

ZUE S.A.

ZUE S.A.
UL. CZAPIŃSKIEGO 3, CRACOW
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR 2016
WITH AUDITOR'S OPINION AND REPORT

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SEPARATE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR 2016

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COMPANY'S REPORT ON ACTIVITIES FOR THE FINANCIAL YEAR 2016

AUDITOR'S OPINION

To the Shareholders and Supervisory Board of ZUE S.A.

Report on audit of financial statements

We have audited the attached financial statements of ZUE S.A. (hereinafter referred to as the "Company") with the registered office in Cracow, ul. Czapińskiego 3, including statement of financial position as at 31 December 2016, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year from 1 January 2016 to 31 December 2016 and notes to the financial statements including information on accounting principles and other explanatory information.

Responsibility of the Company's management and people supervising the preparation of the financial statements

The Management Board of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of the financial statements and their fair presentation according to the International Accounting Standards, the International Financial Reporting Standards and the related interpretations published as regulations of the European Commission and other applicable laws. The Management Board of the Company is also responsible for internal control it deems necessary for the preparation of the financial statements without any material misstatement caused by fraud or error.

According to the Polish Accountancy Act of 29 September 1994 (Journal of Laws of 2016, item 1047, as amended), hereinafter referred to as the "Accountancy Act," the Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements meet the requirements set out in the Accountancy Act.

Responsibility of the auditor

Our responsibility has been to express an opinion on the financial statements on the basis of our audit.

We have conducted our audit in accordance with chapter 7 of the Accountancy Act and the National Auditing Standards in line with the wording of the International Standards on Auditing adopted under the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, as amended. These standards require that we comply with ethical requirements and plan and conduct our audit to obtain reasonable assurance that the financial statements are free from any material misstatement.

The audit has involved the procedures to obtain audit evidence about the amounts and disclosures in the financial statements. A choice of the procedures depends on the auditor's judgment, including the assessment of a risk of material misstatement of the financial statements caused by fraud or error. In making the risk assessment, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements by the Company in order to prepare audit procedures that are appropriate in the circumstances and not to express an opinion on the effectiveness of the Company's internal control. The audit also includes evaluating the appropriateness of adopted accounting principles (policy), reasonableness of accounting estimates made by the Management Board of the Company as well as overall assessment of presentation of the financial statements.

We believe that our audit provides a reasonable and relevant basis for our opinion.

Opinion on the financial statements

In our opinion, the attached financial statements:

- present fairly and clearly the economic and financial position of the Company as at 31 December 2016 as well as its profit or loss and cash flows in the financial year from 1 January 2016 to 31 December 2016 according to the International Accounting Standards, the International Financial Reporting Standards and the related interpretations published as regulations of the European Commission and other applicable laws and adopted accounting principles (policy) of the Company;
- have been prepared on the basis of properly maintained accounting records; and
- comply in terms of form and content with the laws and provisions of the Company's articles of association binding on the Company.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express any opinion on the report on activities of the Company.

It is the responsibility of the Management Board of the Company to prepare the report on activities of the Company in accordance with the Accountancy Act and other applicable laws. In addition, the Management Board of the Company and members of its Supervisory Board are obliged to ensure that the report on the activities of the Company meets the requirements provided for in the Accountancy Act.

Our responsibility has been to examine the report on activities of the Company and indicate whether the information contained therein complies with Article 49 of the Accountancy Act and the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent (Journal of Laws of 2014, item 133, as amended) and is consistent with underlying information disclosed in the attached financial statements. Our responsibility has also been to state whether we have detected any material misstatement in the report on activities of the Company based on our knowledge of the Company and its business environment obtained in the course of the audit.

We believe that information contained in the report on activities of the Company complies with Article 49 of the Accountancy Act and the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent (Journal of Laws of 2014, item 133, as amended) and is consistent with underlying information disclosed in the attached financial statements. In addition, based on our knowledge of the Company and its business environment obtained in the course of the audit, we have not detected any material misstatements in the report on the activities of the Company.

Company's statement of compliance with corporate governance

In relation to our audit of the financial statements, our responsibility has also been to read the Company's statement of compliance with corporate governance – a separate part of the report on the activities of the Company. We believe that the Company's statement contains all information required by the secondary legislation published on the basis of 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 published on the basis of Article 61 thereof. The information is compliant with the applicable laws and information presented in the financial statements.

ZUE S.A.

Piotr Sokołowski
Key certified auditor conducting the audit
No. 9752

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:

Piotr Sokołowski, Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 13 March 2017

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF ZUE S.A.
FOR THE FINANCIAL YEAR 2016**

I. GENERAL INFORMATION

1. Details of the audited Company

The Company (hereinafter referred to as the “Company”) operates under the company name ZUE S.A. The Company’s registered office is located in Cracow, ul. Czapińskiego 3.

The Company operates as a public limited company incorporated on the basis of the notarial deed signed on 20 May 2002 in Cracow (Rep. A no. 9592/2002). The Company was entered into the Commercial Register kept by the District Court XI Business and Registry Division in Cracow, section B, under entry number 8990/05/381, based on the decision of 30 October 2002. Currently the Company is recorded in the Register of Entrepreneurs kept by the District Court for Cracow-Śródmieście in Cracow XI Commercial Division of the National Court Register under KRS number 0000135388.

The Company operates pursuant to the Polish Companies Act.

The share capital of the Company as at 31 December 2016 amounted to PLN 5,757,520.75 and was divided into 23,030,083 ordinary shares with a par value of PLN 0.25 each. In the period under analysis, the Company operated mainly on the urban and railway transport infrastructure market.

Composition of the Company’s Management Board as at the date of the opinion:

- | | |
|---------------------|-----------------------------------|
| – Wiesław Nowak | – Management Board President |
| – Anna Mroczek | – Management Board Vice-President |
| – Jerzy Czeremuga | – Management Board Vice-President |
| – Maciej Nowak | – Management Board Vice-President |
| – Marcin Wiśniewski | – Management Board Vice-President |

2. Information about the financial statements for the prior financial year

The Company ended its activities in 2015 with a net profit of PLN 15,349 thousand. The financial statements of the Company 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 gave an unqualified opinion on the financial statements.

The financial statements for the financial year 2015 were approved by the General Meeting held on 25 May 2016. The General Meeting decided to distribute the net profit of 2015 in the following way:

- | | |
|--|---------------------|
| - Dividends for shareholders | - PLN 7,512,592.23; |
| - Part of dividend for treasury shares | - PLN 87,335.16; |
| - Reserve funds | - PLN 7,749,021.37. |

The separate financial statements for the financial year 2015 were submitted to the National Court Register (KRS) on 2 June 2016.

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The consolidated financial statements for the financial year 2015 were submitted to the National Court Register (KRS) on 2 June 2016.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The auditor was appointed by the Supervisory Board. The audit of the financial statements was performed based on the agreement of 28 July 2014 between the Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with 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 financial statements was conducted under the supervision of Piotr Sokołowski, key certified auditor (no. 9752) in the premises of the Company in the period 12-16 December 2016, 20 February – 3 March 2017 and outside the Company's premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and key certified auditor confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the of the Act on Auditors and Their Self-Government, Entities Authorized to Audit Financial Statements and Public Supervision (Journal of Laws of 2016, no. 1000, as amended) to express an unbiased and independent opinion on the financial statements of the Company.

4. Availability of data and statements by the Company's management

The scope of our audit was not limited.

During the audit, all necessary documents and details as well as detailed information and explanations were provided to the authorized entity and the key certified auditor as confirmed by the written statement of the Management Board of the Company of 13 March 2017.

II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

Presented below are the main items of the profit or loss, the statement of financial position and financial ratios describing the financial performance of the Company and its economic and financial position compared to the analogous figures of 2015.

<u>Main items of profit or loss</u> <u>(PLN '000)</u>	<u>2016</u>	<u>2015</u>
Revenue	311,086	509,586
Operating expenses	313,558	481,201
Profit (loss) on operating activities	(2,472)	28,385
Net profit (loss)	1,480	15,349
<u>Main items of statement of financial position</u> <u>(PLN '000)</u>		
Inventory	6,196	18,368
Trade receivables	74,937	73,889
Current assets	200,863	267,827
Total assets	344,332	408,204
Equity	209,623	215,611
Current liabilities (including short-term provisions and accruals)	110,191	164,898
Trade payables	74,740	112,381
Total liabilities	134,709	192,593
<u>Profitability and performance indicators</u>	<u>2016</u>	<u>2015</u>
– Return on sales	-1%	6%
– Net return on equity	1%	8%
– Total asset turnover	0.90	1.25
– Debtor days	86	88
– Creditor days	107	91
– Days sales of inventory	14	14
<u>Liquidity/Net working capital</u>		
– Debt ratio	39%	47%
– Equity to assets ratio	61%	53%
– Net working capital (PLN '000)	90,672	102,929
– Current ratio	1.82	1.62
– Quick ratio	1.77	1.51

An analysis of the above figures and ratios indicated the following trends in 2016:

- decrease in return on sales and net return on equity;
- decrease in total assets turnover;
- decrease in debtor days;
- increase in creditor days;
- stable days sales of inventory;
- decrease in Company's debt;
- increase in equity to assets ratio;
- decrease in net working capital; and
- increase in current and quick ratios.

III. DETAILED INFORMATION

1. Evaluation of accounting system

The Company's documentation specifying the adopted accounting principles is compliant in all material aspects with the requirements of Article 10 of the Accountancy Act. The principles have been applied in a continuous manner and have not changed when compared with the principles applied in the previous year. The opening balance following from the approved financial statements for the previous financial year has been properly entered into the accounting records of the audited period.

We have verified the accounting system on the basis of tests performed as part of the audit and have not found any irregularities likely to have an impact on the financial statements. However, our audit has not concerned the entire accounting system used by the Company.

The Company performed a physical count of assets and liabilities within the scope necessary to confirm the existence of presented assets and liabilities.

2. Information about the audited financial statements

The audited financial statements were prepared as at 31 December 2016 and include:

- statement of financial position as at 31 December 2016 showing the balance sheet total of PLN 344,332 thousand;
- statement of comprehensive income for the period from 1 January 2016 to 31 December 2016 showing a net profit of PLN 1,480 thousand and total comprehensive income of PLN 1,525 thousand;
- statement of changes in equity for the period from 1 January 2016 to 31 December 2016 showing a decrease in equity of PLN 5,988 thousand;
- statement of cash flows for the period from 1 January 2016 to 31 December 2016 showing a decrease in cash of PLN 108,588 thousand; and
- notes to the financial statements including information on accounting principles and other explanatory information.

3. Information about selected material items of the financial statements

The financial statements present the structure of assets, equity and liabilities and items of profit or loss.

Property, plant and equipment

Property, plant and equipment in the Company include:

- non-current assets of PLN 80,335 thousand.

The notes correctly describe changes in non-current assets and non-current assets under construction and disclose revaluation write-downs on such assets, if any.

Long-term investments

The Company's long-term investments include:

- shares in subsidiaries of PLN 210 thousand.

Changes in investments have been correctly presented in the respective note to the statement of financial position.

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Inventories

The structure of inventories and the related write-downs have been correctly presented in the respective note to the statement of financial position.

Receivables

Ageing of trade receivables has been correctly presented in the respective note to the statement of financial position together with the related write-downs.

Payables

Credit facilities with a description of security and maturity dates have been specified in the notes to the financial statements. Ageing of trade payables has been presented in the respective note to the statement of financial position.

Major items of the Company's current payables include:

- trade and other payables of PLN 74,740 thousand;
- current payables under retentions on construction contracts of PLN 9,117 thousand; and
- liabilities under employee benefits of PLN 16,562 thousand.

Prepayments, accruals and provisions for liabilities

The structure of prepayments, accruals and provisions for liabilities has been presented in the notes.

4. Completeness and correctness of drawing up notes and explanations and the Company's report on activities

The Company confirmed the validity of the going concern basis in preparation of the financial statements. The notes to the financial statements contain a correct and complete description of the rules governing the measurement of assets and liabilities, profit or loss and principles of preparation of the financial statements.

The notes to the financial statements give a correct and complete description of important items and a fair presentation of other material information required under the IFRS.

The Company's report on activities in the financial year 2016 has been prepared by the Management Board of the Company and attached to the financial statements. The report contains information required under Article 49.2 of the Accountancy Act and the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent (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 financial statements.

IV. COMMENTS

Management Board's statement

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a written statement of the Company's Management Board according to which the Company complied with applicable laws.

Piotr Sokołowski
Key certified auditor conducting the audit
No. 9752

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:

Piotr Sokołowski, Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 13 March 2017