>
<b>Segment liabilities</b>	270 972	227 760	5 545	504 277		(45 121)	459 156
<b>Other disclosures:</b>							
Capital expenditures	(22 397)	(17 671)	(89)	(40 157)	-	-	(40 157)
Impairment of non-financial assets	(15 699)	-	-	(15 699)	-	-	(15 699)
Investment in entities consolidated using the equity method	14 140	-	-	14 140	-	-	14 140

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**Geographical segments**

For the period from 1.01.2016 to 31.12.2016 Audited	Continued operations			Discontinued operations	Exclusions	Total operations
	Domestic	Abroad	Total			
<b>Revenues</b>						
Sales to external customers	869 876	511 297	1 381 173	-	-	1 381 173
Sales between segments	7	-	7	-	(7)	-
Sales domestic/abroad	-	-	-	-	-	-
<b>Total segment revenues</b>	<b>869 883</b>	<b>511 297</b>	<b>1 381 180</b>	<b>-</b>	<b>(7)</b>	<b>1 381 173</b>

For the period from 1.01.2015 to 31.12.2015 Audited	Continued operations			Discontinued operations	Exclusions	Total operations
	Domestic	Abroad	Total			
<b>Revenues</b>						
Sales to external customers	844 595	484 586	1 329 180	-	-	1 329 180
Sales between segments	76	1	78	-	(78)	-
Sales domestic/abroad	-	-	-	-	-	-
<b>Total segment revenues</b>	<b>844 671</b>	<b>484 587</b>	<b>1 329 257</b>	<b>-</b>	<b>(78)</b>	<b>1 329 180</b>

As at 31.12.2016 Audited	Continued operations			Discontinued operations	Exclusions	Total operations
	Domestic	Abroad	Total			
Operating assets	850 694	702 575	1 553 270	-	(167 243)	1 386 026
Operating liabilities	347 593	167 595	515 188	-	(47 972)	467 216

As at 31.12.2015 Modified	Continued operations			Discontinued operations	Exclusions	Total operations
	Domestic	Abroad	Total			
Operating assets	725 243	706 968	1 432 211	-	(135 569)	1 296 642
Operating liabilities	293 607	210 670	504 277	-	(45 121)	459 156

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**13. Revenue from sales**

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
<b>Sales revenues</b>		
Revenues from sale of construction services	1 329 616	1 286 884
Revenues from sale of goods and materials	24 428	3 935
Revenues from sale of other products and services	27 129	38 361
<b>Total</b>	<b>1 381 173</b>	<b>1 329 180</b>

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
Domestic	869 800	842 202
Abroad	511 373	486 978
<b>Total</b>	<b>1 381 173</b>	<b>1 329 180</b>

Revenues earned from PKP PLK S.A. and revenues earned from Litewska Administracja Drogowa constitute respectively approx. 47% and 14% of the consolidated revenues from sales.

The Group's revenues are recognised in three operating segments, which therefore are the reporting segments.

The amounts presented above which pertain to the domestic sales and sales abroad differ from the amounts indicated in the Information concerning segments note due to the exclusion of sales between segments as described in Note 12.

**14. Costs of operation****Costs by type:**

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
Depreciation	23 418	22 266
Consumption of materials and energy	421 178	270 594
External services	571 881	720 136
Taxes and charges	6 427	5 531
Payroll	161 177	145 222
Social security and other benefits	42 618	36 776
Other types of costs	35 714	22 602
<b>Total costs by type</b>	<b>1 262 413</b>	<b>1 223 128</b>
Change in inventories, products and prepayments	31 008	34 007
Cost of manufacture of products for the entity's own needs (negative value)	(17 030)	(20 618)
Cost of sales, marketing and distribution (negative value)	(6 261)	(6 156)
General and administrative costs (negative value)	(61 170)	(71 106)
<b>Manufacturing cost of products sold</b>	<b>1 208 960</b>	<b>1 159 255</b>
<b>Value of materials and goods sold</b>	<b>24 047</b>	<b>3 792</b>
<b>Cost of goods sold</b>	<b>1 233 007</b>	<b>1 163 047</b>

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Notes to the annual consolidated financial statements constitute an integral part thereof.

**Costs of remunerations and employees benefits:**

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
Costs of payroll and employment termination benefits	138 052	114 887
Social security costs	35 375	30 457
Provisions for retirement pay and disability benefits	1 233	1 216
Provision for jubilee awards	1 116	1 259
Provision for unused leaves	8 096	7 872
Provision for bonuses	11 780	15 392
Provision due to competition clause and compensation	900	4 596
Employee benefits under Employee Pension Program	589	679
Other employee benefits	6 654	5 639
<b>Total</b>	<b>203 795</b>	<b>181 998</b>

The Parent company has implemented for its employees the Employee Pension Plan (EPP) entered in to the Insurances and Pension Funds Supervision Committee (KNUiFE) under the number RPPE 75/01. In 2001, the contract has been concluded related to payment by the Parent company of employee contributions and the plant pension agreement between the company (former PKRE SA) and Trade Unions operation in the Company. All employee pension agreements and annexes to these agreements were concluded according to a uniform model. In 2006, an annex has been signed to the plant agreement which adapted the EPP to the regulations of the changed act on employee pension programs.

Within the Program, the employer transfers 4% of gross employee remuneration, which is the basis for calculating pension contributions to the selected fund. Participation of employees in the Program is voluntary and employees with at least three month seniority in the Parent Company can enter the program.

**Amortization of fixed assets and intangible assets and write downs included in the income statement:**

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
<b>Items recognised in cost of goods sold</b>		
Depreciation of fixed assets	20 280	19 379
Amortisation of intangible assets	813	818
<b>Total</b>	<b>21 093</b>	<b>20 197</b>
<b>Items recognised in cost of sales, marketing and distribution</b>		
Depreciation of fixed assets	4	4
Amortisation of intangible assets	-	-
<b>Total</b>	<b>4</b>	<b>4</b>
<b>Items recognised in general and administrative costs</b>		
Depreciation of fixed assets	1 220	1 320
Amortisation of intangible assets	1 101	745
<b>Total</b>	<b>2 321</b>	<b>2 065</b>
Depreciation of fixed assets	21 504	20 703
Amortisation of intangible assets	1 914	1 563
<b>Total</b>	<b>23 418</b>	<b>22 266</b>

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**15. Other operating revenues**

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
Profit from settlement of BTW acquisition transaction	7 112	-
Reversal of provision for claims and litigations	1 413	-
Reversal of provision for costs	278	-
Received penalties and fines	512	1 257
License fees , patents	280	288
Overpaid social security contributions	536	-
Reimbursed costs from tenders in Denmark	571	-
Reimbursed costs of litigious proceedings	-	111
Surplus of stocktaking	-	86
Redeemed liabilities	165	1 392
Profit on sale of non-financial non-current assets	2 991	1 243
Profit from investment property rent	298	335
Other	766	378
<b>Total</b>	<b>14 922</b>	<b>5 091</b>

**16. Other operating costs**

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
Established provisions for liabilities	-	786
Restructuring costs	3 905	-
Investment property valuation	252	983
Paid penalties, fines, compensations	329	880
Litigation costs paid	248	-
Donations made	3 895	2 899
Value of liquidated non-financial assets	587	37
Value of liquidated inventory	-	31
Reorganization costs of the production division	131	252
Written-off receivables	533	370
Revaluation write-off for fixed assets	-	791
Other	434	687
<b>Total</b>	<b>10 314</b>	<b>7 715</b>

**17. Financial revenues**

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
Financial revenues from interest, including:	4 457	6 011
- bank interest	623	824
- interest on receivables	85	396
- interest on released provisions for interest on liabilities	-	232
- on loans	-	13
- other	126	84
- of financial asset under the concession agreement	3 623	4 462
Foreign exchange rate gain	-	602
Income from the reversal of provisions for liabilities	-	442
Other financial revenues	68	406
<b>Total</b>	<b>4 525</b>	<b>7 461</b>

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**18. Financial costs**

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
Financial costs on account of interest, including:	7 204	7 740
- interest on loans and borrowings	3 722	3 256
- on liabilities	6	293
- on bonds	-	1 875
- on leasing	1 611	1 380
- on liability from employee benefits	225	331
- on factoring	49	493
- on provisions for liabilities	989	-
- other	602	112
Loss from exchange rate differences	1 346	-
Costs related to sale of receivables	406	-
Factoring related costs	199	759
Revaluation write-offs on bonds	-	176
Financial expenses due to write-downs of receivables' interest	-	234
Financial commission paid	1 694	2 032
Revaluation of investments	-	104
Other financial costs	137	458
<b>Total</b>	<b>10 986</b>	<b>11 503</b>

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**19. Income tax****19.1. Current income tax**

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
<b>Gross profit</b>	<b>67 331</b>	<b>72 684</b>
<i>Differences between gross profit (loss) and income tax base (by title)</i>		
- <b>temporary differences, including:</b>	<b>536</b>	<b>(32 034)</b>
depreciation and amortisation	(4 970)	(5 250)
revaluation write-offs	(565)	(3 298)
change in provisions	28 449	3 272
valuation of construction contracts	(49 630)	19 371
accrued interest	744	1 914
accrued FX differences	584	(38)
provision for losses on contracts	5 076	(12 603)
remuneration unpaid	482	(321)
investment property fair value adjustment	252	983
non-tax costs concerning performed contracts	105 880	(32 246)
non-tax revenues concerning performed contracts	(86 237)	-
other	471	(3 819)
- <b>permanent differences, including:</b>	<b>10 430</b>	<b>59 979</b>
contributions to PFRON (National Disabled Persons Rehabilitation Fund)	956	751
donations made	3 880	2 900
budget interest	18	203
insurance and membership fees	444	388
provision for losses on contracts	-	40 792
VAT difference	96	-
profit from revaluation of shares	(7 113)	-
goodwill impairment	11 799	12 302
share in profits of entity valued using equity method	(248)	(2 781)
cost of disputed contracts	(1 000)	-
revaluation write-offs	2 902	-
other	(1 303)	5 423
<b>Income (loss)</b>	<b>78 298</b>	<b>100 629</b>
<b>Taxable income</b>	<b>84 135</b>	<b>123 805</b>
<b>Deductions from income</b>	<b>(8 917)</b>	<b>(9 197)</b>
- tax loss from previous years	(1 175)	(3 461)
- donations	(7 743)	(5 736)
- other deductions	-	-
<b>Income tax base</b>	<b>75 217</b>	<b>114 607</b>
<b>Income tax</b>	<b>11 743</b>	<b>19 133</b>

Income tax in the income statement:

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
<b>Current income tax:</b>	<b>11 813</b>	<b>16 485</b>
- current income tax charge	11 743	19 133
- adjustments related to current income tax from previous years	70	(2 648)
<b>Deferred tax:</b>	<b>(814)</b>	<b>4 441</b>
- related to increase and decrease in temporary differences	(814)	4 441
<b>Total</b>	<b>10 999</b>	<b>20 926</b>

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A part of income tax was determined according to the rate of 19% in regard to taxation basis applicable to legal entities operating in Poland. In case of foreign companies included in Trakcja Group, the tax rate from January 1, 2016 to the end of 2016 was 15% in Lithuania, 22% in Sweden, 24% in Belarus and 10% in Bulgaria.

**Reconciliation of an effective tax rate:**

Reconciliation of income tax on the gross financial result at the statutory tax rate with income tax calculated at the effective tax rate for the year ended December 31, 2016 and December 31, 2015 is presented in the following table:

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
<b>Gross profit</b>	<b>67 331</b>	<b>72 684</b>
Income tax at applicable income tax rate of 19%	12 793	13 810
Tax effect of the approach:		
Use of tax losses from previous years	(212)	3 818
Revaluation of deferred tax assets	686	(234)
Effect of varied interest rate within the Group	(3 172)	(2 215)
Tax-free income and other income deductions	(3)	-
Tax revenues not constituting accounting revenues	(4)	29
Tax costs not constituting accounting costs	(1 640)	(1 612)
Non-tax revenues constituting accounting revenues	(795)	680
Non-tax costs constituting accounting costs	3 393	7 177
Share of profit of associate	(47)	(528)
<b>Income tax expense at the effective tax rate 16% (2015: 29%)</b>	<b>10 999</b>	<b>20 926</b>

**19.2. Income tax charged to other total income**

	1.01.2016 -	1.01.2015 -
	31.12.2016	31.12.2015
	Audited	Audited
<b>Profit from revaluation referred into revaluation reserve</b>		
Gross amount	(510)	-
Tax	(76)	-
<b>Net amount</b>	<b>(413)</b>	<b>-</b>
<b>Actuarial gains (losses)</b>		
Gross amount	1 190	(134)
Tax	(236)	28
<b>Net amount</b>	<b>954</b>	<b>(106)</b>
<b>Cash flow hedging instruments</b>		
Gross amount	(899)	632
Tax	135	(95)
<b>Net amount</b>	<b>(764)</b>	<b>537</b>
<b>Foreign exchange differences on translation of foreign operations</b>		
Gross amount	11 926	(148)
Tax	-	-
<b>Net amount</b>	<b>11 926</b>	<b>(148)</b>

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**19.3. Deferred income tax**

The table below presents the impact of assets and the reserve for the deferred tax on the result and capital:

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
<b>Deferred tax asset</b>	<b>51 267</b>	<b>30 779</b>
- through profit or loss	49 873	29 420
- through equity	1 394	1 359
<b>Provision for deferred tax</b>	<b>48 628</b>	<b>26 613</b>
- through profit or loss	44 669	22 503
- through equity	3 959	4 110

Below we present periods, during which - pursuant to the provisions of the Act on Corporate Income Tax - deferred tax assets on tax loss can be settled at the latest:

<b>As at 31.12.2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
Deferred tax assets concerning tax loss	467	811	447	614	198	<b>2 537</b>
<b>As at 31.12.2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
Deferred tax assets concerning tax loss	1 134	589	204	-	-	<b>1 927</b>

As at December 31, 2016, the Group's unused tax losses were PLN 5,785 thousand (31/12/2015: PLN 8,808 thousand), because it is unlikely that taxable profits are generated in the future, which would allow for such unused tax losses and credits to be deducted.

In accordance with the provisions of the corporate income tax, any non-capitalised or written-off asset arising from the unused tax losses can be accounted for in the following periods:

<b>As at 31.12.2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
The amount of not established/written down asset due to tax losses	1 115	578	1 995	2 012	85	<b>5 785</b>
<b>As at 31.12.2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
The amount of not established/written down asset due to tax losses	2 916	2 431	1 460	1 051	950	<b>8 808</b>

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<b>Deferred tax assets</b>	<b>1.01.2015</b>	<b>Increase /</b>	<b>31.12.2015</b>	<b>Increase /</b>	<b>Full</b>	<b>31.12.2016</b>
<b>Title of temporary differences</b>	<b>Audited</b>	<b>Decrease</b>	<b>Modified</b>	<b>Decrease</b>	<b>consolidation</b>	<b>Audited</b>
					<b>method for a</b>	
					<b>new Subsidiary</b>	
Provision for bonuses	2 567	151	2 718	(605)	88	2 202
Provision for the audit	20	8	28	10	4	41
Provision for correction works	1 261	489	1 750	5 417	33	7 200
Provision for losses on contracts	1 899	(1 794)	105	772	-	877
Provisions for retirement and pensions	1 214	(75)	1 139	(106)	-	1 033
Provision for jubilee awards	1 432	(100)	1 332	(105)	-	1 227
Provision for unused leaves	1 421	182	1 603	119	46	1 769
Provision for commission	-	-	-	-	-	-
Valuation allowance for trade receivables	1 190	(234)	956	(17)	108	1 047
Valuation allowance for other current assets	531	(283)	248	(99)	-	149
Unrealized foreign exchange losses	191	(48)	143	89	-	232
Accrued interest on liabilities	496	(413)	83	184	-	267
Valuation of bonds	57	(57)	-	-	-	-
Interest on receivable write-offs	78	5	83	(34)	-	49
Non-tax costs related to ongoing long-term contracts	8 219	(5 425)	2 794	20 076	-	22 870
Surplus of invoiced revenues over actual revenues - valuation of long-term contracts	10 826	887	11 713	(7 600)	-	4 113
The positive difference between the balance sheet depreciation and the tax depreciat	64	14	78	7	-	85
Tax loss	2 045	(118)	1 927	407	203	2 537
Revaluation of fixed assets to fair value	144	145	289	-	-	289
Unpaid wages and unpaid social security contributions	307	(35)	272	89	-	361
Other	1 584	2 020	3 604	991	36	4 632
Variances due to currency translation	317	(403)	(86)	374	-	288
<b>Total, before offsetting</b>	<b>35 863</b>	<b>(5 084)</b>	<b>30 779</b>	<b>19 970</b>	<b>518</b>	<b>51 267</b>
The value of offsetting of deferred tax assets and deferred tax liabilities	(26 810)	5 746	(21 064)	(18 978)	(518)	(40 560)
<b>Total, after offsetting</b>	<b>9 053</b>	<b>662</b>	<b>9 715</b>	<b>992</b>	<b>-</b>	<b>10 707</b>

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Provision for deferred tax Title of temporary differences	1.01.2015	Increase /	31.12.2015	Increase /	Full consolidation method for a	31.12.2016
	Audited	Decrease	Modified	Decrease	new Subsidiary	Audited
Surplus of actual revenues over invoiced revenues - valuation of long-term contracts	4 682	(3 231)	1 451	1 941	-	3 392
Non-tax revenue relating to long-term contracts	-	-	-	16 385	-	16 385
The negative difference between the balance sheet depreciation and the tax depreciat	14 239	1 433	15 672	1 238	1 429	18 339
Unrealized foreign exchange profits	9	(4)	5	(5)	16	16
Interest accrued on deposits, on financial assets	440	(364)	76	47	-	123
The right to perpetual usufruct	765	(10)	755	(11)	-	744
Revaluation of fixed assets to fair value	4 716	(1 770)	2 946	(220)	1 318	4 044
Investment property fair value adjustment	2 192	(63)	2 129	(48)	-	2 081
Other	3	3 550	3 553	(438)	-	3 115
Variances due to currency translation	86	(60)	26	361	-	387
<b>Total, before offsetting</b>	<b>27 132</b>	<b>(519)</b>	<b>26 613</b>	<b>19 250</b>	<b>2 763</b>	<b>48 628</b>
The value of offsetting of deferred tax assets and deferred tax liabilities	(26 810)	5 746	(21 064)	(18 978)	(518)	(40 560)
<b>Total, after offsetting</b>	<b>322</b>	<b>5 227</b>	<b>5 549</b>	<b>272</b>	<b>2 245</b>	<b>8 068</b>

The Group decided not to disclose changes in the period by capital and profit/loss due to the minor importance of changes recognised through the revaluation reserve.

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**20. Discontinued activity**

In 2016 and 2015 there was no discontinued business.

**21. Profit (loss) per one share**

The net profit per share for each period is calculated by way of dividing the net profit assigned to the shareholders of the Parent Company for the given period by the weighted average number of shares during the given reporting period. Diluted net profit per share for each period is calculated by way of dividing the net profit assigned to the shareholders of the Parent Company for the given period by the sum of the weighted average number of ordinary shares during the given reporting period and all potential diluted shares.

Profit per one share:

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
Net profit (loss) from continued operations	56 332	51 758
Net profit applied to calculate diluted earnings per share	56 332	51 758
Net profit attributable to shareholders of Parent entity applied to calculate diluted earnings per share	54 685	50 203
<b>Number of issued shares (pcs)</b>	<b>51 399 548</b>	<b>51 399 548</b>
Weighted average number of issued ordinary shares applied to calculate basic earnings per share (pcs)	51 399 548	51 399 548
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings per share	51 399 548	51 399 548

Profit (loss) per one share assigned to shareholders during the period (in PLN per share):

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
- basic	1,10	1,01
- diluted	1,10	1,01

Profit (loss) per one share on continued business assigned to shareholders during the period (in PLN per share):

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
- basic	1,10	1,01
- diluted	1,10	1,01

Profit (loss) per share attributable to shareholders of Parent company in the period (PLN per share):

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
- basic	1,06	0,98
- diluted	1,06	0,98

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**22. Tangible fixed assets**

Fixed assets structure:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Fixed assets, including:	231 361	184 040
- land (including right of perpetual usufruct)	22 773	23 004
- buildings, premises, civil and water engineering structures	17 521	17 472
- technical equipment and machines	110 082	72 104
- vehicles	68 158	61 663
- other fixed assets	12 827	9 797
Fixed assets under construction	16 128	10 192
<b>Total</b>	<b>247 489</b>	<b>194 232</b>

Changes in fixed assets:

Financial year ended 31.12.2016	Land, buildings and structures	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under constructio n	Total
<b>Net book value at the beginning of the year</b>	<b>40 476</b>	<b>72 104</b>	<b>61 663</b>	<b>9 797</b>	<b>10 192</b>	<b>194 232</b>
Increases - purchase	1 119	17 926	11 821	4 953	20 224	56 044
Full consolidation method for a new Subsidiary	-	25 242	1 920	62	1 968	29 192
Other increases	-	-	-	1 073	10	1 083
Movements from inventory	-	-	-	-	-	-
Movements between categories	1 048	3 571	-	-	(4 637)	(18)
Sale	(773)	(509)	(176)	(51)	(11 632)	(13 141)
Liquidation	-	(4)	(405)	(326)	-	(735)
Depreciation	(2 011)	(9 378)	(7 101)	(3 014)	-	(21 504)
Other decreases	-	(34)	-	-	-	(34)
Variances due to currency translation	433	1 165	436	333	4	2 371
<b>Net book value at the end of the year</b>	<b>40 294</b>	<b>110 082</b>	<b>68 158</b>	<b>12 827</b>	<b>16 128</b>	<b>247 489</b>

As at 31.12.2016

Audited						
(Gross) cost or value from valuation	72 779	230 881	141 943	38 265	16 345	500 213
Depreciation and impairment write-offs	(32 918)	(121 964)	(74 221)	(25 771)	(221)	(255 095)
Variances due to currency translation	433	1 165	436	333	4	2 371
<b>Net book value</b>	<b>40 294</b>	<b>110 082</b>	<b>68 158</b>	<b>12 827</b>	<b>16 128</b>	<b>247 489</b>

Financial year ended 31.12.2015	Land, buildings and structures	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under constructio n	Total
<b>Net book value at the beginning of the year</b>	<b>47 275</b>	<b>63 031</b>	<b>56 069</b>	<b>9 562</b>	<b>9 720</b>	<b>185 657</b>
Increases - purchase	180	17 514	14 336	2 773	6 731	41 534
Other increases	-	-	-	-	892	892
Movements from inventory	(3 062)	-	-	-	-	(3 062)
Movements between categories	695	1 778	2 226	-	(4 699)	-
Sale	-	(341)	(3 971)	(134)	(2 452)	(6 898)
Liquidation	-	(11)	(136)	(8)	-	(155)
Depreciation	(2 206)	(9 234)	(6 857)	(2 406)	-	(20 703)
Impairment	-	(762)	(30)	-	-	(792)
Other decreases	(2 384)	-	-	-	-	(2 384)
Variances due to currency translation	(22)	129	26	10	-	143
<b>Net book value at the end of the year</b>	<b>40 476</b>	<b>72 104</b>	<b>61 663</b>	<b>9 797</b>	<b>10 192</b>	<b>194 232</b>

As at 31.12.2015

Modified						
(Gross) cost or value from valuation	74 604	191 252	132 797	33 028	10 413	442 094
Depreciation and impairment write-offs	(34 106)	(119 277)	(71 160)	(23 241)	(221)	(248 005)
Variances due to currency translation	(22)	129	26	10	-	143
<b>Net book value</b>	<b>40 476</b>	<b>72 104</b>	<b>61 663</b>	<b>9 797</b>	<b>10 192</b>	<b>194 232</b>

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Ownership structure of fixed assets:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Proprietary	192 621	148 057
Used on the basis of lease, rental or other agreement, including leasing agreement	54 868	46 175
<b>Total</b>	<b>247 489</b>	<b>194 232</b>

Trakcja Group, as the lessee, uses the following tangible fixed assets based on a financial lease agreement:

<b>As at 31.12.2016</b>	<b>Land,</b>	<b>Machines</b>		<b>Other</b>	<b>Fixed assets</b>	
<b>Audited</b>	<b>buildings</b>	<b>and</b>		<b>fixed</b>	<b>under</b>	
	<b>and</b>	<b>and</b>	<b>Vehicles</b>	<b>assets</b>	<b>constructio</b>	<b>Total</b>
	<b>structures</b>	<b>equipment</b>			<b>n</b>	
Value at the beginning of the period	-	39 583	25 561	48	-	<b>65 192</b>
Accumulated depreciation	-	(5 460)	(4 816)	(48)	-	<b>(10 324)</b>
<b>Net book value</b>	<b>-</b>	<b>34 123</b>	<b>20 745</b>	<b>-</b>	<b>-</b>	<b>54 868</b>

<b>As at 31.12.2015</b>	<b>Land,</b>	<b>Machines</b>		<b>Other</b>	<b>Fixed assets</b>	
<b>Modified</b>	<b>buildings</b>	<b>and</b>		<b>fixed</b>	<b>under</b>	
	<b>and</b>	<b>and</b>	<b>Vehicles</b>	<b>assets</b>	<b>constructio</b>	<b>Total</b>
	<b>structures</b>	<b>equipment</b>			<b>n</b>	
Value at the beginning of the period	-	25 544	28 235	2 136	-	<b>55 915</b>
Accumulated depreciation	-	(3 943)	(4 873)	(924)	-	<b>(9 740)</b>
<b>Net book value</b>	<b>-</b>	<b>21 601</b>	<b>23 362</b>	<b>1 212</b>	<b>-</b>	<b>46 175</b>

Based on the right of perpetual usufruct of land, the Group has land classified in the Land, Buildings and Structures category, with the net value of PLN 24,327 thousand (31/12/2015: PLN 26,631 thousand).

Information about securities on tangible fixed assets is included in Note 55.

### 23. Investment property

The below table presents changes in investment real property during the year:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Audited</b>
<b>As at start of period (by type groups) - net value:</b>	<b>21 976</b>	<b>22 960</b>
- land	18 920	19 904
- buildings, premises, civil and water engineering structures	3 056	3 056
<b>Increases:</b>	<b>412</b>	<b>-</b>
- land	412	-
- revaluation	399	-
- acquisition	-	-
- exchange rate differences	13	-
<b>Decreases</b>	<b>(1 162)</b>	<b>(984)</b>
- land	(603)	(984)
- revaluation	(603)	(983)
- exchange rate differences	-	(1)
- buildings, premises, civil and water engineering structures	(559)	-
- revaluation	(559)	-
<b>As at end of period (by type groups) - net value:</b>	<b>21 226</b>	<b>21 976</b>
- land	18 729	18 920
- buildings, premises, civil and water engineering structures	2 497	3 056

The Group presents investment property at fair value. The fair value of the Group's investment property as at December 31, 2016 and December 31, 2015 was assessed based on valuation performed by an independent appraiser with appropriate qualifications required to evaluate real estate, as well as present experiences in such valuations performed at locations, where the Group's assets are placed. In addition, the Group assesses the obtained opinions on the fair value through the analysis of data derived from an active market and current

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market prices for similar investment property with similar location and in a comparable condition. These analyses are performed by persons who have knowledge of the market.

The buildings classified as investment property, which are in the possession of the Group, have been measured applying the cost methods. Pursuant to IFRS 13, the cost approach reflects the amount, which would be currently due, in order to reconstruct the productivity of the given component of assets (often defined as current replacement cost). In many cases, the current replacement cost method is applied to determine the fair value of material assets, which are used in combination with other assets or other assets and liabilities. Evaluated real properties belong in the category of the regional market, and the value of the construction component is defined within the cost approach with the application of the replacement cost method and using the indicator technique and integrated elements.

The fair value of land that forms part of investment property was established by way of a reference to transactional market prices for similar properties (comparison method). The comparison approach consists in determining the value of a real property with the assumption that the value of the evaluated real property is equal to the price for similar real properties, which have been traded, adjusted in accordance with the attributes, which differentiate these real properties (i.e. location, infrastructure/development status, area) and determined in account of the changes in level of prices due to the lapse of time. The sensitivity analysis indicates that the comparable valuation model is sensitive to changes of prices of real properties similar to the evaluated property.

The real property "Nowowola Natural Aggregate Deposit" belonging to the subsidiary PEUiM Sp. z o.o. was measured with the application of the income method and the discounted cash-flows technique. This technique is based on expected cash flows, which have not been adjusted in relation to risk, and the discounting rate, which takes account of the risk premium as requested by market participants. This rate was calculated based on the CAPM model and adopted at the level of 10.22%. The valuation took account of the 10-year projections of income generated by the real property. The level of income generated by the real property was determined on the basis of an analysis of data obtained from the local market and detailed data concerning resources in the deposit. The residual value of the land after ending exploitation of the deposit was defined on the basis of an analysis of average transactional prices of land in poor agricultural classes in the Podlaskie Province. The real property valuation model applying the income method is sensitive to the level of the discounting rate and the volume of foreseen streams of income from the real property.

The sensitivity analysis indicates that the market valuation model is mainly sensitive to prices of similar property and that the cost valuation model is sensitive to the replacement cost and the degree of technical wear and tear.

The establishment of the fair value takes place in account of valuation techniques relevant to circumstances and wherever sufficient data is available, with maximum use of relevant observable input data and minimum use of unobservable input data.

Below we present the influence of unobservable input data on fair value of the real property depending on the adopted valuation technique.

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Valuation technique used	Unobservable input data	Link between unobservable input data and fair value	
Office - land	Comparative approach	Location (20%) Accessibility (20%) Function in development plan/study (20%) Development state, size and shape of the plot (20%) Location, accessibility (10%) Ownership form (10%)	these factors affect the value of the weighting adopted in measuring the fair value of real estate
		Average market price of comparable real estate	an increase in the market value of comparable real estate will increase the fair value of real estate
Office and warehouse properties	Cost approach	Replacement cost value	increase in the replacement cost will increase the fair value of real estate
		Requisite degree of technical wear 50%-85%	higher the degree of technical wear adversely affect the fair value of the property
Land	Comparative approach	Location (35%) Accessibility (25%) Development state (20%) Size and shape of the plot (20%)	these factors affect the value of the weighting adopted in measuring the fair value of real estate
		Average market price of comparable real estate	an increase in the market value of comparable real estate will increase the fair value of real estate
Deposits of natural aggregates	Income approach	Discount rate 7,53 %	an increase in the discount rate would decrease the fair value of the property
		Wealth deposits 1 882,83 ths. tonnes	the expected size of the deposit growth will increase in the fair value of real estate
		Average sales price of aggregate 13,5 PLN/Mg	increase in the average sales price of aggregate will increase the fair value of the property

In 2016, the valuation technique remained unchanged.

Investment property was appraised by an independent expert based on the market data as at December 31, 2016.

The establishment of the fair value of the real property applied the approach of the most favourable and best use of the real property (i.e. current use of these real properties).

The valuation as at December 31, 2016 demonstrated that the value of investment property decreased by the amount of PLN 763 thousand, which was recognised in other operating revenues in the gross amount of PLN 252 thousand and as a decrease in the revaluation reserve in the gross amount of PLN 511 thousand.

Details concerning the hierarchy of the fair value as at December 31, 2016 and December 31, 2015:

	31.12.2016 Audited	Level 1	Level 2	Level 3
<b>Investment property:</b>	<b>21 226</b>	-	-	<b>21 785</b>
Offices	15 213	-	-	15 772
Land	2 185	-	-	2 185
Deposits of natural aggregates	3 828	-	-	3 828

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	<b>31.12.2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>Modified</b>			
<b>Investment property:</b>	<b>21 976</b>	-	-	<b>21 976</b>
Offices	15 772	-	-	15 772
Land	2 287	-	-	2 287
Deposits of natural aggregates	3 917	-	-	3 917

**Level 1** – prices of market quotations from active markets for identical assets and liabilities;

**Level 2** – prices from active market, but other than market prices quotations – established directly (by comparing with actual transactions) or indirectly (using techniques based on actual transactions);

**Level 3** – prices not from active markets.

During the financial year there were no transfers between levels 1, 2 and 3.

The reconciliation of the opening balance and closing balance of fair value is presented below:

	<b>Financial year ended</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Audited</b>
<b>As at the beginning of the period (Level 3)</b>	<b>21 976</b>	<b>22 960</b>
Gains (losses) recognized in profit and loss account	(252)	(983)
Gains (losses) included in revaluation reserve	(511)	-
Exchange rate differences	13	(1)
<b>As at the end of the period (Level 3)</b>	<b>21 226</b>	<b>21 976</b>
Unrealised profits (losses) in the period recognised in P&L (as other operating costs)	(252)	(983)

Revenues from rent and direct operational costs concerning investment properties were as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Audited</b>
Rental income from investment property	298	335
Direct operating costs from investment property that during the period generated rental income	293	214
Direct operating costs from investment property that during the period did not generate rental income	-	34

Collateral was not established on investment property, as described in detail in Note 55.

## 24. Goodwill on consolidation

As at the balance sheet date, the Group recognised in the consolidated financial statements, goodwill of PLN 386,587 thousand (31/12/2015: PLN 383,450 thousand), which was disclosed in the following balance sheet items:

- goodwill on consolidation: PLN 337,855 thousand (31/12/2015: PLN 334,718 thousand),
- intangible assets: PLN 48,732 thousand (31/12/2015: PLN 48,732 thousand).

### Goodwill on consolidation

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Goodwill at cost	399 387	384 451
Accumulated impairment	(61 532)	(49 733)
<b>Goodwill after all write-offs</b>	<b>337 855</b>	<b>334 718</b>

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	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
<b>Balance at the beginning of the period</b>	<b>334 718</b>	<b>342 265</b>
<b>Increase</b>	<b>8 606</b>	<b>4 780</b>
Movement from Intangible Assets	-	4 780
Taking control over companies	8 606	-
<b>Decreases</b>	<b>(11 799)</b>	<b>(12 302)</b>
Impairment charged to P&L during the year	(11 799)	(12 302)
<b>Exchange rate differences</b>	<b>6 330</b>	<b>(25)</b>
<b>Balance at the end of the period</b>	<b>337 855</b>	<b>334 718</b>

An increase in goodwill due to the acquisition of control over companies is described in Note 3.1. hereof.

#### Allocation of the goodwill to cost-generating units ("CGU") prior to recognising impairment losses

For impairment test purposes, as at December 31, 2016 the goodwill was allocated to the following cash generating units:

As at 31.12.2016 Audited	CGU:	CGU:	CGU:	CGU:	Total
	Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	Companies from AB Kauno Tiltai Group	PRK7 Nieruchomości	
<b>Allocated goodwill before recognition of write-downs</b>	<b>58 160</b>	<b>37 741</b>	<b>285 906</b>	<b>4 780</b>	<b>386 587</b>
recognized in goodwill on consolidation	9 428	37 741	285 906	4 780	337 855
recognized in intangible assets	48 732	-	-	-	48 732
As at 31.12.2015 Modified	CGU:	CGU:	CGU:	CGU:	Total
	Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	Companies from AB Kauno Tiltai Group	PRK7 Nieruchomości	
<b>Allocated goodwill before recognition of write-downs</b>	<b>49 554</b>	<b>49 540</b>	<b>279 576</b>	<b>4 780</b>	<b>383 450</b>
recognized in goodwill on consolidation	822	49 540	279 576	4 780	334 718
recognized in intangible assets	48 732	-	-	-	48 732

#### Test for goodwill impairment

As at December 31, 2016, an impairment test was conducted with regard to the goodwill assigned to all cash-generating centres. The recoverable value of the CGU is determined on the basis of calculations of the usable value. Except for PRK 7 Nieruchomości Sp. z o.o., whose projections cover 12 years, these calculations are based on the 5-year cash flow projections. Cash flows exceeding the five-year period were estimated at a fixed level. The growth rate during the residual period was adopted at the level of 1.2%-2% and it does not exceed the long-term inflation rate. The Management Board establishes the budgeted margin on the basis of historical results, updated contract budgets, and its own forecasts concerning market development. Weighted average growth rates are in line with the forecasts presented in industry reports. The applied discounting rate is the rate after taxation, reflecting defined threats concerning certain segments, not included in cash flow forecasts, calculated based on the CAPM model.

Basic assumptions adopted for the purpose of the goodwill impairment test:

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	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Companies from AB Kauno Tiltai Group	CGU: PRK7 Nieruchomości
<b>As at 31.12.2016</b>				
WACC before taxation	11,4%	11,8%	8,4%	11,4%
EBITDA margin	2,9%-4,4%	6,0%-7,7%	7,4%-9,9%	-1,6%-8,4%
Growth rate in the residual period	2%	2%	2%	1,2%
<b>As at 31.12.2015</b>				
WACC before taxation	11,5%	11,9%	9,7%	12,1%
EBITDA margin	4,0%-4,7%	3,9%-5,2%	7,2%-8,3%	2,0%-17,1%
Growth rate in the residual period	2%	2%	2%	2%

As a result of the conducted impairment test, identified was an impairment of goodwill assigned to the CGU consisting of the following companies: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM Białystok S.A. in the amount of PLN 11,799 thousand. The write-off was presented in the consolidated income statement as a separate item.

The conducted sensitivity analysis indicates that significant factors affecting the estimates of the usable value of cash generating units include the profitability of executed construction contracts and the adopted level of the discounting rate.

Below we present the analysis of the sensitivity of the recoverable value of cash generating units to changes of defined indicators used in the impairment test.

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

Factor applied	Reasonably possible change of the factor	The impact on the recoverable amount of cash generating unit	
		increase	decrease
EBITDA	+/- 2,5%	11 415	(11 415)
WACC	+/- 0,25%	(9 392)	9 908

The Group has analysed the sensitivity of changes in EBITDA by +/- 2.5% and WACC by +/- 0.25% and concluded that a reasonable change in the assumptions would not result in any impairment loss being recognised.

Sensitivity analysis for the CGU consisting of the following companies: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM Białystok S.A.

Factor applied	Reasonably possible change of the factor	The impact on the recoverable amount of cash generating unit	
		increase	decrease
EBITDA	+/- 2,5%	1 776	(1 776)
WACC	+/- 0,25%	(1 513)	1 593

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For this CGU, an impairment loss was recognised as at December 31, 2016, and therefore any additional change in the aforementioned parameters would result in the recognised impairment loss on goodwill being changed.

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

Factor applied	Reasonably possible change of the factor	The impact on the recoverable amount of cash generating unit	
		increase	decrease
EBITDA	+/- 2,5%	22 588	(22 588)
WACC	+/- 0,25%	(26 336)	28 479

The Group has analysed the sensitivity of changes in EBITDA by +/- 2.5% and WACC by +/- 0.25% and concluded that a reasonable change in the assumptions would not result in any impairment loss being recognised.

Sensitivity analysis for the CGU including PRK 7 Nieruchomości

Factor applied	Reasonably possible change of the factor	The impact on the recoverable amount of cash generating unit	
		increase	decrease
EBITDA	+/- 2,5%	407	(407)
WACC	+/- 0,25%	(634)	663

The Group has analysed the sensitivity of changes in EBITDA by +/- 2.5% and WACC by +/- 0.25% and concluded that a reasonable change in the assumptions would not result in any impairment loss being recognised.

## 25. Intangible assets

Structure of intangible assets:

	31.12.2016	31.12.2015
	Audited	Modified
Research and development costs	2 953	2 747
Goodwill	48 732	48 732
Acquired concessions, patents, licences and similar items of value, including:	3 270	3 974
- software	2 885	3 562
Other tangible non-current assets	2	6
Intangible assets under construction	334	1 144
<b>Total</b>	<b>55 291</b>	<b>56 603</b>

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## Changes in intangible assets:

Financial year ended 31.12.2016 Audited	Research and development expenses	Goodwill	Software licences	Other licences, concessions , patents	Other intangible assets	Intangible assets under constructio n	Total
<b>Net book value at the beginning of the year</b>	<b>2 747</b>	<b>48 732</b>	<b>3 562</b>	<b>412</b>	<b>6</b>	<b>1 144</b>	<b>56 603</b>
Increases	148	-	377	33	38	100	697
Full consolidation method for a new Subsidiary	-	-	24	-	-	-	24
Movments	911	-	-	-	-	(911)	-
Liquidation	-	-	(117)	-	-	-	(117)
Amortization	(859)	-	(987)	(60)	(8)	-	(1 914)
Other decreases	-	-	-	-	(34)	-	(33)
Variances due to currency translation	6	-	26	-	-	-	32
<b>Net book value at the end of the year</b>	<b>2 953</b>	<b>48 732</b>	<b>2 885</b>	<b>385</b>	<b>2</b>	<b>334</b>	<b>55 291</b>

**As at 31.12.2016****Audited**

(Gross) cost or value from	8 472	48 732	9 071	671	636	334	67 916
Amortization and impairment write-offs	(5 525)	-	(6 212)	(286)	(634)	-	(12 657)
Variances due to currency translation	6	-	26	-	-	-	32
<b>Net book value</b>	<b>2 953</b>	<b>48 732</b>	<b>2 885</b>	<b>385</b>	<b>2</b>	<b>334</b>	<b>55 291</b>

Financial year ended 31.12.2015 Audited	Research and development expenses	Goodwill	Software licences	Other licences, concessions , patents	Other intangible assets	Intangible assets under constructio n	Total
<b>Net book value at the beginning of the year</b>	<b>3 536</b>	<b>53 512</b>	<b>1 005</b>	<b>38</b>	<b>13</b>	<b>2 065</b>	<b>60 169</b>
Increases	91	-	1 719	390	7	568	2 775
Movements	-	(4 780)	1 489	-	-	(1 489)	(4 780)
Amortization	(879)	-	(654)	(16)	(14)	-	(1 563)
Variances due to currency translation	(1)	-	3	-	-	-	2
<b>Net book value at the end of the year</b>	<b>2 747</b>	<b>48 732</b>	<b>3 562</b>	<b>412</b>	<b>6</b>	<b>1 144</b>	<b>56 603</b>

**As at 31.12.2015****Modified**

(Gross) cost or value from	7 411	48 732	8 853	638	662	1 144	67 440
Amortization and impairment write-offs	(4 663)	-	(5 294)	(226)	(656)	-	(10 839)
Variances due to currency translation	(1)	-	3	-	-	-	2
<b>Net book value</b>	<b>2 747</b>	<b>48 732</b>	<b>3 562</b>	<b>412</b>	<b>6</b>	<b>1 144</b>	<b>56 603</b>

## Ownership structure of intangible assets:

	31.12.2016 Audited	31.12.2015 Modified
Proprietary	55 291	56 603
<b>Total</b>	<b>55 291</b>	<b>56 603</b>

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In 2016 and 2015, the Group did not recognise any expenses in the income statement, which were not capitalised in intangible assets (research and development works).

## 26. Other financial assets

	31.12.2016 Audited	31.12.2015 Modified
<b>Financial assets held to maturity</b>	<b>9 896</b>	<b>15 747</b>
Bank guarantees deposits	9 896	15 747
Other bank deposits	0	-
<b>Loans granted and own receivables</b>	<b>45 266</b>	<b>44 646</b>
Financial assets related to the concession agreement	45 266	44 646
<b>Total</b>	<b>55 162</b>	<b>60 394</b>
including:		
- recognised as non-current assets	46 502	45 564
- recognised as current assets	8 660	14 830

In 2016, there was no impairment of individual components of financial assets.

## 27. Joint operations

### 27.1. Joint ventures

In 2016 and 2015, the Group held 50% of shares in Bahn Technik Wrocław Sp. z o.o. ("BTW"), which was classified as a joint venture, and its financial data for 2015 and 2016 were consolidated under the equity method in accordance with IFRS 11. On December 30, 2016, as a result of the acquisition of additional 50% of shares in BTW, the Group has become its sole shareholder. As at December 31, BTW was consolidated under the full method. For the details, see Note No. 3.1 hereof.

Please find below a summary of financial data of BTW:

	Financial year ended	
	31.12.2016 Audited	31.12.2015 Audited
Sales revenues	32 754	47 207
Cost of goods sold	(31 841)	(40 341)
including: Depreciation	(3 104)	(2 798)
Financial income	131	17
including: Interest income	6	17
Financial costs	(388)	(183)
including: Interest cost	(54)	(68)
Income tax	(160)	(1 360)
<b>Net result from continued operations</b>	<b>496</b>	<b>5 562</b>
Net result from discontinued operations	-	-
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>496</b>	<b>5 562</b>
Group's share of profit for the year from continued operations (50%)	248	2 781
Group's share of total comprehensive income for the year from continued operations (50%)	248	2 781

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**27.2. Joint operations – contracts executed in consortiums**

The Group performs certain long-term contracts based on consortium agreements, as the consortium leader. The Group treats shares in such contracts as shares in joint ventures pursuant to IFRS 11. Therefore, the Group does not recognize in the income statement any parts of revenues or costs due to such contracts, allocated to consortium members.

The table below presents revenues and costs allocated to consortium members, concerning contracts executed within the scope of the aforementioned consortiums, which were not recognized in the Group's income statement.

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
Sales revenues	103 166	242 221
Cost of goods sold	(105 329)	(251 681)
<b>Gross profit on sales</b>	<b>(2 163)</b>	<b>(9 460)</b>

In its balance sheet as at December 31, 2016, the Group did not recognize trade receivables allocated to consortium partners in the amount of PLN 37,342 thousand (31/12/2015: PLN 37,410 thousand) and trade liabilities allocated to consortium partners in the amount of PLN 40,346 thousand (31/12/2015: PLN 47,537 thousand).

**28. Accruals**

Structure by type of prepayments and accruals:

	31.12.2016	31.12.2015
	Audited	Modified
Prepayments, including:	7 649	11 752
- insurance and insurance guarantees	4 695	8 747
- PKP (Polish Railways) identification documents	-	96
- repair and maintenance of wagons, locomotives	2 954	2 909
Other prepayments and accruals	1 000	923
<b>Total</b>	<b>8 649</b>	<b>12 675</b>

Age Structure of prepayments and accruals of costs:

	31.12.2016	31.12.2015
	Audited	Modified
Long-term	2 630	3 714
Short-term	6 019	8 961
<b>Total</b>	<b>8 649</b>	<b>12 675</b>

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**29. Inventory**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Materials	39 386	47 785
Semi-finished goods and products in progress	4 426	22 802
Finished goods	22 722	490
Merchandise	10 015	14 945
<b>Total, gross inventory</b>	<b>76 549</b>	<b>86 022</b>
<b>Inventory revaluation write-offs</b>	<b>(688)</b>	<b>(1 194)</b>
Materials	38 746	46 639
Semi-finished goods and products in progress	4 426	22 802
Finished goods	22 695	463
Merchandise	9 994	14 924
<b>Total, net inventory</b>	<b>75 861</b>	<b>84 828</b>

Costs of inventory recognized in operational costs for the current period amounted to PLN 387,474 thousand (PLN 252,378 thousand for 2015).

Change in write-downs to inventory:

	<b>Financial year ended</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Audited</b>
<b>Balance at the beginning of the period</b>	<b>1 194</b>	<b>2 700</b>
<b>Increases</b>	<b>1 055</b>	<b>1 623</b>
Establishment	1 055	1 623
<b>Decreases</b>	<b>(1 578)</b>	<b>(3 129)</b>
Use	-	(4)
Dissolution	(1 578)	(3 125)
<b>Exchange rate differences</b>	<b>17</b>	<b>-</b>
<b>Balance at the end of the period</b>	<b>688</b>	<b>1 194</b>

Creation and reversal of amounts of impairment write-downs to inventory were recognized in the "own cost of sale" in the consolidated income statement. Write-downs to inventory are performed in line with the rules defined in Note 9.12. The inventory is secured, according to Note 55.

**30. Trade receivables and other receivables**

Structure of receivables by virtue of supplies and services and other receivables:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
<b>Gross trade receivables, before discounting</b>	<b>378 589</b>	<b>237 011</b>
Discounting of receivables	-	-
<b>Total, gross trade receivables</b>	<b>378 589</b>	<b>237 011</b>
including:		
- receivables from related entities	5 798	194
Budgetary receivables	3 610	6 124
Receivables claimed in court	3 354	2 847
Other receivables from third parties	15 308	4 731
Amounts held	20 922	16 223
Advances paid	3 806	1 589
<b>Total, gross trade and other receivables</b>	<b>425 589</b>	<b>268 526</b>
Receivables revaluation write-offs	(26 003)	(21 661)
<b>Total</b>	<b>399 586</b>	<b>246 864</b>

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Receivables from the related companies are shown in Note 58.

Trade receivables and retained amounts:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
<b>Net trade receivables</b>		
With maturity within 12 months	382 045	221 067
With maturity over 12 months	5 313	13 479
Discounting of receivables	-	-
<b>Total, net trade receivables after discounting</b>	<b>387 358</b>	<b>234 546</b>

Receivables due over 12 months include retained amounts, which constitute an additional contract security.

The Group resigned from recognising discounting of long-term receivables due to its small significance.

The structure of due dates of retained amounts in total is provided in the table below:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Up to 12 months	16 928	2 116
Over 12 months	3 994	14 108
<b>Total</b>	<b>20 922</b>	<b>16 223</b>

Trade receivables are not interest bearing and their maturity is usually 30 days.

The Group has implemented special policy within the scope of making the sales only to verified customers. In the management opinion, thanks to this, there is no additional credit risk over the level specified by the write down concerning bad debt, proper for the trade receivables of the Group. As at the balance sheet date, 42% of the total receivables of Trakcja Group are receivables from PKP PLK S.A.

Due to the short-term nature of trade receivables, their balance sheet value is close to the fair value.

Change of write downs to receivables:

	<b>Financial year ended</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Audited</b>
<b>As at start of period</b>	<b>21 661</b>	<b>18 233</b>
<b>Increases</b>	<b>5 242</b>	<b>6 973</b>
Establishment	3 934	6 973
Full consolidation method for a new Subsidiary	1 308	-
<b>Decreases</b>	<b>(948)</b>	<b>(3 511)</b>
Use	(128)	(1 708)
Dissolution	(819)	(1 803)
<b>Variances due to currency translation</b>	<b>48</b>	<b>(34)</b>
<b>As at end of period</b>	<b>26 003</b>	<b>21 661</b>

Recognition and reversal of write-downs of trade receivables and other receivables are presented in cost of sales.

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Trade receivables and retained amounts by maturity dates:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Up to 1 month	207 130	115 620
From 1 month to 3 months	117 530	21 054
From 3 months to 6 months	14 428	2 733
From 6 months to 1 year	19	2 370
More than 1 year	6 782	14 803
Overdue receivables	41 469	77 967
<b>Total, net trade receivables</b>	<b>387 358</b>	<b>234 546</b>

Structure of overdue trade receivables and retained amounts:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Up to 1 month	24 275	43 194
From 1 month to 3 months	1 309	26 106
From 3 months to 6 months	10 603	5 822
From 6 months to 1 year	2 738	8 797
More than 1 year	12 814	12 735
<b>Total, gross overdue trade receivables</b>	<b>51 739</b>	<b>96 655</b>
Receivables revaluation write-offs	(10 270)	(18 688)
<b>Total, net overdue trade receivables</b>	<b>41 469</b>	<b>77 967</b>

Currency structure of trade receivables and other gross receivables:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
In PLN	318 521	130 813
In foreign currencies - after conversion into PLN, including:	107 068	137 713
in LTL	-	-
in EUR	98 535	136 824
in SEK	8 524	889
in BGN	9	-
<b>Total</b>	<b>425 590</b>	<b>268 526</b>

Receivables claimed in court:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Receivables claimed in court	3 354	2 847
Revaluation write-offs on receivables claimed in court	(3 354)	(2 847)
<b>Total</b>	<b>-</b>	<b>-</b>

### 31. Cash and cash equivalents

Cash in bank is interest bearing according to variable interest rates which amount depends on the interest rate of one day bank investments.

Short term investments are made for different periods, from one day to one month, depending on the current demand of the Group for cash and bear interest according to negotiated interest rates.

The balance of cash and cash equivalents presented in the consolidated balance sheet and in the consolidated statement of cash flows consisted of the following items:

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	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Cash in hand	167	124
Cash at bank	127 581	95 294
Other cash - deposits	21 050	155 088
Other cash - escrow account	-	928
<b>Total cash and cash equivalents</b>	<b>148 799</b>	<b>251 435</b>
Cash and cash equivalents excluded from cash flow statement	(2 439)	(118)
<b>Cash and cash equivalents presented in cash flow statement</b>	<b>146 360</b>	<b>251 317</b>

Cash excluded from the statement of cash flows as at December 31, 2016 comprises cash blocked on development project accounts in the amount of PLN 2,439 thousand.

Currency structure of cash and cash equivalents:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
In PLN	34 019	156 177
In foreign currencies - after conversion into PLN, including:	114 780	95 258
in EUR	110 647	92 888
in USD	4	828
in BYR	7	5
in SEK	4 036	1 536
in DKK	1	1
in BGN	86	-
<b>Total</b>	<b>148 799</b>	<b>251 435</b>

Cash at bank – rating:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Bank with AA- rating	53 164	48 768
Bank with A+ rating	61 464	45 545
Bank with A rating	267	-
Bank with A- rating	2 372	17 339
Bank with BBB rating	26 878	132 867
Bank with BBB- rating	66	4
Bank with BB+ rating	-	6 101
Bank with BB rating	1 531	-
Bank with B+ rating	2 577	-
Bank without rating	62	239
<b>Total</b>	<b>148 381</b>	<b>250 862</b>
Cash in hand	167	124
Balance (note 59)	251	450
<b>Cash at the end of the period</b>	<b>148 799</b>	<b>251 435</b>

Rating was assigned by renowned rating agencies (Fitch, S&P).

**32. Construction contracts**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Surplus of invoiced revenues over revenues resulting from degree of advancement	25 312	64 780
Surplus of revenues resulting from degree of advancement over invoiced revenues	32 508	17 643
Advances paid towards contracts being performed	3 575	1 109
Advances received towards contracts being performed	6 364	1 560
Provision for anticipated losses on contracts	48 756	41 882
Recognised in balance sheet:		
<i>in non-current assets</i>		
<b>Construction contracts</b>	-	<b>2 527</b>
<i>in current assets</i>		
<b>Construction contracts</b>	<b>36 083</b>	<b>16 225</b>
<i>in short-term liabilities</i>		
<b>Construction contracts</b>	<b>80 432</b>	<b>108 223</b>

**33. Capital risk management**

The goal of the Group in managing the capital risk is maintaining the Group ability to continue the business and maintain optimum capital structure to provide return on investment to the shareholders. To maintain or correct the capital structure, the Group may emit new shares, change the amount of dividends paid to the shareholder, increase debt or reduce debt by selling the assets. The Group monitors the capital structure using the financing structure indexes. Indexes analysed by the Group, presented in the below table, allow maintaining both good credit rating and confirm the capital structure support for the operating activities of the Group.

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Equity to assets ratio	0,55	0,55
Equity to non-current assets ratio	1,07	1,06
Debt ratio	0,45	0,45
Debt to equity ratio	0,81	0,81

The above ratios have been calculated according to the following formulas:

Equity to assets ratio = Equity attributable to shareholders of Parent entity / total assets

Equity to non-current assets ratio = Equity attributable to shareholders of Parent entity / non-current assets

Debt ratio = (total assets - equity attributable to shareholders of Parent entity) / total assets

Debt to equity ratio = (total assets - equity attributable to shareholders of Parent entity) / equity attributable to shareholders of Parent entity

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**34. Equity****Share capital**

As at December 31, 2016 and as of the date hereof, the share capital of the Parent Company - pursuant to the entry in the National Court Register - amounted to PLN 41 119 638.40 and was divided into 51 399 548 A-series ordinary bearer shares with nominal value of PLN 0.80 each. Each share entitles to one vote at the Issuer's General Meeting. All shares are paid up in full.

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

Shareholders	Number of shares	% in the share capital	Number of votes	% in votes at GSM
COMSA S.A.	15 843 193	30,82%	15 843 193	30,82%
Nationale-Nederlanden OFE	5 111 908	9,95%	5 111 908	9,95%
OFE PZU "Złota Jesień"	4 349 650	8,46%	4 349 650	8,46%
Pozostali akcjonariusze	26 094 797	50,77%	26 094 797	50,77%
<b>Total</b>	<b>51 399 548</b>	<b>100,00%</b>	<b>51 399 548</b>	<b>100,00%</b>

**Share premium**

As at December 31, 2016, the total share premium amounted to PLN 309,984 thousand and had not changed in comparison to the value as at December 31, 2015.

**Other reserve capital**

Other reserve capital includes:

- Results from previous years - capital established from profits generated in previous financial years. The Parent Company is obliged to create reserve capital build on at least 8% of the profit in the given financial year, until the capital reaches at least one third of the initial share capital. Such reserve capital is not subject to division.
- Hedging instruments – an effective part of changes in the fair value of derivative instruments classified as cash flow hedges is recognized in other total income and accumulated in reserve capital to secure the cash flow. This capital is not subject to division.
- Actuarial profit (loss) – the Group recognized actuarial profit and loss due to reserves for employee benefits in other total income and accumulates it in reserve capital. This capital is not subject to division.

**Revaluation reserve**

Revaluation reserve includes the results of the change of the allocation of fixed assets.

**Foreign exchange differences from conversion of foreign units**

Due to the acquisition of companies in 2011, for which the functional currency until December 31, 2014 was Lithuanian litas (LTL), and is EUR from January 1, 2015 onwards, the Parent company converts their statements to the presentation currency, i.e. PLN. F/x differences generated in such due to such conversion are recognized directly in a separate item within the equity. F/x differences calculated as at the end of 2016 amounted to PLN 26,924 thousand.

**Retained earnings**

The undivided financial result of the Group covers the current result for a given financial year. The dividend may be paid based on the financial result set in the annual stand-alone financial statements of the Parent entity prepared for the statutory purposes.

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**Other total income by individual equity items**

	Equity attributable to shareholders of parent entity						Total	Non-controlling interest	Total equity
	Share capital	Share premium	Revaluation reserve	Other capital reserves	Foreign exchange differences on translation of foreign operations	Retained earnings			
<b>As at 31.12.2016</b>									
<b>Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:</b>	-	-	(413)	959	-	-	546	(5)	541
Gains on revaluation charged to revaluation reserve	-	-	(413)	-	-	-	(413)	-	(413)
Actuarial gains/(losses)	-	-	-	959	-	-	959	(5)	954
<b>Other comprehensive income, which will be reclassified to profit or loss:</b>	-	-	-	(564)	11 853	-	11 289	(127)	11 162
Foreign exchange differences on translation of foreign operations	-	-	-	-	11 853	-	11 853	73	11 926
Cash flow hedging instruments	-	-	-	(564)	-	-	(564)	(200)	(764)
<b>Other comprehensive net income</b>	-	-	(413)	395	11 853	-	11 835	(132)	11 703

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	Equity attributable to shareholders of parent entity						Total	Non-controlling interest	Total equity
	Share capital	Share premium	Revaluation reserve	Other capital reserves	Foreign exchange differences on translation of foreign operations	Retained earnings			
<b>As at 31.12.2015</b>									
<b>Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:</b>	-	-	-	(107)	-	-	(107)	1	(106)
Gains on revaluation charged to revaluation reserve	-	-	-	-	-	-	-	-	-
Actuarial gains/(losses)	-	-	-	(107)	-	-	(107)	1	(106)
<b>Other comprehensive income, which will be reclassified to profit or loss:</b>	-	-	-	396	(150)	-	246	143	389
Foreign exchange differences on translation of foreign operations	-	-	-	-	(150)	-	(150)	2	(148)
Cash flow hedging instruments	-	-	-	396	-	-	396	141	537
<b>Other comprehensive net income</b>	-	-	-	289	(150)	-	139	144	283

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**35. Non-controlling interest**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Audited</b>
<b>As at start of period</b>	<b>3 950</b>	<b>2 593</b>
<b>Increases, including:</b>	<b>1 515</b>	<b>1 719</b>
- changes in ownership interests in subsidiaries that do not result in loss of control	-	20
- share of total income for the period	1 515	1 699
- proceeds from payment to capital of a subsidiary from holders of non-controlling interest	-	-
- other		
<b>Decreases, including:</b>	<b>(635)</b>	<b>(362)</b>
- total comprehensive income for the period	-	-
- dividend paid to non-controlling interest	(580)	(358)
- other	(55)	(4)
<b>As at end of period</b>	<b>4 830</b>	<b>3 950</b>

After the conducted analysis, the Management Board of the Parent Company decided that capital amounts allocated to non-controlling interest are not material; therefore these statements do not include any detailed information concerning non-controlling interest pursuant to IFRS 12.

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**36. Provisions**

	Provisions for recultivation	Provision for costs	Provisions for litigious liabilities	Provisions for correctio n works	Provision for noncompetition payments and other compensation	Provision for restructuring	Provisions for bonuses	Provisions for audit costs	Other provisions	Total
<b>As at 1.01.2016</b>	<b>788</b>	<b>1 286</b>	<b>2 768</b>	<b>9 462</b>	<b>1 529</b>	<b>-</b>	<b>15 692</b>	<b>215</b>	<b>1 152</b>	<b>32 892</b>
<b>Modified</b>										
<b>Recognised in income statement:</b>										
- provision creation	-	-	113	39 192	900	2 431	11 780	351	3 353	58 120
- movements between categories	2 018	-	-	-	-	-	-	-	-	2 018
- release of unused provisions	-	-	(1 763)	(827)	-	-	-	-	(256)	(2 847)
- use of provisions	-	(984)	(37)	(8 625)	(1 529)	(601)	(15 044)	(299)	(1 376)	(28 494)
- full consolidation method for a new Subsidiary	-	-	-	74	-	-	464	19	100	657
- variances due to currency translation	57	-	5	115	-	-	478	-	-	655
<b>Total</b>	<b>2 075</b>	<b>(984)</b>	<b>(1 681)</b>	<b>29 929</b>	<b>(629)</b>	<b>1 831</b>	<b>(2 322)</b>	<b>71</b>	<b>1 821</b>	<b>30 111</b>
<b>As at 31.12.2016</b>	<b>2 863</b>	<b>302</b>	<b>1 087</b>	<b>39 391</b>	<b>900</b>	<b>1 831</b>	<b>13 370</b>	<b>286</b>	<b>2 973</b>	<b>63 003</b>
<b>Audited</b>										

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	Provisions for recultivation	Provision for costs	Provisions for litigious liabilities	Provisions for correctio n works	Provision for noncompetition payments and other compensation	Provision for restructuring	Provisions for bonuses	Provisions for audit costs	Other provisions	Total
<b>As at 1.01.2015</b>	<b>788</b>	<b>51</b>	<b>2 002</b>	<b>6 950</b>	<b>-</b>	<b>-</b>	<b>15 532</b>	<b>191</b>	<b>1 294</b>	<b>26 808</b>
<b>Audited</b>										
<b>Recognised in income statement:</b>										
- provision creation	-	2 390	895	5 785	5 104	-	16 402	365	428	31 370
- movements between categories	-	-	-	-	-	-	-	-	-	-
- release of unused provisions	-	-	(34)	(2 502)	(508)	-	(1 010)	-	(538)	(4 593)
- use of provisions	-	(1 155)	(96)	(768)	(3 067)	-	(15 311)	(342)	(32)	(20 769)
- variances due to currency translation	-	-	1	(3)	-	-	80	-	-	78
<b>Total</b>	<b>-</b>	<b>1 235</b>	<b>766</b>	<b>2 512</b>	<b>1 529</b>	<b>-</b>	<b>160</b>	<b>23</b>	<b>(142)</b>	<b>6 084</b>
<b>As at 31.12.2015</b>	<b>788</b>	<b>1 286</b>	<b>2 768</b>	<b>9 462</b>	<b>1 529</b>	<b>-</b>	<b>15 692</b>	<b>215</b>	<b>1 152</b>	<b>32 892</b>
<b>Modified</b>										

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Ageing structure of provisions:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Long-term	27 650	9 202
Short-term	35 353	23 690
<b>Total</b>	<b>63 003</b>	<b>32 892</b>

Provisions for additional works have been estimated based on the knowledge of the contract directors with regard to the required or potential performance of additional works for the benefit of the contracting entity, in order to fulfil warranty obligations.

### 37. Employee benefit liabilities

Liabilities due to reserves for retirement and severance benefit and jubilee awards:

<b>Provision for retirement and disability benefits</b>	<b>Financial year ended</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Audited</b>
<b>Beginning of period</b>	<b>6 491</b>	<b>6 871</b>
Total costs recognised in profit and loss account:	1 413	1 392
- Interest costs	180	176
- Current service costs	1 239	1 216
- Past service costs	(7)	-
Actuarial losses (profit) recognised in other comprehensive income	(1 193)	134
Benefits paid	(739)	(1 911)
Exchange rate differences	95	5
<b>End of period</b>	<b>6 067</b>	<b>6 491</b>

<b>Provision for jubilee awards</b>	<b>Financial year ended</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Audited</b>
<b>Beginning of period</b>	<b>7 009</b>	<b>7 539</b>
Total costs recognised in profit and loss account:	1 257	1 414
- Interest costs	142	155
- Current service costs	973	1 886
- Past service costs	-	-
- Actuarial gains / losses	142	(627)
Benefits paid	(1 808)	(1 944)
<b>End of period</b>	<b>6 458</b>	<b>7 009</b>

Liabilities due to reserves for unused annual leave and other employee benefits:

<b>Provision for unused leaves</b>	<b>Financial year ended</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Audited</b>
<b>As at start of period</b>		
<b>Audited</b>	<b>9 131</b>	<b>8 174</b>
<b>Recognised in profit and loss account:</b>		
- provision creation	8 506	8 144
- release of unused provision	(410)	(272)
- use of provision	(7 561)	(6 922)
Full consolidation method for a new Subsidiary	245	-
Variances due to currency translation	121	7
<b>Total</b>	<b>902</b>	<b>957</b>
<b>As at end of period</b>		
<b>Audited</b>	<b>10 033</b>	<b>9 131</b>

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Ageing structure of liabilities due to employee benefits:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Long-term	11 134	11 737
Short-term	11 424	10 894
<b>Total</b>	<b>22 558</b>	<b>22 631</b>

Maturities of employee benefits:

	Provisions for retirement and disability benefits	Jubilee awards provisions
During 1 year	383	1 010
In period between 1 to 4 years	1 621	3 053
Over 4 years	4 063	2 395
<b>Total</b>	<b>6 067</b>	<b>6 458</b>

An average weighted maturity of employee benefits after the employment term is 4 years.

*Principles of creating reserves for employee benefits:*

The Group pays the retiring employees amounts of severance payments in the amount specified by the Remuneration Regulations. Therefore, the Group based on the valuation performed on the grounds of actuarial method, creates a reserve for the current amount of liabilities due to retirement and severance benefits and jubilee awards.

The average discounting rate in the Group used to estimate the amount of reserves for employee benefits at the end of 2016 amounted to 3.0 % (31/12/2010: 2.25% - 4.0 %). The average expected growth of remuneration in the Group was adopted at the level of 1.8% - 3.3% (31/12/2015: 1.8% - 3.3%).

The table below presents the sensitivity of analysis of liabilities due to employee benefits:

Factor applied	Reasonably possible	Liabilities due to employee benefits	
		increase	decrease
Discount rate	+/- 1%	(697)	801
Salary increase rate	+/- 1%	794	(681)

The current value of liabilities due to future employee benefits is equal to their balance sheet value.

### 38. Interest-bearing credits and loans

Interest-bearing long-term credits and loans

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Bank loans	56 395	47 440
- investment loans	17 466	7 115
- working capital loans	4 311	5 966
- project purpose loans	34 618	34 358
Loans from other entities	9 954	14 442
- investment loans	9 954	14 442
Financial lease liabilities	34 317	27 613
<b>Total</b>	<b>100 666</b>	<b>89 494</b>

Interest-bearing short-term credits and loans

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	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Bank loans	7 830	9 356
- investment loans	5 122	7 115
- working capital loans	1 659	1 291
- project purpose loans	1 049	950
Loans from other entities	4 533	4 429
- investment loans	4 533	4 429
Financial lease liabilities	9 640	7 840
<b>Total</b>	<b>22 003</b>	<b>21 625</b>
<b>Total short and long term loan and credits</b>	<b>122 669</b>	<b>111 119</b>

Currency structure of credits and loans of the Group:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
In PLN	72 258	43 161
In foreign currencies - after conversion into PLN, including:	50 411	67 958
in EUR	50 411	67 958
<b>Total</b>	<b>122 669</b>	<b>111 119</b>

The below table shows long- and short-term liabilities due to credits and loans as at December 31, 2016:

Company name	Lender	Type of loan/credit	Amount in agreement currency	Currency	Maturity date	Interests	Outstanding amount (in ths. PLN)
Trakcja PRKil S.A.	mLeasing	investment loan	22 400	PLN	16.09.2019	WIBOR 1M+ margin	13 256
Trakcja PRKil S.A.	mBank S.A.	overdraft	20 000	PLN	28.04.2017	WIBOR O/N+ margin	-
Trakcja PRKil S.A.	mBank S.A.	working capital	50 000	PLN	28.04.2017	WIBOR 1M+ margin	-
Trakcja PRKil S.A.	mBank S.A.	investment loan	21 500	PLN	30.09.2021	WIBOR 1M+ margin	21 502
Trakcja PRKil S.A.	Pekao S.A.	working capital	20 000	PLN	31.05.2017	WIBOR 1M+ margin	-
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	investment loan	1 746	PLN	30.11.2018	WIBOR 6M+ margin	1 086
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	overdraft	2 500	PLN	30.05.2017	WIBOR 6M+ margin	-
Bahn Technik Wrocław Sp. z o.o.	Bank Zachodni WBK S. A.	overdraft	2 500	PLN	30.06.2017	WIBOR 1M+ margin	-
AB Kauno Tiltai	Nordea Dnb	working capital	14 000	EUR	31.08.2018	EURIBOR 3M+ margin	-
AB Kauno Tiltai	Nordea	working capital	3 000	EUR	31.08.2018	EURIBOR 1M+ margin	-
AB Kauno Tiltai	Dnb	working capital	3 000	EUR	31.08.2018	EURIBOR 3M+ margin	-
AB Kauno Tiltai	Nordea Dnb	working capital	2 000	EUR	14.01.2020	EURIBOR 3M+ margin	5 970
UAB Palangos aplinkkelis	SEB Bank	project purpose loans	8 500	EUR	31.05.2028	EURIBOR 3M+ margin	35 668
UAB Pletros investicijos	Šiaulių plentas UAB	other units loan	363	EUR	31.12.2028	fixed interest rate	1 231
<b>Total</b>							<b>78 713</b>

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The interest rate on obtained credits depends on WIBOR / EURRIBOR and bank margin. Bank margins depend on the loan terms and the client's creditworthiness.

The Group has unused credit limits (credit limits in the current account and revolving credits) in the amount of PLN 186 million. In addition, the Group has a factoring limit granted in the amount of PLN 50,000 thousand.

The fair value of credits and loans is not different from their book value.

### 39. Other financial liabilities

The item "Other Financial Liabilities" presents the factoring liability in the amount of PLN 148 thousand as at December 31, 2015. As of December 31, 2016, the Group did not have any factoring liabilities. The Parent company concluded a factoring agreement with recourse on May 10, 2013. The current financing limit established based on the annex to the agreement, which was signed by both parties on April 6, 2016, amounts to PLN 50,000 thousand. Factoring interest shall be charged based on the variable WIBOR O/N rate, plus a fixed margin of the Factor.

### 40. Financial derivatives

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
<b>Derivatives</b>		
Securing the value of future cash flows	6 976	5 843
including:		
- recognized among non-current assets	-	-
- recognized among current assets	-	-
- recognized among long-term liabilities	5 957	4 862
- recognized among short-term liabilities	1 018	981

### **Cash flow hedging instruments and application of hedge accounting**

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

On June 5, 2013 the subsidiary of Issuer, i.e. UAB Palangos aplinkkelis concluded an interest rate swap (IRS) to secure future cash flows due to planned interest payments on the term loan. Pursuant to the agreement, the company is a payee of amounts according to a fixed rate, whereas the bank is a payee of amounts according to a variable rate. The date of expiry of the hedging relationship was set at May 31, 2028.

On 8 and 14 October 2015, the subsidiary of the Issuer, i.e. AB Kauno Tiltai concluded two interest rate swaps (IRS) to secure future cash flows due to planned interest payments on the term loan. Pursuant to the agreement, the company is a payee of amounts according to a fixed rate, whereas the bank is a payee of amounts according to a variable rate. The date of expiry of the hedging relationship was set at January 14, 2020.

The fair value of the IRS contracts is calculated as the current value of estimated future cash flows based on the observation of income curves. In 2016, the fair value valuation technique remains unchanged.

As at December 31, 2016, an impact of the valuation of the aforementioned hedging instrument on liabilities was PLN 6,976 thousand and an impact on other total income was negative and amounted to PLN 564 thousand.

In 2016, the Group assessed the effectiveness of the hedge of the concluded IRS transactions. In the reporting period, the hedge on the interest rate change was highly effective; therefore no ineffective part due to IRS valuation has been identified or recognized in the profit and loss statement.

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**Other derivatives**

In the reporting period, the Group did not conclude any new interest rate swaps (IRS) or any derivative contracts for speculation purposes. Except for the aforementioned IRS instruments, the Group did not apply the hedge accounting in the reporting periods covered hereby, and therefore the Group is not a party to any other derivative contracts in the period covered thereby and no financial derivatives were measured at fair value through profit or loss.

The Group classifies financial derivatives as level 2 of the fair value hierarchy. In 2016, there were no transfers between levels 1, 2 or 3.

	<b>31.12.2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>Audited</b>			
Derivatives	<b>6 976</b>	-	6 976	-
	<b>31.12.2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>Modified</b>			
Derivatives	<b>5 843</b>	-	5 843	-

**Level 1** – prices of market quotations from active markets for identical assets and liabilities;

**Level 2** – prices from active market, but other than market prices quotations – established directly (by comparing with actual transactions) or indirectly (using techniques based on actual transactions);

**Level 3** – prices not from active markets.

**41. Trade liabilities**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Trade liabilities, before discounting	259 880	251 948
Discounting of liabilities	-	-
<b>Total, net trade liabilities after discounting</b>	<b>259 880</b>	<b>251 948</b>
including:		
- liabilities from related entities	831	2 495
Amounts held	25 320	19 369
Budgetary liabilities	18 071	8 562
Payroll liabilities	5 525	4 718
Other liabilities towards third parties	1 182	3 494
Dividends and other distributions	10	10
<b>Total trade and other liabilities</b>	<b>309 988</b>	<b>288 100</b>

Liabilities from the related companies are shown in Note 57.

**Trade liabilities and retained amounts**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Trade liabilities before discounting	285 200	271 316
With maturity within 12 months	280 559	262 602
With maturity over 12 months	4 641	8 715
Liability discounting	-	-
<b>Total, Trade liabilities after discounting</b>	<b>285 200</b>	<b>271 316</b>

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Liabilities with more than 12 months' maturity encompass retained amounts. The structure of maturity of retained amounts in total was included in the table below:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Maturity		
Up to 12 months	22 344	10 732
Over 12 months	2 976	8 636
<b>Total</b>	<b>25 320</b>	<b>19 369</b>

The Group resigned from recognizing discounting of long-term liabilities due to its small significance.

Due to the short-term nature of trade liabilities, their balance sheet value is close to the fair value.

Currency structure of trade liabilities and other liabilities

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
In PLN	250 014	178 980
In foreign currencies - after conversion into PLN, including:	59 974	109 120
in EUR	58 497	108 209
in LTL	-	-
in DKK	-	102
in SEK	1 475	807
in BYR	2	2
in other currencies	-	-
<b>Total</b>	<b>309 988</b>	<b>288 100</b>

Principles and conditions of liabilities payment:

Liabilities by virtue of supplies and services are not interest bearing and usually are settled from 30 to 60 days. Liabilities more than 12 months are withheld amounts related to execution of the construction and installation contracts in order to correctly and on time execute the contract. The remaining liabilities are not interest bearing, with an average one month maturity term. The amount resulting from the difference between the liabilities and receivables by virtue of goods and services tax is paid to proper tax bodies within the periods resulting from tax regulations. Liabilities by virtue of interests are usually settled based on accepted interest notes.

#### 42. Liabilities due to operating lease – the Group as a lessee

As at December 31, 2016, the Group recognises the right of perpetual usufruct of land acquired free of charge, in the amount of PLN 1,567 thousand, as operating lease. In the comparable period and parts of the reporting period, the Group was also a party to operating lease agreements for machines, equipment, vehicles and other fixed assets. All of those agreements have expired in the reporting period.

Total amounts of future minimum lease fees due to operating lease are as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Within 1 year	91	91
Within 1 to 5 years	363	363
Over 5 lat	6 177	6 268
<b>Total</b>	<b>6 631</b>	<b>6 722</b>

Operating lease also includes the right of perpetual usufruct of land acquired free of charge, in the amount of PLN 1 567 thousand.

Future fees for perpetual usufruct of land:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Within 1 year	1 012	960
Within 1 to 5 years	4 047	3 838
Over 5 lat	56 436	57 270
<b>Total</b>	<b>61 495</b>	<b>62 068</b>

Liabilities due to perpetual usufruct of land were estimated based on annual rates of fees resulting from latest administrative decisions and the period of using the relevant land.

### 43. Liabilities from finance leasing agreements

The Group uses a part of the production equipment within the scope of the financial lease. The Group is able to purchase leased equipment for its nominal value at the end of the term of the agreement. The Group's liabilities pursuant to financial lease agreements are secured with rights of lessors concerning components of assets covered by the agreement.

The future minimum lease fee by virtue of these agreements and the minimum current value of lease fees net is as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Nominal value of minimum leasing fees		
Within 1 year	11 154	9 260
Within 1 to 5 years	32 423	28 984
Over 5 lat	903	903
<b>Total financial lease liabilities - total minimum leasing fees</b>	<b>44 479</b>	<b>39 147</b>
<b>Financial costs on account of financial lease</b>	<b>(3 949)</b>	<b>(3 694)</b>
Present value of minimum leasing fees		
Within 1 year	9 640	7 840
Within 1 to 5 years	30 113	26 730
Over 5 lat	4 203	883
<b>Total present value of mininum leasing fees</b>	<b>43 956</b>	<b>35 453</b>

Ageing structure of finance lease liabilities:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Long-term	34 317	27 613
Short-term	9 640	7 840
<b>Total</b>	<b>43 957</b>	<b>35 453</b>

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**44. Accruals**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Received prepayments for future benefits	55	-
Future revenue clearings	306	219
<b>Total</b>	<b>361</b>	<b>219</b>

Ageing structure of prepayments and accruals:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Long-term	-	-
Short-term	361	219
<b>Total</b>	<b>361</b>	<b>219</b>

**45. Advance payments towards apartments**

Within this item the Group presented customers' advance payments towards the purchase of flats.

**46. Information about the financial instruments**

During the period covered by the annual consolidated financial statements and during the comparable period, the Group held the following financial instruments:

- financial liabilities measured at fair value through profit or loss – IRS contracts,
- granted loans and own receivables – cash and short-term deposits, trade receivables, and other receivables apart from budget receivables, short-term loans granted to entities other than the Group members, bank guarantees representing security of a guarantee granted to the Group by banks;
- financial liabilities measured at amortized cost – bank credits, bonds, lease and factoring liabilities, trade liabilities, and other liabilities apart from budget liabilities.

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	Financial liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortised cost
<b>As at 31.12.2016</b>			
<i>Disclosed in balance sheet, indicating balance sheet item</i>			
<b>recognised as non-current assets</b>			
Other financial assets	-	46 502	-
<b>Total</b>	-	<b>46 502</b>	-
<b>recognised as current assets</b>			
Trade and other receivables (excluding budgetary)	-	395 977	-
Other financial assets	-	8 660	-
Cash and cash equivalents	-	148 799	-
<b>Total</b>	-	<b>553 435</b>	-
<b>recognised as long-term liabilities</b>			
Interest-bearing bank loans and borrowings	-	-	100 666
Other financial liabilities	-	-	75
Derivatives	5 957	-	-
<b>Total</b>	<b>5 957</b>	-	<b>100 741</b>
<b>recognised as short-term liabilities</b>			
Interest-bearing bank loans and borrowings	-	-	22 003
Trade and other liabilities (excluding budgetary)	-	-	291 917
Derivatives	1 018	-	-
<b>Total</b>	<b>1 018</b>	-	<b>313 921</b>
<b>Total</b>	<b>6 976</b>	<b>599 937</b>	<b>414 663</b>
<hr/>			
	Financial liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortised cost
<b>As at 31.12.2015</b>			
<i>Disclosed in balance sheet, indicating balance sheet item</i>			
<b>recognised as non-current assets</b>			
Other financial assets	-	45 564	-
<b>Total</b>	-	<b>45 564</b>	-
<b>recognised as current assets</b>			
Trade and other receivables (excluding budgetary)	-	240 740	-
Other financial assets	-	14 830	-
Cash and cash equivalents	-	251 435	-
<b>Total</b>	-	<b>507 004</b>	-
<b>recognised as long-term liabilities</b>			
Interest-bearing bank loans and borrowings	-	-	89 494
Other financial liabilities	-	-	66
Derivatives	4 862	-	-
<b>Total</b>	<b>4 862</b>	-	<b>89 560</b>
<b>recognised as short-term liabilities</b>			
Interest-bearing bank loans and borrowings	-	-	21 625
Trade and other liabilities (excluding budgetary)	-	-	279 538
Other financial assets	-	-	148
Derivatives	981	-	-
<b>Total</b>	<b>981</b>	-	<b>301 311</b>
<b>Total</b>	<b>5 843</b>	<b>552 568</b>	<b>390 872</b>

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**47. Fair value of financial instruments**

Comparison of the fair value and book value:

Classes of financial instruments	As at 31.12 2016		As at 31.12 2015	
	Book value	Fair value	Book value	Fair value
Bank guarantee deposits	9 896	9 896	15 747	15 747
Financial assets related to the concession agreement	45 266	45 266	44 646	44 646
Trade and other receivables (excluding budgetary receivables)	395 977	395 977	240 740	240 740
Cash and cash equivalents	148 799	148 799	251 435	251 435
Derivatives (liability)	6 976	6 976	5 843	5 843
Loans & credits taken and financial leasing liability	122 669	122 669	111 119	111 119
Factoring liability	-	-	148	148
Trade and other liabilities (excluding budgetary liabilities)	291 917	291 917	279 538	279 538

**Methods and assumptions - in case of using the valuation technique - adopted during determination of fair values of individual categories of financial instruments.**

Due to the short-term nature of trade receivables and other receivables, trade liabilities and other liabilities, as well as cash and cash equivalents, the balance sheet value of these financial instruments is close to their fair value.

Granted loans and incurred credits and loans are based on variable market rates pursuant to WIBOR; hence their fair value is close to the balance sheet value.

The fair value of the IRS contracts (presented in the derivative instruments category) is calculated as the current value of estimated future cash flows based on the observation of income curves.

For a financial asset arising from a concession contract that is recognised in the balance sheet at amortised cost using the effective interest method, the level of the effective interest rate for this asset is similar to the level of market interest rates as at the balance sheet date. Therefore, fair value of a financial asset arising from a concession contract is similar to the carrying amount.

The Group applies the following hierarchy of establishing and disclosing the fair value of financial instruments measured at fair value, depending on the selected valuation method:

**Level 1** – prices of market quotations from active markets for identical assets and liabilities;

**Level 2** – prices from active market, but other than market prices quotations – established directly (by comparing with actual transactions) or indirectly (using techniques based on actual transactions);

**Level 3** – prices not from active markets.

Financial instrument measured in fair value	Level 1		Level 2		Level 3	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Derivatives (liability)	-	-	6 976	5 843	-	-

Both during the reporting period and during the comparable period, there were no shifts between level 1 and 2 of the hierarchy of fair value, nor were any of the instruments moved from the level 2 to 3 of the fair value hierarchy.

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**48. Goals and principles of managing the financial risk:***Currency risks*

The Group's operations are not considerably exposed to the currency risk.

*Currency risk- susceptibility to changes*

The currency risk does not have any considerable effect on the Group's financial statements, because the items presented in assets and liabilities, denominated in currencies other than the functional currency of each of the subsidiaries are not significant as far as the Group's consolidated financial statements are concerned. Pursuant to IFRS 7, the sensitivity analysis does not include the so-called translation risk.

The analysis of the impact of the variability of the PLN / EUR exchange rate on the financial result and cash as at December 31, 2016 and December 31, 2015 is presented below.

	Change of PLN/EUR exchange rate in reference to average exchange rate for 2016	PLN / EUR exchange rate	Gross impact on the period result	Deferred tax	Net impact on the period result / Impact on equity
+	0,20 PLN/EUR	4,5757	2 762	(469)	2 293
+	0,10 PLN/EUR	4,4757	1 381	(235)	1 146
-	0,10 PLN/EUR	4,2757	(1 381)	235	(1 146)
-	0,20 PLN/EUR	4,1757	(2 762)	469	(2 293)

	Change of PLN/EUR exchange rate in reference to average exchange rate for 2015	PLN / EUR exchange rate	Gross impact on the period result	Deferred tax	Net impact on the period result / Impact on equity
+	0,20 PLN/EUR	4,3841	1 909	363	1 546
+	0,10 PLN/EUR	4,2841	955	181	773
-	0,10 PLN/EUR	4,0841	(955)	(181)	(773)
-	0,20 PLN/EUR	3,9841	(1 909)	(363)	(1 546)

	Change of PLN/EUR exchange rate in reference to 31 December 2016	PLN / EUR exchange rate	Impact on cash assets
+	0,20 PLN/EUR	4,6240	5 001
+	0,10 PLN/EUR	4,5240	2 500
-	0,10 PLN/EUR	4,3240	(2 500)
-	0,20 PLN/EUR	4,2240	(5 001)

	Change of PLN/EUR exchange rate in reference to 31 December 2015	PLN / EUR exchange rate	Impact on cash assets
+	0,20 PLN/EUR	4,4615	3 978
+	0,10 PLN/EUR	4,3615	1 989
-	0,10 PLN/EUR	4,1615	(1 989)
-	0,20 PLN/EUR	4,0615	(3 978)

*Risk related to growth of the overdue receivables portfolio*

As of the date of these annual consolidated financial statements, the Group controls the level of overdue receivables. It cannot be excluded that contracting parties in the future will not be able to cover on time their liabilities which can negatively influence the financial standing of the Group.

*Risk related to liquidity*

Similarly to most entities operating in the construction industry, also the Group experiences seasonality of sale, which is characterized by generating most sales revenues in the second half of the calendar year, and a significantly lower level of revenues generated in quarter one, which is of high importance for the management of liquidity and the need for working capital in the Group. The Group's liquidity is also affected by the fact that its major recipients obtain financial resources for purchase of services provided by the Group from grants of the

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Government of Poland, the Government of Lithuania, and European Union donations. Legal regulations representing the grounds for such donations do not allow their transfer to financing VAT tax. It cannot be excluded, that receivables due to VAT can be regulated by the recipients to the benefit of the Group with delay, which fact shall not release the Group from the obligation to pay the tax within the time frame stipulated in the Act.

Irregularity of inflows from recipients may adversely affect the liquidity of the Parent Company and the Group. On the other hand, Trakcja Group, while performing the construction contracts, obtains advance money for performing the works in amounts from 10% to 20%, which improves the financial liquidity and enables financing the initial costs of construction regardless of the invoicing for the performed services. Unexpected fluctuations within the scope of liquidity and unexpected growth of demand for working capital may significantly and negatively influence the financial standing of the Group.

To minimize the risk relating to loss of liquidity, the Group takes advantage of external sources of financing in the form of credits (revolving credits, overdrafts, and investment credits) and factoring. The balance of liabilities due to credits and loans as at December 31, 2016 along with their maturity dates are presented in Note 38. In addition, the Group invests the excess of cash in interest-bearing current accounts, term deposits, money market deposits, selecting instruments with appropriate maturity or sufficient liquidity to ensure sufficient reserve.

The table below presents the analysis of the Group's financial liabilities in net amounts, according to maturity dates, respectively for the maturity term remaining as at the balance sheet date to the contractual maturity date.

<b>As at 31.12.2016</b>			
<b>Audited</b>	<b>Within 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>
Interest-bearing loans and borrowings	12 364	35 272	31 079
Financial leasing liability	11 154	32 423	4 329
Derivative financial instruments	1 018	5 957	-
Trade and other liabilities	287 277	4 641	-

#### *Interest rate risk*

As at December 31, 2016, there is a risk relating to changes of interest rates in regard to the interest rate on credits and loans incurred by Trakcja Group, liabilities due to factoring and liabilities due to financial lease. Due to its market position, the Group can benefit from attractive interest rates on bank loans, credits and leases. Furthermore, due to the falling interest rates, at which interest is calculated, the Group did not take any measures in the current period to hedge against the interest rate risk. Detailed information about the credits and loans incurred by the Group is included in Note 38.

Due to the expected low value of potential changes, the Group decided not to perform the sensitivity analysis of the interest rate risk on the value of IRS,

The analysis of the impact of the interest rate variability onto the financial result of the Group as on December 31, 2016 and December 31, 2015 was presented below. To carry out the sensitivity analysis concerning interest rates changes, these were assessed as at December 31, 2016 and as at December 31, 2015 at the rationally foreseen level, i.e. -1/+1 percentage point.

	Value at the balance-sheet date	Sensitivity to changes as at 31.12.2016	
		+ 100 bp (PLN, EUR)	- 100 bp (PLN, EUR)
Trade receivables (present value)	375 952		
Trade payables (present value)	257 244		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	158 695	1 587	(1 587)
Assets related to the concession agreement	45 266	453	(453)
Loans and credits, factoring liability, bonds (nominal value/interest)	122 670	(1 227)	1 227
Derivatives	6 976	(70)	70
<b>Gross impact on period result and net assets</b>		<b>743</b>	<b>(743)</b>
Deferred tax		141	(141)
<b>Total</b>		<b>602</b>	<b>(602)</b>

	Value at the balance-sheet date	Sensitivity to changes as at 31.12.2015	
		+ 100 bp (PLN, EUR)	- 100 bp (PLN, EUR)
Trade receivables (present value)	237 011		
Trade payables (present value)	251 948		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	267 182	2 672	(2 672)
Assets related to the concession agreement	44 646	446	(446)
Loans and credits, factoring liability, bonds (nominal value/interest)	111 267	(1 113)	1 113
Derivatives	5 843	(58)	58
<b>Gross impact on period result and net assets</b>		<b>1 947</b>	<b>(1 947)</b>
Deferred tax		370	(370)
<b>Total</b>		<b>1 577</b>	<b>(1 577)</b>

### Credit risk

The Group applies a policy of concluding transactions with contractors of high reliability and verified creditworthiness. The evaluation of the credit capacity is performed on regular basis. In case of negative evaluation of the future credit capacity of the contracting party, the Group Companies apply adequate financial or property securities in order to minimize the credit risk. Financial services monitor on current basis the receivables status limiting the bad debt risk. The balance sheet value of financial assets posted in the consolidated financial statement corresponds to the maximum exposure of Trakcja Group to credit risk (without consideration of securities). As at the balance sheet date, 42% of the total receivables of the Group consist of receivables from PKP PLK S.A. (31/12/2015: 27%) there is a significant concentration of credit risk.

Disclosures concerning overdue trade receivables and created write-downs to receivables are presented in Note 30.

The Company cooperates with financial institutions of high credibility. Use of credit limits is subject to regular control. Free cash is deposited in a few banks in order to avoid concentration of risk related to liquid resources.

Maximum exposure to credit risk is equal to the balance-sheet value of the following financial instrument:

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The maximum exposure to credit risk	Book value	
	31.12.2016	31.12.2015
	Audited	Modified
Financial assets related to the concession agreement	45 266	44 646
Trade and other receivables, excluding budget receivables	418 173	260 812
Bank guarantees deposits	9 896	15 747
Cash and cash equivalents	148 799	251 435
<b>Total</b>	<b>622 133</b>	<b>572 640</b>

#### Purpose and rules of financial risk management

The Group manages financial risk by way of identifying, monitoring and reporting on risk factors, which aims at limiting the unfavourable currency risk factors on cash flows and the Group's economic result. Derivative instruments in the Group are measured at fair value. For registration purposes, the Group applies bank valuations. Moreover, the Group applies hedge accounting: interest rate swap (IRS) to secure future cash flows due to planned interest payments on term credits.

#### 49. Balance sheet items measured at fair value

The table below presents all balance sheet items measured at fair value indicating the allocated level in the fair value hierarchy.

Items recognized in fair value	Level 1		Level 2		Level 3	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Derivatives (liability side)	-	-	6 976	5 843	-	-
Investment property	-	-	-	-	21 226	21 976
Office properties	-	-	-	-	15 213	15 772
Land properties	-	-	-	-	2 185	2 287
Deposits of natural aggregates	-	-	-	-	3 828	3 917

Assumptions adopted in determining fair values:

- of individual categories and financial instruments were presented in Note 48 of Notes;
- of investment properties were presented in Note 23 of Notes.

#### 50. Contingent receivables and liabilities

The Group has contingent receivables and liabilities due to legal claims arising during normal business activity. The table below presents the Group's contingent receivables and liabilities as of the balance sheet date, December 31, 2016 and December 31, 2015.

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	31.12.2016	31.12.2015
	Audited	Modified
<b>Contingent receivables</b>		
<b>From related entities due to:</b>	-	809
Received guarantees and sureties	-	809
<b>From related entities due to:</b>	70 528	98 049
Received guarantees and sureties	65 693	92 547
Bills of exchange received as collateral	4 835	5 502
<b>Total contingent receivables</b>	<b>70 528</b>	<b>98 859</b>
<b>From related entities due to:</b>		
<b>From related entities due to:</b>	-	809
Provided guarantees and sureties	-	809
<b>From other entities due to:</b>	2 289 406	2 717 007
Provided guarantees and sureties	605 412	563 859
Promissory notes	548 593	439 152
Mortgages	152 057	151 067
Assignment of receivables	851 469	1 456 182
Assignment of rights under insurance policy	48 412	41 586
Security deposits	14 280	28 419
Other liabilities	69 183	36 743
<b>Total contingent liabilities</b>	<b>2 289 406</b>	<b>2 717 816</b>

Contingent liabilities due to granted guarantees and sureties for the benefit of other entities are mainly guarantees granted by the banks for the contracting parties of the Companies within the Group as collateral of their claims in relation to the Group due to realized building contracts (guarantee of good performance, removal of defects and damages, and reimbursement of advance payment). The banks are entitled to back claims against the companies of the Group. Promissory notes constitute another form of collateral of bank guarantees, as stipulated above. After the balance sheet date and before the publication hereof, the Company concluded new agreements for tender bonds, guarantees of good performance and guarantees of reimbursement of advance payment in the total amount of PLN 133,778 thousand.

Except for the aforementioned contingent receivables and liabilities, as at December 31, 2016, the Group had contingent receivables in the amount of PLN 1,503 thousand (December 31, 2015: PLN 1,310 thousand) arising from the employment contract signed with employees. In case of the manager's breach of his obligations defined in Article 1 of the Non-Competition Agreement, this manager will pay, immediately and without a termination notice or any demand from the Group, liquidated damages in favour of the Group in an amount in PLN equivalent to EUR 25,000 for each instance of infringement and an amount in PLN equivalent to EUR 1000 for each day in which such an infringement takes place or is continued. Contingent liabilities arising from employment contracts with employees were PLN 8,265 thousand as at December 31, 2016 (December 31, 2015: PLN 8,672 thousand).

Tax settlements and other fields of the business that are subject to regulations (e.g. customs and currencies), may be the subject of administrative body's control, which are entitled to impose high penalties and sanctions. Lack of reference to fixed legal regulations in Poland and Lithuania causes the occurrence of ambiguities and inconsistencies in obligatory regulations. Frequent differences in opinions as to legal interpretation of tax regulations both inside the national bodies and between the national bodies and companies, create the fields of conflicts and uncertainty. Such events result in the tax risk in Poland being much higher than in countries with a more development tax system. Tax settlements may be the subject to control for the period of five years, starting at the end of year in which the tax was paid. As a result of the performed controls, current tax settlements of the Group may be increased by additional tax obligations. In the Group's opinion, at the end of 2016, proper reserves were prepared for recognized and measurable tax risk.

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**51. Receivables due to operating lease – Group as the lessor**

The Group is a party to lease contracts, where it acts as the lessor. These contracts relate to lease of premises in the Group's real estate and tenancy of the real estate in the form of the natural aggregate deposit. The lessee is not able to purchase components of assets covered by the lease after the expiry of the contract.

Total future minimum inflows due to operational lease as at December 31, 2016 and as at December 31, 2015 are as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Within 1 year	579	522
Within 1 to 5 years	3 050	3 000
Over 5 lat	920	550
<b>Total</b>	<b>4 549</b>	<b>4 072</b>

**52. Service Concession Contracts***Public and Private Partnership Contract*

The Group concluded service concession contracts within the scope of public and private partnership (Lithuanian Road Authority) and the operator (subsidiaries of the Issuer - UAB Palangos aplinkkelis). Palangos aplinkkelis UAB ("PAK") was established in 2013 to perform the investment task in the form of building a road and its future maintenance within the scope of the public and private partnership contract. The sole shareholder in PAK is Pletros investicijos UAB (owned by Trakcja Group in 75.1% and by UAB Šiaulių plentas in 24.9 %). Both these companies were created pursuant to the requirements of the Lithuanian Road Authority and tender requirements. The general contractor of construction works was AB Kauno Tiltai (a member of Trakcja Group). Apart from the external source of financing the task (bank), PAK received a loan from AB Kauno Tiltai and UAB Siauliu plentas.

The road maintenance services will be provided under an agreement by AB Kauno Tiltai.

In 2016, the following amounts were recognized for the provision of construction services within the scope of the concession contract, in exchange for a component of financial assets:

- revenues in the amount of PLN 973 thousand (2015: PLN 3,685 thousand).
- net profit in the amount of PLN 1,024 thousand (2015: PLN -2,319 thousand).

The Group recognizes financial assets due to the concession contract. The table below presents the change in financial assets due to the concession contract during the financial year.

	<b>Financial year ended</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Audited</b>
<b>Balance at the beginning of the period</b>	<b>44 646</b>	<b>40 047</b>
<b>Increases</b>	<b>3 623</b>	<b>8 147</b>
Acquisition, establishment	3 623	8 147
<b>Decrease</b>	<b>(4 691)</b>	<b>(3 626)</b>
Settlement of remuneration given to the operator	(4 691)	(3 626)
<b>Exchange rate differences</b>	<b>1 688</b>	<b>79</b>
<b>Balance at the end of the period</b>	<b>45 266</b>	<b>44 646</b>

**53. Significant court cases and disputes**

The Parent company notifies that the total value of the proceedings concerning the Group's claims is PLN 136,781,184.44 and the total value of the proceedings concerning the Group's liabilities is PLN 5,205,986.84.

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As at December 31, 2016, the Parent company was a party to the proceedings, the value of which separately would be at least equivalent to 10% of the equity of Trakcja PRKil S.A.:

*The case concerning summons to a conciliatory settlement regarding reimbursement of fixed costs incurred in two extension periods for the performance of the contract filed against PKP PLK S.A. by the Consortium that comprises Trakcja PRKil S.A. and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie sp. z o. o.*

On December 2, 2016, the Parent company and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie sp. z o. o. applied for summons to a conciliatory settlement against PKP PLK S.A. for payment of PLN 65,848,167.00 in relation to the extension of the completion term of the contract named: "Design and performance of construction works on the railway line Krakow - Medyka - state border on the section Podłęże - Bochnia, km 16.000 - 39.000 of the Project "Modernization of the railway line E 30/C-E30, section Krakow - Rzeszow, phase 3". The Company's claims are estimated to be approx. PLN 25 million. The case is at the early stage of proceedings and its resolution date is difficult to predict.

**Other proceedings concerning claims:**

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

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

According to the Parent company's knowledge, a list of claims towards PNI was prepared. Claims of Trakcja PRKil S.A. were accepted in the amount of PLN 10,569,163.16, including PLN 10,274,533.87 due to unpaid invoices and PLN 294,632.29 due to interest for delay in payment. The receivables from contractual penalties and other claims in the total amount of PLN 44,956,834.35 were refused to be accepted. The Parent company does not agree with the refusal to accept the aforementioned part of claims; therefore, an objection was submitted to the judge commissioner concerning the refusal in the aforementioned scope. The court had rejected the objection; therefore the Company filed a complaint which was overruled. On June 8, 2015, the Company received a notice from the trustee in bankruptcy on the change of bankruptcy procedure from arrangement bankruptcy to liquidation bankruptcy. The case is pending and its resolution date is difficult to predict.

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

The Parent company notifies that on March 10, 2015, by the decision of the District Court of the City of Warsaw in Warsaw, Projekt-Bud Sp. z o.o. with the possibility of an arrangement. The Company submitted its claims against the Bankrupt in total amount of PLN 9,708,613.62. The total amount of lodged claims comprised claims under lease of locomotives and wagons, equipment rental, sales contracts, performed works and the contractual penalty charged against the Bankrupt. On December 31, 2015, PKP PLK made a direct payment of PLN 7,382,827.30. In view of the above, as at the approval of these financial statements, the Company's claim against the Bankrupt is PLN 2,325,786.32 in consideration of the accrued contractual penalty.

**The most significant proceedings concerning liabilities:**

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

Eiffage Polska Koleje Sp. z o.o. based in Warsaw filed on May 15, 2015 a suit for payment for the amount of PLN 1,634,833.00 against the Parent company, seeking remuneration for additional expenses incurred in the extended term of the contract. The Company filed its reply to the claim and now the case is pending. Its resolution date is difficult to predict.

**Other proceedings:**

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

*PRK 7 Nieruchomości Sp. z o.o.*

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

*AB Kauno Tiltai*

Investor AB Lietuvos geležinkeliai filed a lawsuit against the Consortium subsidiary AB Kauno Tiltai is a member of, for a total sum of PLN 66,313,797.20 (EUR 14,989,556.33). The investor brought a claim against AB Kauno Tiltai concerning the contractual penalty for delay in the performance of works. The share of Trakcja Group in any potential liabilities that may arise from this trial is 65%. Currently, an expertise has been carried out and the hearing date was set for April 20, 2017. As a result of the analysis of risks associated with the ongoing court proceedings, the Group recognised a provision for the proceedings in 2015. As at June 30, 2016, the Group decided to keep the provision unchanged in the amount set since December 31, 2015. The Group refrained from making other disclosures related to this court case by invoking clause 92 of IAS 37.

**54. Dividends paid and declared**

In 2016, Trakcja PRKil S.A. paid dividends.

On June 16, 2016, the General Meeting of Shareholders of the Company adopted a resolution, according to which the Company's profit for 2015 in the amount of PLN 35,161,377.61 would be allocated as follows:

- the amount of PLN 17,475,846.32 (i.e. PLN 0.34 per share) to pay dividends,
- the amount of PLN 17,685,531.29 to increase the supplementary capital.

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

The Annual General Meeting of Shareholders has decided that the dividend date shall be June 24, 2016 and that dividend shall be paid on July 8, 2016.



**55. Assets used as collateral**

Assets destined for security:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Tangible non-current assets	78 604	73 106
Investment property	-	-
Inventory	10 344	28 191
Deposits	14 665	22 190
Receivables	94 023	19 851
Cash	108 929	82 169
<b>Total</b>	<b>306 564</b>	<b>225 507</b>

The pledge shall also cover:

- 50% of shares in BTW (the value of collateral is PLN 11,754 thousand);
- shares in UAB Kelda, a member of the AB Kauno Tiltai Group (the value of collateral is EUR 377 thousand);
- shares in UAB Palangos aplinkkelis, a member of the AB Kauno Tiltai Group (the value of collateral is EUR 1,203 thousand);

**56. Information on incomes, costs and results of abandoned activities**

The Group did not suspend any activity as of December 31, 2016 and December 31, 2015.

**57. Information on related companies**

In 2016, Group companies did not conclude significant transactions with associates on terms other than at arm's length. Transactions concluded by the Parent company and its subsidiaries (related parties) are transactions concluded on market terms and conditions and their character is a result of the current activity conducted by the Parent company and its subsidiaries.

Transactions between the Company and its subsidiaries being related parties of the Company were eliminated during consolidation and were not covered by this Note. Detailed information concerning transactions between the Group and other related parties are presented below.

Total amounts of transactions concluded with related entities in the given financial year:

Related entities	Financial year	Sale to related entities	Purchases from related entities	Interest revenue	Interest costs	Financial revenue from FX differences and other	Financial costs from FX differences and other
<b>Shareholders of parent company:</b>							
COMSA S.A.	1.01.16-31.12.16	12 820	1 801	-	-	-	-
	1.01.15-31.12.15	-	1 760	-	-	-	-
<b>Joint venture:</b>							
Bahn Technik Wrocław Sp. z o.o.	1.01.16-31.12.16	1 022	5 107	-	-	-	-
	1.01.15-31.12.15	981	5 198	-	-	-	-
<b>Total</b>	<b>1.01.16-31.12.16</b>	<b>13 842</b>	<b>6 908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>1.01.15-31.12.15</b>	<b>981</b>	<b>6 958</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

In the financial year, the Group exercised joint control over BTW, classifying it as a joint venture in accordance with IFRS 11, and consolidated the financial data of BTW under the equity method. The Group acquired full control over BTW on December 30, 2016 and as of that date all the balances between the Group's companies and BTW were completely excluded in accordance with the applicable full consolidation method principles.

Receivables and liabilities from / to related entities at the end of the given financial year:

Related entities	Reporting date	Receivables from related entities	Liabilities towards related entities	Loans granted	Borrowings received
<b>Shareholders of parent company:</b>					
COMSA S.A.	31.12.2016	5 798	831	-	-
	31.12.2015	-	1 011	-	-
<b>Joint venture:</b>					
Bahn Technik Wrocław Sp. z o.o.	31.12.2015	194	1 484	-	-
<b>Total</b>	<b>31.12.2016</b>	<b>5 798</b>	<b>831</b>	<b>-</b>	<b>-</b>
	<b>31.12.2015</b>	<b>194</b>	<b>2 495</b>	<b>-</b>	<b>-</b>

The Parent Company signed the following agreement with its shareholder: COMSA S.A., relating to granting to it a licence for the entire technical know-how and a trademark, as well as providing non-material goods in the form: competences, industry knowledge, expert knowledge in terms of organization, operations, sales and technology of COMSA S.A. The contract was concluded at arm's length. Remuneration for providing the above services by COMSA S.A. in 2016 amounted to PLN 1,801 thousand.

Unpaid amounts are not secured and will be settled through the cash item. No guarantees were granted or issued. During the reporting period, no costs due to doubtful and threatened receivables due to transactions with related entities were recognized.

## 58. Information on the benefits for key personnel

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

The remuneration of the Management Board of the Parent Company was presented in the following table.

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Remuneration of the Management Board of the Parent company	Financial year ended			
	31.12.2016 Audited		31.12.2015 Modified	
	In Parent company	In subsidiaries	In Parent company	In subsidiaries
Salaries and other current employee benefits	3 942	1 802	7 462	1 746
Post-employment benefits	-	92	639	-
Other long-term benefits	-	-	-	-
Benefits due to termination of employment	-	-	4 439	-
Share-based payment	-	-	-	-
<b>Total</b>	<b>3 942</b>	<b>1 894</b>	<b>12 540</b>	<b>1 746</b>

The details of agreements concluded with management members were described in Section 5.10 and the additional information concerning the amounts of remuneration of the Management Board and Supervisory Board members was presented in Section 5.9 of the Report of the Management Board on the Activities of Trakcja Group for the financial year ended on December 31, 2016.

The Management Board members of Trakcja PRKiI were not shareholders or members controlling, co-controlling or having important influence on the entities outside Trakcja Group:

In 2016 and 2015, no significant transactions were concluded between the Parent company and the Group's management. In 2016, there were no loans granted to members of the Management Board or Supervisory Board of Trakcja PRKiI.

The remuneration of the Supervisory Board of the Parent Company:

Remuneration of the Supervisory Board of the Parent company	Financial year ended			
	31.12.2016 Audited		31.12.2015 Modified	
	In Parent company	In subsidiaries	In Parent company	In subsidiaries
Salaries and other current employee benefits	578	262	378	512
<b>Razem</b>	<b>578</b>	<b>262</b>	<b>378</b>	<b>512</b>

## 59. Important events during the fiscal year and falling after the balance sheet date

Important events during the fiscal year are detailed in Note 2.4 of the Report on the Activities of the Group for 2016. After the balance sheet date until the day of preparing this annual consolidated financial statement, i.e. March 21, 2017, no events occurred which were not and should be included in the accounting books for the financial year.

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**Events after the balance sheet date**

<b>Significant events after the balance sheet date</b>	CR
<b>Significant agreements</b>	
In 20.01.2017 Company signed as the Consortium leader the agreement with PKP PLK S.A. on design and realization of construction works - „Works on railway lines No. 140, 148, 157, 159, 173, 689, 691 on the section Chybie – Żory – Rybnik – Nędza / Turze” within the Operational Programme Infrastructure and Environment (POIiŚ) 5.2-5 net value 373,7 mPLN. The planned share of Trakcja PRKiI amounts to 124,5 mPLN (net value). The works will be realized within 30 months from the signing date.	2/2017
<b>Other</b>	
In 9.01.2017 The company has made public the deadlines for the publication of periodic reports in 2017.	1/2017
In 15.03.2017 due to the performance of impairment test of goodwill assigned to the cash generating unit, which consists of the following subsidiaries: Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o., Dalba Sp. z o.o. and Przedsiębiorstwo Drogowo-Mostowe Białystok S.A., Management Board has decided to write-off the value of that asset in Trakcja Group’s consolidated balance sheet in the amount of PLN 11 799 thousand which was recognized in the consolidated results of 2016.	3/2017

After the balance sheet date, on February 9, 2017, a subsidiary named ТРАКЦІЯ УКРАЇНА (“Trakcja Ukraina” Sp. z o.o.) was established in Dnipro (Ukraine). Its majority owner is PDM Białystok S.A. On March 3, 2017, Trakcja PRKiI S.A. opened its branch in Ukraine.

**60. Financial statement under conditions of high inflation**

Accumulated, average annual rate of inflation for the last 3 years for each of the periods covered by this consolidated financial information did not exceed the value of 100%, which is why there was no need to convert the financial statements by the prices change index.

**61. Employment**

Average employment in the Group was as follows:

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
<b>Average employment in the Capital Group during the period:</b>		
Management Board of Parent entity	5	5
Management Boards of subsidiaries	15	12
Administration	223	220
Sales department	35	33
Production division	1 044	951
Other employees	769	687
<b>Total</b>	<b>2 091</b>	<b>1 908</b>

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Employment in the Group as at December 31, 2016 was as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
<b>Employment in the Capital Group at the balance sheet date</b>		
Management Board of Parent entity	3	5
Management Boards of subsidiaries	13	12
Administration	228	214
Sales department	92	97
Production division	918	882
Other employees	708	692
<b>Total</b>	<b>1 962</b>	<b>1 902</b>

## 62. Company Social Benefit Fund assets and liabilities

The Act of March 4, 1994 on the company social benefit fund as amended, states that the Company Social Benefit Fund is created by employers with over 20 full-time employees. The Group creates such fund and performs periodical write off in the amount of the basic write off. Goal of the Fund is subsidize social operations of the Group, loans granted to its employees and the remaining social costs. The Group has compensated assets of the Fund with own liabilities against the Fund, because the assets do not represent separate assets of the Group.

The below table presents an analysis of assets, liabilities, costs and balances net of the compensated assets and liabilities of the Fund:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>Audited</b>	<b>Modified</b>
Loans granted to employees	676	906
Cash	928	781
Prepayments	(21)	-
Liabilities attributable to the Fund	(1 331)	(1 237)
<b>Balance after compensation</b>	<b>251</b>	<b>450</b>
<b>Contributions to the fund during the financial period</b>	<b>1 364</b>	<b>1 235</b>

## 63. Information on the entity providing a function of expert auditor.

Pursuant to the resolution of the Supervisory Board of Trakcja PRKiI, the entity authorized to audit the financial statements of the Group and the Parent Company is Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. based in Warsaw at Al. Jana Pawła II 22.

On July 29, 2016, the Parent Company concluded an agreement with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for:

- a review the semi-annual separate and consolidated financial statements prepared as at June 30, 2016 according to the International Accounting Standards;
- an audit of the annual separate and consolidated financial statement prepared as at December 31, 2016 according to the International Accounting Standards.

The agreement was concluded for the period of performing the subject of the contract.

The fee for the audit of the selected entities of Trakcja Group is payable based on separate agreements concluded between the entity authorized to audit financial statements and each of the selected Group companies.

This document is a translation.

The Polish original should be referred to in matters of interpretation.

Notes to the annual consolidated financial statements constitute an integral part thereof.

The amount of remuneration of the certified auditor for services provided to the Group is presented in the table below:

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Modified
On account of agreement for financial statement audit	194	185
On account of agreement for financial statement review	72	68
On account of other agreements	5	40
<b>Total</b>	<b>271</b>	<b>293</b>

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This document is a translation.

The Polish original should be referred to in matters of interpretation.

Notes to the annual consolidated financial statements constitute an integral part thereof.

Warsaw, March 21, 2017

Jarosław Tomaszewski

President of the Board

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

*Statement prepared by:*

Sławomir Krysiński

Director for Financial Reporting in Trakcja Group

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This document is a translation.

The Polish original should be referred to in matters of interpretation.

Notes to the annual consolidated financial statements constitute an integral part thereof.

**TRAKCJA CAPITAL GROUP  
WARSAW, ZŁOTA 59**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE 2016 FINANCIAL YEAR**

**WITH  
AUDITOR'S OPINION  
AND  
AUDIT REPORT**



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**REPORT ON THE ACTIVITIES OF THE CAPITAL GROUP  
FOR THE 2016 FINANCIAL YEAR**

## AUDITOR'S OPINION

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

#### *Auditor's report*

We have audited the attached financial statements of the Trakcja Capital Group (hereinafter: the "Capital Group"), for which Trakcja PRKiI S.A. (hereinafter: the "Parent") with its registered office in Warsaw at Złota 59 is the Parent Company. These consolidated financial statements include: the consolidated balance sheet prepared as at 31 December 2016, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement for the financial year from 1 January 2016 to 31 December 2016 and notes.

#### *Responsibility of the Company's manager and those charged with governance for the financial statements*

The Management Board of the Parent is responsible for the preparation of the consolidated financial statements, based on properly kept accounting records, and their fair presentation in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and applicable laws. It is also obliged to ensure internal control as it determines necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2016 item 1047 as amended), hereinafter referred to as the "Accounting Act" the Management Board of the Parent and members of its Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit works.

We conducted our audit in accordance with Section 7 of the Accounting Act and the National Auditing Standards in line with the wording of the International Standards on Auditing adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 as amended. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement

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Member of Deloitte Touche Tohmatsu Limited

District Court for the city of Warsaw, XII Business Division of the National Court Register, KRS No. 0000446833, NIP: 527-020-07-86, REGON: 010076870

of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parent's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management Board of Parent, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the attached consolidated financial statements:

- give a true and fair view of the economic and financial position of the Capital Group as at 31 December 2016 and its financial performance for the financial year from 1 January 2016 to 31 December 2016 in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies) of the Parent,
- comply, with respect to their form and content, with the applicable provisions of law and the articles of association of the Capital Group.

## **Report on other legal and regulatory requirements**

### *Opinion on the report on the activities*

We do not express an opinion on the report on the activities of the Capital Group.

It is the responsibility of the Management Board of the Parent to prepare the report on the activities of the Capital Group in accordance with the Accounting Act and other applicable laws. Moreover, the Management Board of the Parent and members of the Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act.

When auditing the consolidated financial statements we were obliged to examine the report on the activities and indicate whether the information contained therein complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities based on our knowledge of the Capital Group and its business environment obtained in the course of the audit.

In our opinion, the information contained in the report on the activities of the Capital Group complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the attached financial statements. Moreover, based on our knowledge of the Capital Group and its business environment obtained in the course of the audit, we have not detected any material misstatements in the report on the activities.

## *Statement of compliance with corporate governance principles*

In relation to our audit of the consolidated financial statements, it was our responsibility to examine the Parent's statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities of the Capital Group. In our opinion, the Parent's statement provides all information required by the secondary legislation issued under Article 60.2 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2016 item 1639 as amended) and regulations issued under Article 61 thereof. The information is compliant with the applicable laws and information presented in the consolidated financial statements.

Maciej Krasoń  
Key certified auditor  
conducting the audit  
No. 10149

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Maciej Krasoń – Wiceprezes Zarządu of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 21 March 2017

**The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.**

**REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS  
OF THE TRAKCJA CAPITAL GROUP  
FOR THE 2016 FINANCIAL YEAR**

**I. GENERAL INFORMATION**

**1. Details of the audited Parent**

The Parent of the Capital Group operates under the business name Trakcja PRKiI S.A. (hereinafter: the "Parent"). The Company's registered office is located in Warsaw at Złota 59.

The Parent operates as a joint stock company. The Parent is recorded in the Register of Entrepreneurs kept by the District Court in Warsaw, XII Commercial Division of National Court Register under KRS number 0000084266. The Parent's tax identification number NIP is 5250002439. The Parent's REGON number assigned by the Statistical Office is 010952900.

The Parent operates based on the provisions of the Code of Commercial Companies.

As of 31 December 2016, the Parent's share capital PLN 41,120 thousand and was divided into 51,399,548 ordinary shares with a face value of PLN 0.80 each.

Composition of the Management Board of the Parent as at the date of the opinion:

- Jarosław Tomaszewski - Chairman of the Management Board;
- Marek Kacprzak - Vice-Chairman of the Management Board;
- Paweł Nogalski - Vice-Chairman of the Management Board.

Changes in the composition of the Management Board of the Parent during the audited period and until the date of the opinion:

- on 6 September 2016 year Mr. Nerijus Eidukevicius resigned from the office of Vice-Chairman of the Management Board of the Parent - his mandate was revoked on 8 September 2016 year;
- on 30 December 2016 year Mr. Sławomir Raczyński resigned from the office of Vice-Chairman of the Management Board of the Parent - his mandate was revoked on the same day.

As of June 16 2016 (the date of the last Shareholders' Meeting) the Parent's shareholders included:

- COMSA S.A. - 30.82% shares;
- Nationale-Nederlanden Otwarty Fundusz Emerytalny - 9.73 % shares;
- Otwarty Fundusz Emerytalny PZU „Złota Jesień” - 9.41 % shares;
- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK - 5.00% shares;
- other shareholders - 45.04 % shares.

During the financial year there were no changes in the share capital of the Parent Company.

After the balance-sheet date there were no changes in the Parent's share capital.

**2. Structure of the Capital Group**

Information about subsidiaries included in the Trakcja Capital Group as at 31 December 2016 was presented in note 2 of consolidated financial statements of Trakcja Capital Group as at 31 December 2016.

The consolidated financial statements as of 31 December 2016 included the following entities:

a) Parent – Trakcja PRKiI S.A.

We have audited the financial statements of the Parent for the period from 1 January to 31 December 2016. As a result of our audit, on 21 March 2017 we issued an unqualified opinion.

b) Companies subject to full consolidation:

<b>Name and address of the Company</b>	<b>Interest in the share capital (%)</b>	<b>Name of entity that audited the financial statements and type of opinion issued</b>	<b>Balance sheet date of the consolidated entity</b>
P.E.U.I.M. Sp. z o.o. with its registered office in Białystok	99.70	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. Until the date of this report, the auditor of the entity has not issued an opinion.	31 December 2016
Dalba Sp. z o.o. with its registered office in Białystok	100.00	Audit not required	31 December 2016
PDM Białystok S.A. with its registered office in Białystok	94.62	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. Until the date of this report, the auditor of the entity has not issued an opinion.	31 December 2016
PRK 7 Nieruchomości Sp. z o.o. with its registered office in Warsaw	100.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. Until the date of this report, the auditor of the entity has not issued an opinion.	31 December 2016
Torprojekt Sp. z o.o. with its registered office in Warsaw	82.35	Audit not required	31 December 2016
Bahn Technik Wrocław Sp. z o.o. with its registered office in Wrocław	100.00	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. Until the date of this report, the auditor of the entity has not issued an opinion.	31 December 2016
AB Kauno Tiltai with its registered office in Kaunas	98.09	BDO auditas ir apskaita, UAB. Until the date of this report, the auditor of the entity has not issued an opinion.	31 December 2016
UAB Kelda with its registered office in Vievis	83.45	Audit not required	31 December 2016
UAB Verkšionu karjeras with its registered office in Bagoteliu	84.21	Audit not required	31 December 2016
UAB Taurakelis with its registered office in Taurage	98.09	Audit not required	31 December 2016
UAB Kedainiu Automobiliu Keliai with its registered office in Kedainiai	98.09	Audit not required	31 December 2016
UAB Pletros investicijos with its registered office in Vilnius	73.67	Audit not required	31 December 2016
UAB Palangos aplinkkelis with its registered office in Vilnius	73.67	Audit not required	31 December 2016

AB Kauno Tiltai TUB konsorciumas Tiltra with its registered office in Kaunas	98.09	Audit not required	31 December 2016
AB Kauno Tiltai Latvia skyrius with its registered office in Rezeknie	98.09	Audit not required	31 December 2016
AB Kauno Tiltai Sverige with its registered office in Malmo	98.09	Audit not required	31 December 2016
UAB „Transporto Infrastruktura” with its registered office in Vilnius	98.09	Audit not required	31 December 2016
AB Kauno Tiltai Branch in Poland	98.09	Audit not required	31 December 2016
AB Kauno Tiltai TUB Konsorciumas Tiltra Branch in Poland with its registered office in Białystok	98.09	Audit not required	31 December 2016
AB Kauno Tiltai Branch in Belarus with its registered office in Minsk	98.09	Audit not required	31 December 2016
AB Kauno Tiltai Branch in Sweden with its registered office in Norsborg	98.09	Audit not required	31 December 2016

In the audited financial year, the Parent included in consolidation the entity AB Kauno Tiltai branch in Sweden located in Norsborg. Additionally, entity Bahn Technik Wrocław Sp. z o.o. was consolidated with full method consolidation since 31 December 2016.

### **3. Information about the consolidated financial statements for the prior financial year**

The activities of the Capital Group in 2015 resulted in a net profit of PLN 51,758 thousand. The consolidated financial statements of the Capital Group for 2015 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2015 financial year was held on 16 June 2016.

In accordance with applicable laws, the consolidated financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 27 June 2016 year.

### **4. Details of the authorized entity and the key certified auditor acting on its behalf**

The entity authorized to audit the financial statements was appointed by the Supervisory Board of the Parent. The audit of the consolidated financial statements was performed based on the agreement of 29 July 2016 concluded between the Parent and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw, al. Jana Pawła II 22, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of

the consolidated financial statements was conducted under the supervision of Maciej Krasoń, key certified auditor (No. 10149) in the registered office of the Parent from 28 November to 9 December 2016, from 20 February to 17 March 2017 as well as outside the Company's premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on certified auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2016 item 1000 as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Capital Group.

#### **5. Availability of data and management's representations**

The scope of our audit was not limited.

During the audit, necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent of 21 March 2017.



**II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP**

Presented below are the main items from the consolidated income statement, consolidated balance sheet as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

<u>Main financial data from consolidated income statement</u> <u>(PLN `000)</u>	<u>2016</u>	<u>2015</u>
Sales revenue	1,381,173	1,329,180
Operating expenses	1,300,438	1,240,309
Operating profit (loss)	73,792	76,726
Net profit (loss)	56,332	51,758
Total comprehensive income	68,035	52,041
<u>Main financial data from consolidated balance sheet (PLN</u> <u>`000)</u>	<u>2016</u>	<u>2015</u>
Inventory	75,861	84,828
Trade receivables	387,358	234,546
Current assets	675,008	623,143
Total assets	1,396,733	1,306,357*
Equity	775,967	726,291
Short-term liabilities (including short-term provisions and accruals)	466,856	458,937
Trade liabilities	285,200	271,316
Total liabilities and provisions	620,766	580,066*
<u>Profitability and efficiency ratios</u>	<u>2016</u>	<u>2015</u>
return on sales	5%	6%
net return on equity	8%	8%
assets turnover ratio	0.99	1.02
receivables turnover in days	81	100
liabilities turnover in days	77	92
inventory turnover in days	22	21
<u>Liquidity/Net working capital</u>		
debt ratio	44%	44%
equity to fixed assets ratio	56%	56%
net working capital (PLN `000)	208,152	164,206
current ratio	1.45	1.36
quick ratio	1.28	1.17

\* Total assets and long-term provisions have changed since last year because of balance sheet adjustment adopting net presentation of deferred tax assets and liabilities

An analysis of the above figures and ratios indicated the following trends in 2016:

- decrease of return on sales;
- no change in net return on equity ratio;
- decrease in assets turnover ratio;
- decrease of receivables and liabilities ratio in days;
- increase of inventory turnover ratios in days;
- no change in debt ratio and equity to fixed assets ratio.
- increase of net working capital;
- increase of current ratio and quick ratio.

**III. DETAILED INFORMATION****1. Information about the audited consolidated financial statements**

The audited consolidated financial statements were prepared as at 31 December 2016 and include:

- consolidated balance sheet prepared as of 31 December 2016, with total assets and liabilities plus equity of PLN 1,396,733 thousand;
- consolidated income statement for the period from 1 January 2016 to 31 December 2016, with a net profit of PLN 56,332 thousand;
- consolidated statement of comprehensive income for the period from 1 January 2016 to 31 December 2016, with a total comprehensive income of PLN 68,035 thousand;
- consolidated statement of changes in equity for the period from 1 January 2016 to 31 December 2016, disclosing an increase in equity of PLN 49,676 thousand;
- consolidated cash flow statement for the period from 1 January 2016 to 31 December 2016, showing a cash outflow of PLN 104,957 thousand;
- notes, comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2016 to 31 December 2016 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent;
- verification of the consolidation documentation;
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation;
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

**2. Consolidation documentation**

The Parent presented the consolidation documentation including:

- financial statements of entities included in the consolidated financial statements;
- financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation;
- financial statements of controlled entities translated into the Polish currency;
- consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
- calculation of the fair value of the net assets of controlled entities;
- calculation of goodwill and gain from a bargain purchase as well as impairment losses for goodwill;
- calculation of non-controlling interests;
- calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent and the subsidiaries included in consolidation were summed up.

The equity method was applied with respect to associated entities. The value of the Parent's interest in the associated company was adjusted by increases or decreases in the equity of the associated company attributable to the Parent, which occurred in the period covered by consolidation, and decreased by dividends due from such companies.

The Parent preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities.

### **3. Completeness and correctness of drawing up consolidated cash flow statement, consolidated statement of changes in equity, notes and explanations and the report on the activities of the Capital Group**

The Parent confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes and explanations to the consolidated financial statements gives a description of measurement principles regarding assets, equity, liabilities, financial performance and principles of preparation of the consolidated financial statements.

The Parent prepared notes in the form of tables to individual items of the consolidated balance sheet and consolidated income statement and consolidated statement of comprehensive income as well as narrative descriptions in line with the requirement of IFRS.

The Parent prepared the consolidated cash flow statement and consolidated statement of changes in equity in accordance with the requirements of IFRS.

The Management Board of the Parent prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2016 financial year. The report contains information determined by Article 49 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

**IV. FINAL NOTES**

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

Maciej Krasoń  
Key certified auditor  
conducting the audit  
No. 10149

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Maciej Krasoń – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 21 March 2017