

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

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

Audit report on the annual financial statements

Opinion

We have audited the annual financial statements of ZUE S.A. (the 'Company') located in Cracow at Kazimierza Czapińskiego 3 street, containing: the statement of comprehensive income for the period from 1 January 2018 to 31 December 2018, the statement of financial position as at 31 December 2018, the statement of changes in equity, the statement of cash flows for the period from 1 January 2018 to 31 December 2018 and additional information and explanations to the financial statements as at 31 December 2018 (the 'financial statements').

In our opinion the financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of the Accounting Act dated 29 September 1994 (the 'Accounting Act').

The opinion is consistent with the additional report to the Audit Committee issued on 27 March 2019.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014'). Our responsibilities under those standards are further described in the '*Auditor's responsibilities for the audit of the financial statements*' section of our report.

We are independent of the Company in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Company in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<p>Construction contracts – valuation and recognition</p> <p>The Company's revenues from deliveries and services in the amount of PLN 763,757k for the year ended on 31 December 2018 are mainly revenues from the implementation of contracts with customers regarding the construction of urban transport and railway infrastructure ("contracts").</p> <p>In accordance with the requirements of International Financial Reporting Standard 15 "Revenue from contracts with customers" ("IFRS 15"), the Management of the Company assesses whether the revenue from a given contract should be recognized over time of performance of the obligation or recognized in time of its fulfillment.</p> <p>If, as a result of the performance of the obligation, no alternative asset is created for the benefit contractor and if the enforcer is entitled to the right to receive payment for the performance already performed, then the revenues related to the contract is recognized in accordance with the percentage of</p>	<p>Our audit procedures, in reference to the described key audit matter included, inter alia:</p> <ul style="list-style-type: none"> • analysis and evaluation of applied accounting policies and procedures, including the internal control environment, relating to the process of contract valuation and their recognition, • analysis of documentation regarding the implementation of IFRS 15 and its impact on individual items of the financial statements, • conducting test of control for selected control mechanisms, • verifying the correctness of the adopted method of recognizing revenues for selected contracts, • verifying budgets accuracy by directing inquiries referring to the status of selected contracts, including the current key estimates, assessment of key risks related to the performance of contracts and their inclusion in the valuation, • the following audit procedures performed on the sample of contracts, including, inter alia:

<p>completion method based on expenditures in accordance with International Financial Reporting Standard 15 Revenue from contracts with customers, determined as the ratio of costs incurred to the estimated costs necessary to perform the contract. This valuation has a material impact on the Company's financial statements.</p> <p>We stated that valuation of contracts is a key audit matter because it requires the Management of the Company to apply a professional judgment and estimates based on the state of knowledge as at the balance sheet date in relation to the method of measuring the fulfillment of obligations, total contract costs, including all necessary estimates of identified risks.</p> <p>The Company's accounting policy regarding the valuation and recognition of contracts is described in more detail in note 8.2.5 of the attached financial statements of the Company. Additionally, in Note 3.1, the Company's Management presented numerical disclosures and information on the uncertainty of estimates related to the valuation of contracts.</p>	<ul style="list-style-type: none"> - analysis of key contracts terms resulting from the agreement with the client, - assessment of significant assumptions and estimates made by the Management of the Company in relation to contract revenues and costs, including on the basis of budget implementation, - cost and revenue allocation tests for individual contracts, which is the basis for determining the method of measuring the percentage of completion of performance obligation and the compliance of the allocation with concluded contracts, - analysis of margin changes during the implementation of individual contracts, including inquiries regarding deviations from the initial contract budget and valuation at the previous balance sheet date, - analysis of external sources of information in order to identify potential risks related to the contracts being performed, - reconciliation of the presented source documentation, including internal and external studies held by the Management regarding potential and existing risks and disputes related to the performance of contracts. <p>In additions, we assessed the adequacy of the presentation and disclosures in the attached financial statements of the Company regarding sales revenues.</p>
<p>Liquidity</p> <p>In the statement of comprehensive income for the period from 1 January 2018 to 31 December 2018, Company presented a gross loss on sales in the amount of PLN 62 035k and a net loss in the amount of PLN 64 049k.</p> <p>The value of cash in the statement of financial position as at 31 December 2018 amounted to PLN 79 404k.</p>	<p>Our procedures, in reference to the described key audit matter included, inter alia:</p> <ul style="list-style-type: none"> • analysis of entries regarding contractual clauses, including covenants, • analysis of contractual provisions regarding granted guarantee limits and their use as at 31 December 2018 • analysis of forecast cash flows presented by the Management of the Company and key assumptions being the basis for their preparation, • analysis of the risk Management assessment, • sensitivity analysis of the main parameters of forecasted cash flows, • analysis of timeliness of works in relation to agreement provisions,

<p>The issue of financial liquidity was determined as key matter for the audit of Company's financial statements due to the significant value of the losses indicated above, as well as an element of the professional judgment of the Company's Management related to the estimation of projected cash flows underlying the conclusions on maintaining financial liquidity and assumption of going concern. This estimate requires the Management of the Company to adopt a number of assumptions regarding cash flow forecasts, including those regarding sales revenue, operating expenses, timely contract performance and general market conditions.</p> <p>Therefore, as at the balance sheet date on 31 December 2018, the Management prepared a cash flow forecast for 2019, including key assumptions related to the operational parameters of the Company.</p> <p>Disclosures of the Management regarding the assumption of going concern and financial liquidity are included in note 8.2.1 of the attached financial statements of the Company.</p>	<ul style="list-style-type: none"> • verifying the mathematical correctness of the calculations carried out as part of the analyzes. <p>In addition, we assessed the adequacy of the presentations and disclosure in the attached financial statements of the Company regarding the assumption of going concern and financial liquidity.</p>
<p>Goodwill – impairment analyses</p> <p>In accordance with the International Accounting Standard 36 “<i>Impairment of assets</i>”, the Company is required to conduct an annual goodwill impairment test.</p>	<p>As part of the audit, we conducted procedures to understand the process of assessing the identification of impairment triggers and the goodwill impairment test process and assessed the identification of cash generating units to which goodwill is assigned as well as we analyzed and assessed the impairment test conducted by the Management.</p> <p>Our procedures included the assessment of the goodwill impairment model using internal experts during model verification as well as assumptions and estimates adopted by the Management for the purposes of the test, with a special consideration of:</p> <ul style="list-style-type: none"> • a comparison of the key assumptions underlying the conducted test with market indicators, costs, achieved margins and cash flows and, where possible, external data;

The goodwill impairment test was a key audit matter due to the carrying amount of goodwill, which as at 31 December 2018 amounted to PLN 31 172k. In our opinion, this value is significant for the financial statements of ZUE S.A. Company's Management conducted a goodwill impairment test based on significant assumptions, estimates such as future income, cost and cash flow streams, average weighted capital cost ("WACC"), discount rate or marginal growth rate impacted by future market and economic conditions as well as based on the Company's strategy. Therefore, we considered the above issue as a key audit matter.

The Management presented assumptions regarding the goodwill impairment test carried out as well as the results and disclosures regarding the goodwill allocation test to the cash-generating unit in note 7.5 of the attached financial statements.

- verifying the mathematical correctness of the calculations carried out as part of the test;
- assessment of the Management forecasts based on the analysis of the implementation of past forecasts for completed periods;
- assessment of sensitivity analysis prepared by the Management.

We also considered the correctness and completeness of the disclosures made in the financial statements of ZUE regarding goodwill impairment tests and disclosures regarding the sensitivity analysis of this test.

Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation, based on properly maintained accounting records, the financial statements that give a true and fair view of the financial position and the financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the financial statements

that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, The Company's Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Company's Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the financial statements meet the requirements of the Accounting Act. The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected

that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these financial statements.

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Company nor effectiveness of conducting business matters now and in the future by the Company's Management.

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,
- obtain an understanding of internal control relevant to the audit 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 Company's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Company to cease to continue as a going concern,

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 49b, section 1 of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the financial statements does not include the Other Information. In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 70 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the financial statements.

Moreover, based on our knowledge of the Company and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the financial statements.

Information on non-financial information

In accordance with the Act on Statutory Auditors, we confirm, that the Company has prepared a statement on non-financial information mentioned in article 49b, section 1 of the Accounting Act as a separate element of the Directors' Report.

We have not performed any attestation procedures in respect to the statement on non-financial information and do not express any assurance in its respect.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which we have provided to the Company and its subsidiaries, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Company and its subsidiaries in the audited period, have been disclosed in the Directors' Report.



Appointment of the audit firm

We were appointed for the audit of the Company's financial statements initially based on the resolution of the Supervisory Board from 6 June 2017 and reappointed based on the resolution from 15 March 2018. The financial statements of the Company have been audited by us uninterrupted starting from the financial year ended on 31 December 2017, i.e. for the past 2 consecutive years.

Warsaw, 27 March 2019

Key Certified Auditor

Piotr Kuźniar
certified auditor
no in the register: 12386

on behalf of:
Ernst & Young Audyt Polska spółka z ograniczoną
odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
no on the audit firms list: 130