

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

CONTENTS

AUDITOR'S OPINION.....	3
REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP FOR THE FINANCIAL YEAR 2016.....	6
I. GENERAL INFORMATION.....	6
1. Details of the audited Parent Company.....	6
2. Structure of the Capital Group.....	7
3. Information about the consolidated financial statements for the prior financial year.....	7
4. Details of the authorized entity and the key certified auditor acting on its behalf.....	8
5. Availability of data and statements by the Parent Company's management.....	8
II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP.....	9
III. DETAILED INFORMATION.....	10
1. Information about the audited consolidated financial statements.....	10
2. Consolidation documentation.....	10
3. Completeness and correctness of drawing up notes and explanations, consolidated statement of cash flows and consolidated statement of changes in equity and the Capital Group report on activities.....	11
IV. COMMENTS.....	12

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR 2016

1. Consolidated statement of financial position.
2. Consolidated statement of comprehensive income.
3. Consolidated statement of changes in equity.
4. Consolidated statement of cash flows.
5. Notes to the financial statements including information on accounting principles and other explanatory information.

CAPITAL GROUP 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 consolidated financial statements

We have audited the attached consolidated financial statements of the ZUE Capital Group (hereinafter referred to as the "Capital Group") whose parent company is ZUE S.A. (hereinafter referred to as the "Parent Company") with the registered office in Cracow, ul. Czapińskiego 3, including introduction to the consolidated financial statements, consolidated balance sheet as at 31 December 2016, consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2016 to 31 December 2016 and notes to the financial statements.

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

The Management Board of the Parent Company is responsible for the preparation of the consolidated 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 Parent Company is also responsible for internal control it deems necessary for the preparation of the consolidated 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 Parent 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 consolidated 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 consolidated 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 consolidated financial statements. A choice of the procedures depends on the auditor's judgment, including the assessment of a risk of material misstatement of the consolidated 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 consolidated financial statements by the Parent Company in order to prepare audit procedures that are appropriate in the circumstances and not to express an opinion on the effectiveness of the Parent 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 Parent Company as well as overall assessment of presentation of the consolidated financial statements.

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

Opinion on the consolidated financial statements

In our opinion, the attached consolidated financial statements:

- present fairly and clearly the economic and financial position of the Capital Group 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 Parent Company; and
- comply in terms of form and content with the laws and provisions of the Parent Company's articles of association binding on the Capital Group.

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 Capital Group.

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

Our responsibility has been to examine the report on activities of the Capital Group 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 consolidated financial statements. Our responsibility has also been to state whether we have detected any material misstatement in the report on activities of the Capital Group based on our knowledge of the Capital Group and its business environment obtained in the course of the audit.

We believe that information contained in the report on activities of the Capital Group 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 consolidated financial statements. In addition, 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 of the Capital Group.

Parent Company's statement of compliance with corporate governance

In relation to our audit of the consolidated financial statements, our responsibility has also been to read the Parent Company's statement of compliance with corporate governance – a separate part of the report on the activities of the Capital Group. We believe that the Parent 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 consolidated financial statements.

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 CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP FOR THE FINANCIAL YEAR 2016

I. GENERAL INFORMATION

1. Details of the audited Parent Company

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

The Parent Company operates as a public limited company. The Parent Company has been entered into the Register of Entrepreneurs kept by the District Court in Cracow XI Commercial Division of the National Court Register under KRS number 0000135388. The Parent Company has the following tax identification number (*NIP*): 6792740329 assigned to it by the District Court for Cracow-Śródmieście in Cracow on 30 October 2002. The Company’s statistical number (*REGON*) assigned to it by the Statistical Office on 30 October 2002 is 356578200.

The Parent Company operates pursuant to the Polish Companies Act.

The share capital of the Parent 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.

Composition of the Parent Company’s Management Board 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

As at 25 May 2016 (date of the last General Meeting), the Parent Company’s shareholders included:

- Wiesław Nowak	- 62.53% of shares
- METLIFE OFE	- 6.08% of shares
- PKO Bankowy OFE	- 6.51% of shares
- Other	- 24.88% of shares

No changes to the Parent Company’s share capital occurred during the financial year.

No changes to the Parent Company’s share capital occurred after the end of the reporting period.

The Parent Company’s equity as at 31 December 2016 amounted to PLN 209,622,754.83.

2. Structure of the Capital Group

Information about subsidiaries included in the Capital Group as at 31 December 2016:

Company name, legal form	Registered office	Core business	Equity at the end of reporting period	Ownership structure
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	Preparation of comprehensive design documentation	73,252.41	100% of ZUE shares
Railway gft Polska Sp. z o.o.	Cracow	Sales activities	-12,107.26	70% of ZUE shares

Apart from the abovementioned companies, the Capital Group's related entities include:

- 1) Railway Technology International Sp. z o.o.;
- 2) Railway Technology International Germany GmbH.

The consolidated financial statements as at 31 December 2016 covered the following companies:

- a) Parent Company – ZUE S.A.

We have audited the financial statements of the Parent Company for the period from 1 January to 31 December 2016. As a result of our audit, we have given an unqualified opinion on 13 March 2017.

- b) Companies subject to full consolidation:

Name and registered office	Interest in the share capital (%)	Entity that audited the financial statements and type of opinion	The end of the reporting period
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion has not been given yet.	31 Dec 2016
Railway gft Polska Sp. z o.o.	70%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion has not been given yet.	31 Dec 2016

In the financial year, the composition of the Capital Group under audit or consolidated companies in respect of which the audited consolidated financial statements have been prepared by the Parent Company has not changed.

3. Information about the consolidated financial statements for the prior financial year

The Group ended its activities in 2015 with a net profit of PLN 17,470 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. On 10 March 2016, the certified auditor gave an unqualified opinion on the financial statements.

The consolidated financial statements for the financial year 2015 were approved by the General Meeting held on 25 May 2016.

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

4. 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 consolidated financial statements was performed based on the agreement of 28 July 2014 between the Parent 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 consolidated financial statements was conducted under the supervision of Marek Turczyński, key certified auditor (no. 90114) in the premises of the Parent 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 consolidated financial statements of the Capital Group.

5. Availability of data and statements by the Parent 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 Parent Company of 13 March 2017.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items of the consolidated income statement, consolidated statement of financial position and financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the analogous figures of 2015.

<u>Main items of consolidated profit or loss</u> <u>(PLN '000)</u>	<u>2016</u>	<u>2015</u>
Revenue	343,017	542,122
Operating expenses	346,566	516,677
Profit (loss) on operating activities	(3,549)	25,445
Net profit (loss)	406	17,470
<u>Main items of consolidated statement of financial position</u> <u>(PLN '000)</u>		
Inventory	11,287	25,859
Trade receivables	86,609	77,839
Current assets	219,456	282,224
Total assets	363,373	423,545
Equity	209,282	216,344
Current liabilities (including short-term provisions and accruals)	128,268	177,998
Trade payables	82,094	117,730
Total liabilities	154,091	207,201
<u>Profitability and performance indicators</u>	<u>2016</u>	<u>2015</u>
– Return on sales	-1%	5%
– Net return on equity	0%	9%
– Total asset turnover	0.94	1.28
– Debtor days	86	86
– Creditor days	104	87
– Days sales of inventory	19	15
<u>Liquidity/Net working capital</u>		
– Debt ratio	42%	49%
– Equity to assets ratio	58%	51%
– Net working capital (PLN '000)	91,188	104,226
– Current ratio	1.71	1.59
– Quick ratio	1.62	1.44

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;
- no changes in debtor days;
- increase in creditor days and days sales of inventory;
- decrease in debt ratio;
- increase in equity to assets ratio;
- decrease in net working capital; and
- increase in current ratios.

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 statement of financial position as at 31 December 2016 showing the balance sheet total of PLN 363,373 thousand;
- consolidated statement of comprehensive income for the period from 1 January 2016 to 31 December 2016 showing a net profit of PLN 406 thousand and total comprehensive income of PLN 451 thousand;
- consolidated statement of changes in equity for the period from 1 January 2016 to 31 December 2016 showing a decrease in equity of PLN 7,062 thousand;
- consolidated statement of cash flows for the period from 1 January 2016 to 31 December 2016 showing a decrease in cash of PLN 109,617 thousand; and
- notes to the financial statements including information on accounting principles 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 Company;
- verification of the consolidation documentation;
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation; and
- 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 Company presented the consolidation documentation including:

- financial statements of entities included in the consolidated financial statements;
- financial statements of subsidiaries adjusted to the accounting principles (policy) applicable during consolidation;
- consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
- calculation of goodwill and gain from a bargain purchase as well as impairment of goodwill; and
- calculation of non-controlling interests.

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 Company and the subsidiaries included in consolidation were summed up.

The Parent Company responsible for the preparation of the consolidated financial statements did not apply any material simplifications or deviations from adopted consolidation rules with regard to controlled entities.

3. Completeness and correctness of drawing up notes and explanations, consolidated statement of cash flows and consolidated statement of changes in equity and the Capital Group report on activities

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

The Parent Company prepared the notes and explanations in the form of tables for individual items of the consolidated statement of financial position, the consolidated income statement and the consolidated statement of comprehensive income as well as narrative descriptions in line with the requirements of the IFRS.

The Parent Company prepared the consolidated statement of cash flows and the consolidated statement of changes in equity in line with the requirements of the IFRS.

The Capital Group report on activities in the financial year 2016 was prepared by the Management Board of the Parent Company and attached to the consolidated 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 consolidated 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 Parent Company's Management Board according to which the Capital Group 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