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Information Document

for financial instruments issued by:

Trakcja S. A.

z siedzibą w Warszawie

pod adresem ul. Złota 59, XVIII p., 00-120 Warszawa

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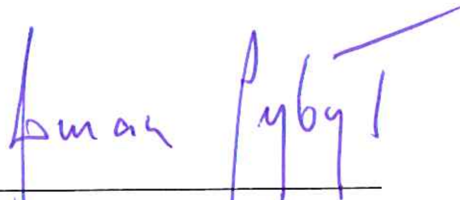
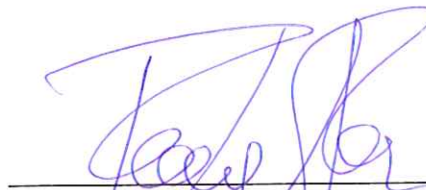
1. Statement of the Management

On behalf of the Management, we hereby declare that to the best of our knowledge and with preservation of due diligence, the information contained in the Information Document are true, fair and in accordance with the facts as well as contain no omissions likely to affect its importance.



Roman Przybył

President of the Management Board of Trakcja S.A.



Rodrigo Pomar

Vice-president of the Management Board of Trakcja S.A.

2. General information on the Issuer

1.1 Basic information on the Issuer and its Group

Trakcja S.A. ("**the Issuer**", "**the Company**") is a parent entity for a group of companies ("**the Group**", "the Capital Group") operating in the construction sector in Poland and in Lithuania. The Group's business activity is focused on comprehensive design as well as construction services for railway and road infrastructure projects.

The Group's activities in the railway sector include:

- construction and modernization of the track together with dehydration;
- construction and modernization of the traction and power systems;
- comprehensive development (design, completion and delivery of equipment, specialist software supply, installation, commissioning, warranty and post-warranty) of all remote control devices, electric traction and auxiliary systems such lighting platforms, switches, electric heating, etc.;
- construction of power lines and overhead cables;
- construction and modernization of engineering structures;
- general engineering for the railway infrastructure.

Scope of services for the road segment includes:

- construction of roads and highways;
- revitalization / upgrade of existing roads;
- construction of bridges and bridge-type structures.

Other services include:

- realization of general construction projects (residential and office);
- construction and modernization of utility infrastructure;
- realization of residential development projects on own land plots;
- production of equipment, hardware and building materials.

Excellent knowledge and expertise within the market has enabled the Group to obtain the backlog worth more than PLN3.4 bn[1] that will secure considerable part of the Group's revenue until the end of 2014. From that value, c. 26% will be delivered from projects carried out in Lithuania.

The Group has developed its business through organic growth as well as acquisitions (PRK-7 SA in 2007 and AB Kauno tiltai in 2011), which expanded the Group's scope of competencies and increased its competitiveness among peer companies in railway and road construction sectors.

[1] Revenue still to be booked on projects under construction as of 30th September 2012

1.2 History of the Issuer

1949 Foundation of Państwowe Przedsiębiorstwo Robót Komunikacyjnych No 4 by order of the Minister of Communications

1950 Separation of PPRK-4 Traction Works Department involved in the execution of work on the overhead line

1953 Rename PPRK-4 to Przedsiębiorstwo Kolejowych Robót Elektryfikacyjnych (PKRE) by order of the Ministry of Railways. This change had a close relationship with the further extension of its activities for the construction and installation of traction

1981 Turning PKRE to the PKP structure under the name: Polskie Koleje Państwowe – Zakład Kolejowych Robót Elektryfikacyjnych

1991 As a result of economic reforms, the separation of PKP Zakład Kolejowych Robót Elektryfikacyjnych and creation of a state enterprise under the name Przedsiębiorstwo Kolejowych Robót Elektryfikacyjnych

1995 As part of further restructuring transformation PKRE into joint stock company, which was under the National Investment Funds program

2004 In accordance with a resolution adopted by the General Meeting of Shareholders acquisition of Trakcja Polska S.A. - main shareholder of Przedsiębiorstwo Robót Krajowych i Inżynieryjnych S.A. - and the creation of Trakcja Polska - PKRE SA

2005 Privatization through the sale of minority stake to Spanish company COMSA S.A.

2006 COMSA S.A. through the purchase of another stake of shares of our Company becomes a main shareholder

2007 Acquisition of Przedsiębiorstwo Robót Komunikacyjnych-7 S.A. and PRK 7 Nieruchomości Sp. z o.o. Change of name to Trakcja Polska S.A.

2008 Debut on the Warsaw Stock Exchange

2011 Acquisition of AB Kauno tiltai and Tiltra Group AB:

On 19th April 2011 the Company signed agreements, whereby it acquired:

- 150,000 shares of Tiltra Group AB, representing 100.00% of its share capital,
- 148,981 shares of AB Kauno tiltai, representing 96.84% of the share capital and
- 22 Silentio Investments shares, representing 22.00% of the share capital (additional 77% of shares was owned by Tiltra Group AB).

The key objective of the abovementioned acquisition was to create one of the leader on the railway and road construction market in Poland. The companies within the Group pre and post acquisition had similar strategies that involved diversification of activities by entering into new segments of the construction market. Through the transaction, the Company`s main shareholder (COMSA S.A.)

expected to expand into new markets in CEE region. The combined group was to strengthen its competitiveness and negotiating position in front of suppliers and subcontractors.

The total price for acquired assets amounted to PLN 465 mm. The settlement mechanism for acquired shares envisaged paying PLN 152 mm in cash, issuing PLN 297 mm worth bonds to the sellers and the remaining part was settled by new shares issue. Initial agreement stated the necessity of acquired companies to keep the certain financial parameters within set ranges. In case both Tiltra Group AB and AB Kauno tiltai do not reach the desired level of net income and EBITDA for the fiscal year ended 31st March 2011 and 31st March 2012, the early redemption of bonds was to come into force. Due to the breach of the covenants, sellers were obliged to agree to partial redemption of the bonds on cash-free basis (244 A-series bonds and 135 608 B-series bonds).

2012 Liquidation of Lithold AB (former Tiltra Group AB)

Lithold AB is a holding company, which was an indirect owner of Poldim (through Silentio Investments Sp. z o.o.). In 2011 Poldim suffered substantial problems with timely debts repayments that resulted from a coincidence of several market circumstance, beyond Poldim's control. As a consequence, banks financing Poldim, called for immediate loan repayments. Subsequently, banks initiated enforcement procedures. To prevent from company liquidation, considerable steps aimed at debt restructuring has been taken, the consequence of which was a standstill agreement signed on 11th January 2012 with the financing banks, by which banks agreed to take steps necessary to restructure Poldim`s debt. Due to continues deterioration of the market and rigid position of the creditors, the management of Poldim was forced to submit for arrangement bankruptcy and subsequently – due to lack of agreement with creditors –the motion was changed to liquidation bankruptcy, which was confirmed and registered by the court decision on the 21st June 2012. Following the Poldim's problems, on 29th June 2012 EGM of Lithold AB approved liquidation of the company due to inability to repay its debts.

2012 Change of the Company name to Trakcja S.A. (former Trakcja-Tiltra S.A.)

1.3 Key financial data of the Issuer and its Group

Table 1 Group`s consolidated assets as of 2010, 2011 and 3Q2012

	2010		2011*		3Q2012	
	Value	%	Value	%	Value	%
Fixed assets	**214 589**	**28,4%**	**850 230**	**44,3%**	**701 789**	**50,7%**
Tangible assets	95 114	12,6%	316 512	16,5%	195 282	14,1%
Investment property	3 666	0,5%	10 344	0,5%	10 344	0,7%
Goodwill	2 873	0,4%	382 404	19,9%	375 964	27,2%
Intangible assets	54 675	7,2%	60 382	3,1%	57 822	4,2%
Investments in subsidies	35 427	4,7%	2 052	0,1%	0	0,0%
Investments in affiliates	0	0,0%	25	0,0%	25	0,0%
Other financial asstets	1 182	0,2%	31 228	1,6%	21 853	1,6%
Deferred tax assets	19 634	2,6%	43 150	2,2%	35 248	2,5%
Accruals	2 018	0,3%	4 133	0,2%	5 251	0,4%
Current assets	**539 776**	**71,6%**	**1 069 726**	**55,7%**	**681 748**	**49,3%**
Inventory	109 221	14,5%	150 741	7,9%	102 551	7,4%
Trade receivables	111 933	14,8%	542 569	28,3%	387 540	28,0%
Tax receivables	0	0,0%	271	0,0%	0	0,0%
Other financial assets	32 635	4,3%	28 767	1,5%	30 301	2,2%
Derivatives	0	0,0%	0	0,0%	355	0,0%
Cash	234 309	31,1%	222 562	11,6%	50 020	3,6%
Accruals	5 013	0,7%	9 967	0,5%	6 804	0,5%
Construction contracts	46 665	6,2%	110 214	5,7%	104 177	7,5%
Assets available for sale	0	0,0%	4 635	0,2%	0	0,0%
Total assets	**754 365**	**100,0%**	**1 919 956**	**100,0%**	**1 383 537**	**100,0%**

**Restatement: The Group settled the transaction of purchasing the shares of AB Kauno tiltai and Lithold AB as well as estimating the value of goodwill based on the fair value of acquired assets and liabilities*
Source: Consolidated financial statements of Trakcja S.A. as of 31st December 2010, 31st December 2011 and 30th September 2012

As of 30th September 2012 total assets of the Group amounted to PLN 1 383 537k and were lower in comparison to value recognized as of 31st December 2011 by PLN 536 419k. The significant change in total assets value was attributable to deconsolidation of Lithold AB (former Tiltra Group AB) in relation to the bankruptcy proceedings of Lithold AB and liquidation bankruptcy of its major subsidiary – Poldim S.A. In comparison to significant drop in total value of assets as of the end of 3rd quarter 2012, the considerable increase (values at PLN 1 165 591k) in 2011 was inextricably linked with the acquisition of AB Kauno tiltai and Tiltra Group AB and consolidation of all acquired assets.

Fixed and current assets of the Group as of 30th September 2012 amounted to PLN 701 789k (50,7%) and PLN 681 748k (49,3%) respectively. The majority of fixed assets was contributable to goodwill (27,2%) and tangible assets (14,1%), whereas within the current assets, trade receivables were the main item (28,0%). Goodwill value, recognized in the 3Q2012 financial statements at PLN 375 964k was connected with the transaction of acquiring AB Kauno tiltai and Tiltra Group AB in 2011 and was attributable to both road and railway sectors.

Table 2 Group`s consolidated liabilities and equity as of 2010, 2011 and 3Q2012

	2010		2011*		3Q2012	
	Value	%	Value	%	Value	%
Total equity	**404 051**	**53,6%**	**525 842**	**27,4%**	**521 490**	**37,7%**
Share capital	16 011	2,1%	23 211	1,2%	23 211	1,7%
Agio	185 812	24,6%	231 591	12,1%	231 813	16,8%
Revaluation reserve	2 339	0,3%	2 343	0,1%	2 343	0,2%
Other reserves	160 476	21,3%	199 775	10,4%	238 027	17,2%
Retained earnings	39 413	5,2%	52 334	2,7%	19 317	1,4%
FX translation reserves	0	0,0%	16 588	0,9%	6 779	0,5%
Minority interest	**141**	**0,0%**	**18 600**	**1,0%**	**1 934**	**0,1%**
Lond-term liabilities	**52 004**	**6,9%**	**354 895**	**18,5%**	**260 160**	**18,8%**
Loans	28 791	3,8%	134 216	7,0%	56 466	4,1%
Bonds	0	0,0%	160 040	8,3%	160 512	11,6%
Reserves	1 008	0,1%	3 460	0,2%	2 730	0,2%
Liabilities due to employees	7 724	1,0%	17 008	0,9%	9 422	0,7%
Deferred tax reserve	14 463	1,9%	40 089	2,1%	30 890	2,2%
Derivatives	0	0,0%	58	0,0%	3	0,0%
Other financial liabilities	18	0,0%	24	0,0%	137	0,0%
Short-term liabilities	**298 169**	**39,5%**	**1 020 619**	**53,2%**	**599 953**	**43,4%**
Loans	27 559	3,7%	235 164	12,2%	137 387	9,9%
Bonds	0	0,0%	5 695	0,3%	2 847	0,2%
Trade liabilities	156 435	20,7%	570 766	29,7%	341 406	24,7%
Reserves	11 924	1,6%	21 842	1,1%	3 734	0,3%
Liabilities due to employees	5 471	0,7%	13 567	0,7%	11 709	0,8%
Deferred tax reserve	1 714	0,2%	0	0,0%	2 647	0,2%
Derivatives	0	0,0%	95	0,0%	85	0,0%
Other financial liabilities	0	0,0%	0	0,0%	5	0,0%
Accruals	304	0,0%	1 496	0,1%	145	0,0%

Construction contracts	92 397	12,2%	151 451	7,9%	98 766	7,1%
Advances on flats sale	2 365	0,3%	20 543	1,1%	1 222	0,1%
Total equity and liabilities	**754 365**	**100,0%**	**1 919 956**	**100,0%**	**1 383 537**	**100,0%**

**Restatement: The Group settled the transaction of purchasing the shares of AB Kauno tiltai and Lithold AB as well as estimating the value of goodwill based on the fair value of acquired assets and liabilities*
Source: Consolidated financial statements of Trakcja S.A. as of 31st December 2010, 31st December 2011 and 30th September 2012

As of 30th September 2012 the total equity value amounted to PLN 521 490k, which constituted 37,7% share in total equity and liabilities for that period. Common share capital amounted to PLN 23 211k. Common share capital and *agio* increased within the course of 2011 in relation with the acquisition of Tiltra Group AB and AB Kauno tiltai, that was partially financed with new issue of shares. Minority interest as of 30th September 2012 was significantly lower than as of 31st December 2011 and amounted to PLN 1 934k. The considerable drop in this value was the result of liquidation proceedings of Lithold AB and its deconsolidation from the Group's financial statements.

Long term liabilities as of 30th September 2012 amounted to PLN 260 160k and were lower by PLN PLN 94 735k in comparison to values in 2011. The decline was mainly caused by the deconsolidation of Lithold AB and the debt outstanding on this group. Long term liabilities mainly comprised of bank loans (PLN 56 466k; 4,1% of total equity and liabilities) and bonds (PLN 160 512k; 11,6% of total equity and liabilities). Interest bearing long term debt level significantly increased in 2011 due to abovementioned acquisition transaction. The Group started to consolidate bank debt of the purchased companies. Moreover, to finance acquisition the Group issued plain vanilla bonds, which long-term component was reflected in the 2011 statement in the amount of PLN 160 040k.

Short term liabilities reached PLN 599 953k as of 30th September 2012 and accounted for 43,4% of total equity and liabilities value. In its structure, the majority share was contributable to trade liabilities (PLN 341 406k; 24,7% of total equity and liabilities) resulting from core business of the Group and attributable mainly to liabilities to subcontractors with respect to building contracts in progress. Short term liabilities fell by 41% during three quarters of 2012 which was again mainly a result of Lithold AB deconsolidation.

Table 3 Group`s debt structure ratios as of 2010, 2011 and 3Q2012

	2010	2011*	3Q2012
Short term debt / total debt	48,9%	45,0%	39,3%
Long term debt / total debt	51,1%	55,0%	60,7%
Short term loans / total loans	48,9%	63,7%	70,9%
Debt / Equity	13,9%	101,8%	68,5%
Debt / Assets	7,5%	27,9%	25,8%
Net debt / EBITDA**	-3,2x	1,9x	2,0x

**Restatement: The Group settled the transaction of purchasing the shares of AB Kauno tiltai and Lithold AB as well as estimating the value of goodwill based on the fair value of acquired assets and liabilities*
***EBITDA 2011* is the EBITDA from the consolidated financial statements as of 31st December 2011 (not restated); EBITDA 3Q2012 – last twelve months EBITDA including restatement.*
Source: Consolidated financial statements of Trakcja S.A. as of 31st December 2010, 31st December 2011 and 30th September 2012

The structure of the Group`s indebtedness is presented in the table 3. The majority of loans financing the core business activities are short term, revolving credit lines. Short term loans in total loans value as of 30th September 2012 amounted to 70,9%. These type of loans are broadly used for financing working capital needs on projects from current backlog, including mainly materials, own staff and part of external services.

As of 30th September 2012 short term debt accounted for 39,3% of total interest-bearing debt value. The difference in the value of this ratio as compared to short term / total loans is attributable to the plain vanilla bonds falling in December 2013 and 2014, issued in 2011 in relation with the acquisition of Lithuanian subsidiaries with the outstanding nominal value of PLN 161.3 mm.

Noticeably, debt / equity and debt / assets ratio increased significantly in 2011 as a result of the acquisition transaction, where acquired net assets (including debt outstanding on the companies being purchased) were partially financed by bond issue. The ratios peaked in 2011 and dropped subsequently in 3Q2012 as a consequence of Lithold AB liquidation and deconsolidation.

Net debt / EBITDA ratio oscillated within the range of -3,2x in 2010 to 2,0x in 3Q2012. Negative value in 2010 attributable to significantly lower debt level in relation to cash generated. Since 2011 net debt / EBITDA value increases due to bonds issue and recognition in the financial statements.

Table 4 presents consolidated income statements figures as of 2010, 2011 and 3Q2012.

Table 4 Group`s consolidated income statement as of 2010, 2011 and 3Q2012

PLN k	**2010**	**2011**	**3Q2011***	**3Q2012**
Revenues	491 163	2 143 586	1 394 841	986 773
COGS	-421 669	-2 048 744	-1 310 327	-940 073
Gross profit on sale	**69 494**	**94 842**	**84 514**	**46 700**
Costs of sales and marketing	-2 410	-8 443	-3 871	-5 200
General and administrative expenses	-24 611	-72 530	-49 335	-39 075
Other operating revenues	3 089	123 399	10 966	3 149
Other operating costs	-1 453	-7 834	-2 520	-7 193
Loss of control over subsidiary	0	0	0	44 291
Operating profit	**44 109**	**129 434**	**39 754**	**42 672**
Financial revenues	8 790	4 547	7 443	6 955
Financial costs	-3 555	-59 162	-33 599	-27 532
Acquisition costs	-8 364	-1 342	-1 270	0
Share in affiliate profit	-176	1 309	-1 010	0
Profit before tax	**40 804**	**74 786**	**11 318**	**22 095**
Tax	-8 200	-11 817	-3 973	-3 172
Net income	**32 604**	**62 969**	**7 345**	**18 923**

**Restatement: The Group settled the transaction of purchasing the shares of AB Kauno tiltai and Lithold AB as well as estimating the value of goodwill based on the fair value of acquired assets and liabilities*
Source: Consolidated financial statements of Trakcja S.A. as of 31st December 2010, 31st December 2011 and 30th September 2012

As of 31st December 2011 total revenues reached PLN 2 143 586k and were nearly three times higher than for the analogous period in 2010, when they amounted to PLN 491 163k. The significant increase was related to acquisition of AB Kauno tiltai and Tiltra Group AB and commencement of consolidation of the acquired projects, mostly high value road/highway contracts. Also COGS value increased considerably in 2011 in comparison to 2010, which was direct effect of revenue increase. As the result of multiplied revenue, also gross profit on sale increased – from PLN 69 494k in 2010 to PLN 94 842k in 2011. Still, the gross profit on sales increased only by 36,4%, what given the scale of revenue increase indicates substantial margin deterioration. Revenue reported for 3 quarters of 2012 fell by 29% as compared to the similar period of the preceding year. Main cause for the decline was deconsolidation of Lithold AB group and its large road projects. The revenue was also dumped by slower than expected advances on projects under construction. Gross profit on sales fell by 45%, indicating further margin decline.

Operating profit as of 31st December 2010 amounted to PLN 44 109k. The value was nearly three times higher next year (PLN 129 434k), mainly due to other operating revenues reported at PLN 123 399k. The value had to large extent one-off character and was inextricably linked with the settlement of the acquisition of AB Kauno tiltai and Tiltra Group AB (PLN 100 812k) and resulted from decrease of purchase price due to weaker than expected financial and operating results of the purchased companies. Operating profit for the three quarters ended 30th September 2012 amounted to PLN 42 672k but was boosted by profit on the loss of control over the subsidiary amounting to PLN 44 291k (deconsolidation of Lithold AB with negative value of net assets).

Financial costs on the consolidated level amounted to PLN 3 555k in 2010. The costs increased considerably in 2011, accounting for PLN 59 162k mainly due to issuance of bonds as well as increase in loans level resulted from the acquisition of AB Kauno tiltai and Tiltra Group AB. As of 30th September 2012 the consolidated financial costs amounted to PLN 27 532k. Significant drop in value is attributable to liquidation of Poldim and deconsolidation of interest bearing debt held by Lithold AB.

Table 5 Group`s margins as of 2010, 2011 and 3Q2012

PLN k	**2010**	**2011**	**3Q2011***	**3Q2012**
Margin on sale	14,1%	4,4%	6,1%	4,7%
EBITDA margin	11,2%	7,7%	4,1%	4,3%
EBIT margin	9,0%	6,0%	2,9%	4,3%
Net profit margin	6,6%	2,9%	0,5%	1,9%

**Restatement: The Group settled the transaction of purchasing the shares of AB Kauno tiltai and Lithold AB as well as estimating the value of goodwill based on the fair value of acquired assets and liabilities*
Source: Consolidated financial statements of Trakcja S.A. as of 31st December 2010, 31st December 2011 and 30th September 2012

In terms of margins, continuous deterioration of margin on sale can be observed as a consequence of rising prices of construction materials, delays in realization of some projects causing share of fixed costs to increase as well as increasing competitive pressure on contract prices required in order to

win new tenders. Falling margin on sales translates also into decrease in other levels of margins. Operating, EBITDA and net profit margins have been also affected by one-off items, described in details in the preceding income statement analysis.

Table 6 Group`s consolidated statement of cash flow as of 2010, 2011 and 3Q2012

	2010	2011	3Q2011*	3Q2012
Profit before tax	40 804	74 786	11 318	22 095
Adjustments, incl.:	10 849	-39 311	-237 310	-83 010
Amortization	*10 683*	*34 902*	*31 402*	*20 509*
Cash flow from operations	51 653	35 475	-225 992	-60 915
Cash flow from investments	-25 534	-58 628	-59 606	-62 888
Cash flow from financing activities	-5 380	39 364	178 319	-48 739
Total cash flow for the period	20 739	16 211	-107 279	-172 542
Cash (BoP)	*185 621*	*206 351*	*206 351*	*222 562*
Cash (EoP)	206 351	222 562	99 072	50 020

**Restatement: The Group settled the transaction of purchasing the shares of AB Kauno tiltai and Lithold AB as well as estimating the value of goodwill based on the fair value of acquired assets and liabilities*
Source: Consolidated financial statements of Trakcja S.A. as of 31st December 2010, 31st December 2011 and 30th September 2012

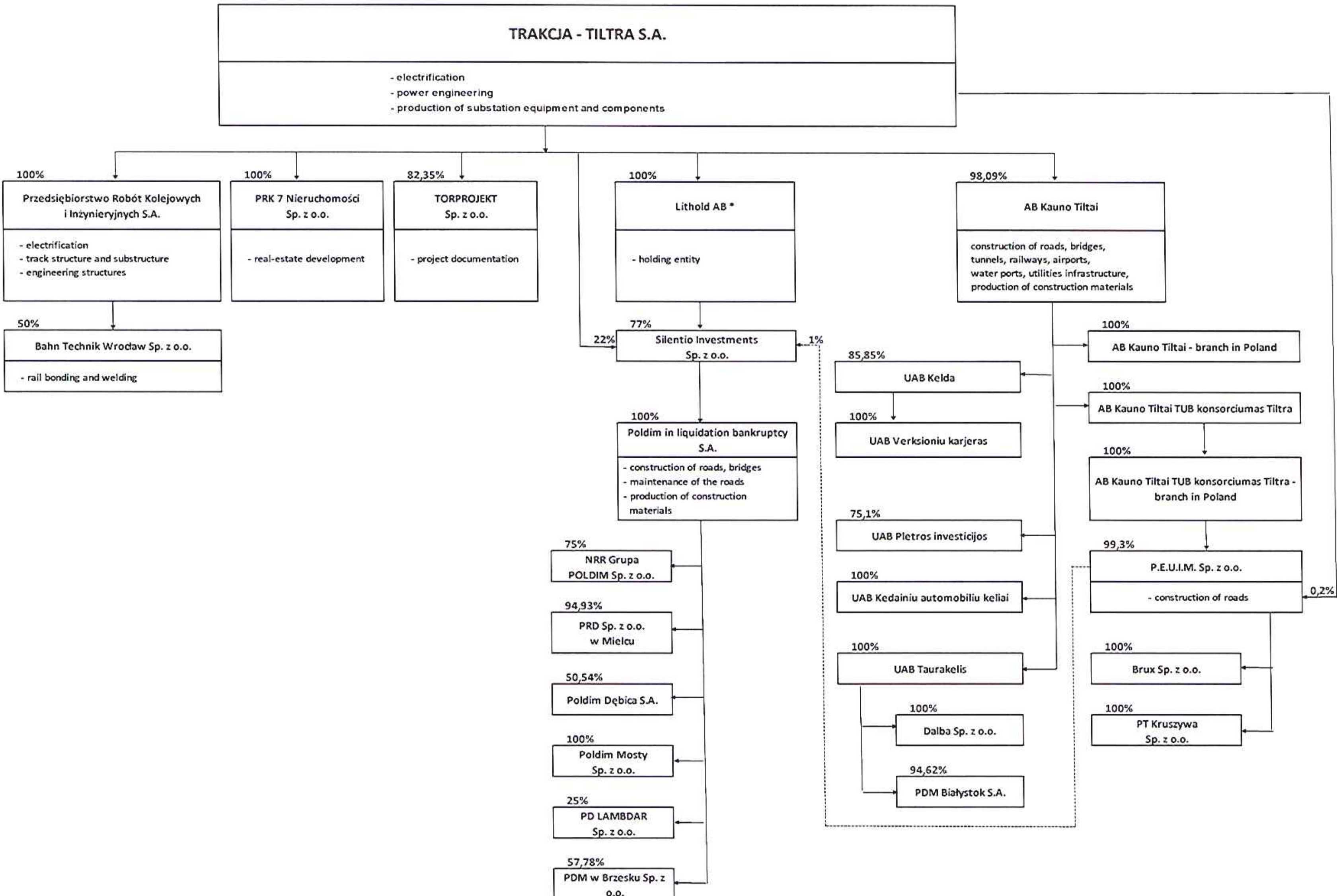
As of 30th September 2012 the Group generated negative cash flow from operations amounting to PLN 60 915k, what was attributable to the large extent to increase in net working capital, mainly due to decrease in trade liabilities and construction contracts. Cash flow from investments accounted for PLN -62 888k and was mainly the consequence of losing control over cash in subsidiaries, which was estimated at PLN 48 183k and purchasing tangible and intangible assets valued at PLN 20 534k. Negative cash flow from financing activities was driven repayments of debt (PLN -162 138k) and interest paid on loans (PLN -17 045) exceeding inflows from newly borrowed loans (PLN 139 662k). For the first three quarters of 2012 the Group cash level reached PLN 50 020k.

As of 30th September 2011 the Group held PLN 99 072k of cash. Cash flow from operations amounted to PLN -225 992k and was driven mainly by increase in total receivables (PLN -153 714k) and change in building contracts values accounting for PLN -176 178k. Cash flow for investments amounted to PLN -59 606k and was determined by outflow of cash due to purchase shares in affiliates (PLN -119 660k) and inflow of cash from the sale of financial assets (PLN 61 979k, PLN 32 581 related to conversion of fund certificates into cash and PLN 27 800 related to conversion of 3M deposits into cash executed by PRKiI S.A.). In that period the Group used cash for repayment of debt and interest in the amount of PLN -85 877k and PLN -15 094k respectively. Moreover, the Group received new financing from loans in the amount of PLN 292 322k. The Group did not recognize a real inflow of cash connected with bonds issue because they constituted a payment for Tiltra Group AB and AB Kauno tiltai.

In 2010 the Group generated PLN 20 730k of net cash flow for the period. Cash flow from operations was positive and amounted to PLN 51 653k. Cash flow from investments accounted for PLN -25 543k and was mainly determined by purchase of tangible and intangible assets values at PLN 7 991k and

net operations on financial instrument (PLN -17 228). At the end of the period the cash accounted for PLN 206 351k.

1.4 Group`s capital structure



*in liquidation

After 30th September 2012 Lithold group was excluded from the Group`s capital structure

Source: Consolidated financial statements of Trakcja S.A. as of 30th September 2012

3. Risk Factors

2.1. Risks relating to Issuer`s business

2.1.1. Risk of deteriorating economic conditions in Poland

The Company conducts the majority of its operations in Poland and Lithuania. Both economies are to large extent susceptible to changes in the global macroeconomic situation and the international financial markets. Both economies suffered from the global economic crisis that started in the middle of 2008. The unfavorable trends resulted in several factors negative from the perspective of a construction companies, i.e. in slower GDP growth rate in Poland (or recession in Lithuania), limitations in access to debt financing and slowdown in government spending on infrastructure. Although both economies recover from the first wave of crises, any further deterioration of the macro situation may result in lower number of future infrastructure contracts, pressure on margins and limited availability or increased cost of financing. Deterioration of macro conditions could therefore have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

2.1.2. Risk of changes in the Polish Government infrastructure modernization strategy for the coming years

The majority of projects, which the Company is involved in include works related to modernization of the railway infrastructure in Poland, construction and modernization of urban infrastructure, and road infrastructure modernization activities. The number and scope of such projects to be available in future is, to large extent, dependent upon the investment policy of the Polish government, that in turn is dependent upon the level of structural funds received from the EU convergence policy funds. In particular, it cannot be excluded that construction of roads, highways and railways will suffer from changes in the government priorities or more tight fiscal policy. Changing the investment policy of the government in this respect or decreasing amount of funds to be received from the EU targeting the modernization of the railway infrastructure in Poland can have a material adverse effect on Company`s activities, financial results and prospects of development.

2.1.3. Risk of increasing competition

In the last few years Polish construction market (esp. road segment) became attractive for foreign construction companies, mainly due to prospects of large government outlays on infrastructure, co-financed form EU programs . New entrants, including global construction groups were enticed by the scale of projects to be performed before Euro 2012 and significant underdevelopment of road infrastructure in Poland in comparison to Western Europe. Currently similar tendencies emerge in the railway construction segment, on which large government investment outlays are expected in the coming years. From international players, for instance Skanska and Strabag have already developed railway units within their structures. Fierce competition may lead to downgrading prices for future contracts, in order to win new tenders. In consequence, the Group may not be able to win enough contracts to further develop its backlog or new projects may be won on margins lowered compared to margins assumed or projects in the past.

2.1.4. Risk of dependence on the main contractors

Main recipient of the Group`s services is PKP PLK SA, which is the owner of the track infrastructure in Poland. Majority of the Group's revenue from railway contracts (that account for 58% of Group's total revenue as of 30th September 2012), was recorded from the sale to the state-owned PKP PLK. Reduction of PKP PLK's capacity to undertake and carry new investments (from financial or operational reasons within the company) may lead to lowering future Group's revenue and therefore have a material adverse impact on Company`s activities, financial results and its prospects. As a major client for construction companies on many current and future projects, PKP PLK as a major investor has also large bargaining power in terms of conditions of particular contract and dispute settlements.

2.1.5. Risk of construction materials price increase

For the purposes of the Group`s core activities, raw materials, such as steel products, copper, aggregates and concrete products are used. The materials are supplied throughout the project realization period that on average takes c. 24 months. In consequence, the Company is directly exposed to changes in market prices of construction materials. Although the Company implements various risk management steps in this respect, risk of raw materials price increase cannot be completely eliminated. Higher construction material prices translate into higher costs related to contracts and may, in consequence, lead to lower margins recognized or even to losses on projects. As a result, large construction materials price fluctuations may have a material adverse effect on the Group`s activities, financial results and its prospects.

2.1.6. Risk relating to potential penalties on contracts

Realization of contracts is secured by the construction company with performance bond and retention bond, that altogether may amount up to 10-15% of the total contract value. These guarantees are provided by insurance companies or banks and utilized in case of major defects of works provided by the company. The construction company has a liability to the financial institution in the value of the guarantee used. Other typical point of construction agreements are penalties for delays beyond the deadline stipulated in the contracts. These penalties are normally charged daily and may account for up to 20% of the contract value. All the Group's contracts contain the described above clauses. Therefore, the Group is exposed to risk of lower or even negative margins on particular contract in case of it fails to deliver works on time and/or in shape agreed in the contract.

The Group has never been forced to use performance or retention bonds in any of its contracts. In the Company's Management opinion also currently there are no indications that these type of guarantees will have to be utilized. Still, it cannot be excluded, that due to factors beyond its control or failures made by its staff, there will arise a need to use part of guarantees provided to the Company.

In case of delays, it is the market practice that the penalties are be imposed only if this delay is caused by factors on the side of contractor. Based on the Management's knowledge, several large Group projects will probably not be finished as initially scheduled. Still, the Management does not recognize any of these delays to be caused by the Group's negligence. There is however no guarantee, that the client will try to blame for the delays and impose penalties on the Group. These

type of cases are usually solved by arbitrary court, rulings of which cannot be anyhow assured by the Management. Each operating company within the Group introduced procedures of collecting documents relating to potential delays in order to be able to defend itself in case any claims arise. In case claims for delays are imposed on the Group by the client based on grounded reasons or by legally binding court ruling it will have negative on the profit levels and margins reported by the Group. Similarly, any deductions made from performance or retention bonds will also deteriorate the Group's results and financial standing.

2.1.7. Risk relating to the Group's capacity of winning new contracts

As of 30th September 2012 value of the Group's projects amounted to more than PLN 4.4 bn, with c. PLN 3.4 bn still to be booked as revenue. The backlog secures vast majority of the Group's revenue in 2013 and important part of it in 2014 as well as part of 2015 revenues. The company's Management intends to maintain the value of backlog at least on a stable level. To be able to achieve this goal, the Group needs to win a few large contracts in the Polish railway sector. As future backlog situation is secured for more than a year, the Group's present bidding policy is based on achieving satisfactory margin on new projects. Still, the Group did not win any large railway contract in 2012. The main reason for that is rising competition resulting from spare capacities in the construction segment and liberalized public procurement law. Due to the above, the Group may be forced to revise its marketing policy and start more aggressively bidding for new contracts, to the detriment of future profitability of contracts. Even lower expected margins on projects may not guarantee that the Group will be able to win projects in the amount necessary to fully utilize its future construction capacities. This can negatively impact the future financial results of the Company and in consequence may restrict its further development.

2.1.8. Risk of events impacting margins of projects under construction

The key characteristics of the Group`s activities is length of the ongoing projects, which in majority of cases is longer than 12 months. Predictive power of budgets related to such projects is biased and subject to significant error factors, which cannot be completely eliminated. First of all, prices of construction materials tend to be unstable and may fluctuate considerable during the life of contract. Furthermore, construction works base on design plans that often turn out to be inadequate or not including all necessary works. Realization of contracts may also be delayed or take more time than expected due to factors beyond influence of construction companies, like lack of administrative consents or problems with expropriation. Taking the above issues into account and bearing in mind they are all common to the Polish market, significant profitability declines can arise in later periods that could not have been effectively forecasted at the date of contract commencement. This risk is partially mitigated by the fact that construction companies are entitled to compensations for additional works on projects as well as for non-culpable delays. Still, the payment of these compensations and their value are normally set by negotiations between the client and the consortium. Therefore, occurrence of events depressing profitability of projects during their implementation may have an material adverse impact on the Group`s activities, financial results and its prospects.

2.1.9. Risk related to tenders and realization of construction projects

Major construction projects are carried out by the companies chosen in the process of tender offering. Decision making process made by the tender committee and its approval are under applicable law time-consuming and the decision to grant contract can be always protested against, what frequently extends time required for signing the final agreement with the investor. Consequently, there is a risk of material price changes during the prolonged time of awaiting the final agreement signing in comparison to the levels established or forecasted at the date of entering into the tender. The possibility of incurring additional unforeseen costs can have a negative impact on the Group`s activities, financial results and its prospects.

On the other hand, the agreements concerning construction contracts are constructed in the way that can create future risks and impose financial obligations on the company. In particular, they contain performance warranty clauses, timely contracts execution and removal of defects clauses (linked with collateral or warranty establishing). The guarantee is usually established on signing the contract and settled after the end of execution of the contract. Its level oscillates in the range of 10-15% of the contract value, but penalties arising from the agreement can theoretically exceed security values.

In the event of a dispute with the investor regarding the quality or timing of works, the security cannot be released until the dispute is settled. Moreover, risk of carrying out correction works resulting from the warranty obligation exists, and is inextricably linked with necessity of defects removal. These disputes can have a long-lasting character, which can have an adverse effect on the Group`s activities, financial results and its prospects.

2.1.10. Risk associated with financial agreements entered by the Group

Realization of the construction contracts requires access to external bank financing, mainly in order to cover own construction outlays necessary to be incurred before payments from the client are received. The Group does not use project financing (in which each credit line finances one particular project) but rather uses short term working capital credits granted to the particular companies within the Group that secure financing of several projects. One of the major risk factors resulting from the above financing structure is the necessity to periodically (usually on annual basis) extend / revolve the credit lines. In times of deteriorated market sentiment towards construction sector (as currently visible), when access to bank financing becomes more scarce and conditions that construction companies face are more strict (in terms of costs and covenants), there can be a risk of being granted new loans on worse conditions.

These agreements contain typical for such agreements affirmative and negative covenants both financial (described under 3.3 "Description of the significant loan agreements") and non-financial. Affirmative covenants require debtor to take certain actions, such as paying interest, principal, complying with loan agreements. Negative covenants include, but are not limited to:

- maintaining adequate financial ratios,
- placing limitations on the Group`s ability to incur additional debt,
- placing restrictions on borrowings by subsidiaries,
- maintaining certain levels of cash flow and working capital, and placing limitations on dividend payments.

Additional risks to the Bondholders may arise from the covenants set forth in the credit agreements. It is usual that the bank covenants are more strict and comprehensive than the conditions for bonds. It therefore puts on the bondholders additional risk of early termination of the agreements due to the breach of the credit agreements. Furthermore, some covenants may be contrary to the Bondholders' interest, for instance if they limit cash flows from subsidiaries to the Issuer or are secured on the Issuer's assets. The Group's need to finance its operating activity to the large extent with usage of bank financing should be therefore considered by any investor while making an investment decision relating the Issuer and issued Plain Vanilla and Convertible Bonds.

To the best knowledge of the Management, no covenants relating to loan agreements are to be breached as of the end of 2012. However, on the date of submitting the proposal to acquire due to the fact that financial statements for 2012 have not yet been finalized and audited and since dynamic situation regarding PNI`s bankruptcy, it cannot be entirely excluded that the Management will be forced to create provisions which will adversely affect financial data. In worst case scenario it can lead to violation of some financial ratios defined under loan agreements by some of the companies within the Group.

2.1.11. Risk of movements in the liquidity needs

The Group`s activities are subject to seasonality. Large part of the revenue from sales are generated in the second half of the year and significantly lower revenues generated in the first quarter, which is important for liquidity management process and working capital requirements. Increase of liquidity needs throughout the project realization season is mainly a result of the typical way, the construction works are settled with the client. Construction companies need to provide materials and deliver works on contracts before receiving payments from the ordering party (prepayments are more and more uncommon). Furthermore, the invoice payment period may take additional 2 months. All the above leads to increase in current assets in form of inventories (materials, work in progress) and trade receivables. On the other hand, current liabilities (in form of mainly trade and other payables) do not increase as much, as companies need to pay their staff on a monthly basis and settle outlays on materials and small external services. The above factors lead to increased liquidity needs, that the Group normally covers from bank credit lines. In the severe cases (for instance when the client is behind with payments) the increase in operating assets may require additional sources of financing.

2.1.12. Risk of necessity for machinery park restoration, modernization and replacement

The Group possesses the extended machinery park indispensible to conduct its activities. Maintenance of machines and equipment is vital to ensure its technical efficiency and feasibility. In consequence, continuity of the Group`s operations requires constants significant capital expenditures in order to restore, modernize or replace the existing machinery and equipment. In case the Group was unable to accomplish its investment plans within the forecasted costs range, negative impact on its activities, financial results and prospects may occur.

2.2. Risks relating to Polish and Lithuanian railway and road sectors

2.2.1. Risk of decrease in EU funds received within the cohesion policy

During 2007-2013, Poland was the largest recipient of funds within the EU cohesion policy, receiving c. EUR 67bn, a large part of which was spent on infrastructure projects. Lithuania was also a net

receiver from EU budget and importance of EU funds is reflected i.e. in fact that in 2009 as much as 57% of infrastructure outlays were financed with EU support.

Currently negotiations are held regarding EU budget for the years 2014-2020. Poland and Lithuania are fighting to at least maintain flow of funds to their countries at least at current levels. For Poland it would mean between EUR 68 and 80 bn, 75% of which could be spent on infrastructure. There are however some obstacles that may prevent Poland from being so extensively subsidized. The major one relates to demands of several net payers to EU (Germany, UK) to limit down the value of EU spending in the coming budget period in order to lower the deficit in spending and change the budget's structure. As EU finds will remain one of the major source of financing infrastructure development in both Poland and in Lithuania, any reductions in the value of funds received may negatively affect number and value of investments carried out locally. Future revenue and margins on the local construction companies will be therefore affected by the ultimate shape of the EU budget.

2.2.2. Risk of negative perception of financial institutions towards construction companies

Cooperation with financial institutions is inevitable in the construction segment. First of all, construction companies, in order to sign a contract need to provide performance bond and other types of guarantees. These are usually granted by insurance companies. Furthermore, the Group needs to finance large part of its investment outlays before being paid by the client and short term, revolving bank loan facilities are normally used for this purpose.

Years 2011 and 2012 brought severe problems of many large construction companies, relating mainly to diminished liquidity resulting from coincidence of several negative market phenomena. Several larger and many smaller companies went bust and other were struggling to survive, causing banks to report large impairment losses. Due to the above reasons access to bank financing has now become scarcer and much more expensive, with a lot of additional requirements concerning the borrower.

Access to bank financing is a prerequisite for the Company in order to carry on works on the existing projects. The vast part of Group's credit lines needs to be revolved in March 2013. The Management believes that the change of the Group's debt structure currently being introduced will allow it to successfully apply for renewal of its credit lines in the amount sufficient to deliver works on backlog as scheduled. Furthermore, to win and sign new contracts the Group will have to obtain guarantees that may constitute up to 15% of the contracts' value. Again, the Management believes that the Group will be able to find guarantee providers in the future. Although very unlikely, it cannot be ultimately excluded that the Group will be unable to secure necessary financing and guarantees. This risk might materialize if there is a spectacular bankruptcy of large Polish or Lithuanian construction company, further deteriorating market perception of the whole sector.

2.3. Legal risks

2.3.1. Risks associated with construction agreements

Infrastructure contracts in Poland are carried out based on agreement between the client (typically state-owned or governmental entity) and the consortium selected for the contract. It is typical that this type of agreements (especially if they are based on FIDIC standard regulations, as it is in this

case) contain arrangements, responsibilities, etc. that may be treated as invalid or contrary to legal regulations and as a result could be a basis for cancellation or termination of the agreement. These risks can be, however, assessed as remote since relating to the sector market practice, are rarely questioned and the parties are deemed to act in good faith with the aim to proceed with the project execution. Below two typical examples of clauses are presented, that can be interpreted as contrary to legal requirements .

Part of the Group`s construction agreements were not signed in line with representation of parties. From the legal perspective, their execution may be treated as a legal activity performed which exceeded the scope of power of attorney, imposing the risk of invalidity of the agreements. Such agreement is not however invalid (it is ineffectively suspended and may be confirmed by proper party, generally also *per facta concludentia*).

Some of the provisions in the construction agreements may be ineffective due to inaccurate wording. Majority of the Group`s construction agreements include for instance the right of the parties to withdraw from construction agreement in certain situations. Under the Polish Law in order for the right of withdrawal to be effective, the deadline for execution of the right should be established. Notwithstanding that some provisions regarding the withdrawal may be ineffective, it does not however limit the parties' right to withdraw from the agreement under statutory regulations. Moreover, provisions regarding the payment of subcontractor`s remuneration conditional upon payment by the employer may be claimed invalid under Polish Law.

2.3.2. Risk of bankruptcy of the subcontractors or other consortium members

The potential bankruptcy of the subcontractor or other consortium member poses a threat of suffering additional costs by the remaining consortium members due to joint and several liability for the execution of the agreement. The Group carries out two potential projects in which such a situation can arise, i.e.: bankruptcy of Eiffage Construction Ceska Republika with an option of liquidation (member of consortium under Działdowo agreement) and bankruptcy of PNI with possibility of a composition (member of consortium under Malbork and Wrocław contracts).

Bankruptcy of the subcontractor can harm the Company in the two dimensions. First of all, the consortium needs to take over works that the bankrupt party was responsible for. Finding replacement or execution with own sources may be time consuming and lead to delays and also impact margins for the remaining contractors. Furthermore, throughout each contract there are settlements between the consortium members and subcontractors (in form of trade liabilities or prepayments) and the bankruptcy of a given party may lead to provisions for its counterparties.

With respect to two contracts initially realized jointly by PNI and the Group, on the Malbork project the Company decided to terminate cooperation with PNI on this contract. The Group does not expect any penalties to itself or other consortium companies in relation to delays resulting from PNI problems. The Company is also convinced to be able to find replacement on conditions not detrimental to the current consortium.

On 31st October 2012 annex to an agreement on Wroclaw project was signed between all consortium members (including PNI) and PKP PLK, based on which PRKiI replaced PNI as the consortium leader responsible for the project. Thanks to this decision, payments for the consortium members have

been unlocked. The change should also improve speed of constructions works, that has been delayed on PNI's part of the project. For the time being the Group does not envisage any penalties for PRKiI in relation to the contract.

2.3.3. Risks related to renewal of permission for activities of Kauno activities

The main commercial activities of Kauno include construction of bridges, viaducts, roads, railways, ports (water and air), engineering networks, as well as trade of building materials, etc. On the Lithuanian market construction works of this type can be carried out only by certified companies. Lithuanian companies have to renew such a certificate on annual basis, which is a market practice. Under publicly available information, Kauno has obtained the certificate to perform construction works which is valid until 15th February 2013. After the term of the abovementioned certificate ends, a new certificate must be obtained or the old one renewed. Otherwise the performed construction works will be treated as illegal. The Management is confident that Kauno will renew its license for 2013 as it was in the past.

2.4. Risks relating to the Offering and the Plain Vanilla Bonds and Convertible Bonds issued

2.4.1. Risk of the Issuer of not being able to pay out the outstanding Plain Vanilla Bonds at Maturity Date for Plain Vanilla Bonds or at early redemption date

Maturity of the Plain Vanilla Bonds falls on 31 December 2015 and of the Convertible Bonds – on 31 December 2027. The Issuer expects to repay the maturing bonds from cash flows generated from the operating activities of the Group, mainly through realization of the construction projects. As of the date of this document the Group was conducting projects worth more than PLN 4.4 bn, out of which c. PLN 3.4 bn was still not recognized as revenue (and component of cash flows). In the Management Board's opinion, the current backlog, and additional construction projects that the Group expects to win in the future, should secure timely repayment of the Plain Vanilla Bonds. However, the Issuer cannot exclude that – in case of coincidence of negative market developments – its capacity of Plain Vanilla Bonds repayment entirely from its own funds may be undermined. Potential issues limiting the Issuer's ability to repay the Plain Vanilla Bonds may include:

- further price increase of construction materials deteriorating margins recorded on contracts in progress;
- substantial delays in project realization, postponing cash from these projects beyond the Plain Vanilla Bonds` maturity;
- disputes on responsibility for delays on projects with clients that may result in penalties for the Issuer and
- fierce competition limiting the Issuer's ability to win new projects on acceptable margins.

In case of potential difficulties in repaying the Plain Vanilla Bonds from own funds the Issuer will take all steps necessary to refinance the Plain Vanilla Bonds with other interest bearing financing, e.g. by means of bond revolving or incurring bank facility. In case the Issuer does not have sufficient cash

resources to redeem the Secured Plain Vanilla Bonds, secured on AB Kauno tiltai shares, holders of these bonds would be entitled to execute their claims from the collateral.

There are several events set forth in the terms and conditions of the Plain Vanilla Bonds that would allow investors to demand early redemption of their bonds. In such situation it may turn out that the Issuer is not be able to repay the full amount of the Plain Vanilla Bonds that would be presented to early redemption. Occurrence of any event of default may itself be a result of the limited ability of the Issuer to timely settle its liabilities. Furthermore, early redemption would mean, that the Issuer has less time than anticipated to raise funds necessary to repay outstanding debt from its operating activity.

2.4.2. The bonds may not be a suitable investment for all investors

Each potential investor considering purchase of bonds must determine the suitability of that investment is in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, and the merits and risks of investing in bonds;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in bonds and the impact bonds will have on its overall investment portfolio;
- understand thoroughly the terms and conditions of bonds and be familiar with the financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, inflation and other factors that may affect its investment and its ability to bear the applicable risks.

In addition, the investment activities of certain investors considering purchase of bonds are subject to investment limitations and supervision by certain regulatory bodies, such as FSA. Each potential investor considering purchase of bonds should consult its legal advisers to determine whether and to what extent:

- bonds are legal investments for it;
- bonds can be used as collateral for various types of borrowing.

Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of bonds under any applicable risk-based capital or similar rules.

2.4.3. Repayment of Plain Vanilla Bonds may depend on intra Group payment of dividends

The Company, apart from running operating activity, is also a holding company of the Group. Considerable part of the Group's operations is carried out through the Company's subsidiaries. The Company's important source of income and part of its ability to meet its financial obligations, including bonds, is therefore, dependent on the level of dividends it receives from its subsidiaries. As of the date of the Information Document there is no contractual or other obligation for the

Company's subsidiaries to make regular dividend payments to the Company. In addition, the ability of the Company's subsidiaries to declare the amount of dividends they may pay will depend on such relevant subsidiary's operating results and will be subject to applicable laws and regulations. Claims of creditors of the Company's subsidiaries have priority as to the assets of such subsidiaries and affiliates to the claims of the Company. Consequently, the claims of the Bondholders are structurally subordinated, in the event of a bankruptcy/insolvency of any of the subsidiaries, to the claims of the creditors of such subsidiaries.

2.4.4. Investors may not be able to dispose of the Plain Vanilla Bonds due to their illiquidity

It is the Company's intention to float the Plain Vanilla Bonds onto the organized trading system. Still, due to relatively low value of Plain Vanilla Bonds and concentrated bondholding structure, the Bondholders may have only limited ability to dispose of the Plain Vanilla Bonds prior to the Maturity Date of Plain Vanilla Bonds and this dispose may be carried out at price below its nominal value increased by accrued interests.

2.4.5. Interest Rate Risks

Investment in a floating rate bonds involves the risk that subsequent decreases in market interest rates may adversely affect the cash flows from future interest payments on the Plain Vanilla Bonds.

2.4.6. Risks of earlier redemption of Plain Vanilla Bonds and ways in which earlier redemption can be enforced

There are several events described in the terms and conditions of the Bonds that could entitle the holder of these bonds to claim early redemption of their holding ("events of default"). The list of events of default includes but is not limited to: winding up of the Issuer, cross default on substantial debt, failure to perform awards, transformations and other. The events of default apply both to the Issuer and its major subsidiaries (Kauno and PRKiI).

Depending on the event of default, there are two possibilities for the Bondholders to claim early redemption of the Plain Vanilla Bonds. Occurrence of events stipulated in the Act on Bonds means immediate default of the Plain Vanilla Bonds and unconditional possibility of each Bondholder to early redeem the Plain Vanilla Bonds – the Bonds are in such case due immediately. For other events of default, there is the following procedure of enforcing early redemption:

- upon the occurrence of an event of default, the termination call is submitted by the Bondholder(s) holding jointly more than 35% of the Plain Vanilla Bonds then outstanding and
- the Bondholders' meeting in its resolution adopted by the majority bondholders (holding jointly 50% plus 1 of the Plain Vanilla Bonds then outstanding) states that the event indicated in termination call constitutes the event of default.

The effective confirmation of the event of default would enable each of the Bondholders to require early redemption of the Plain Vanilla Bonds. There is however a risk, that although the event of default will be declared by some of the Bondholders, the majority of votes in favor would not be received, which in consequence means that the event of default declaration is ineffective.

2.4.7. Change of Polish law applicable to the terms and conditions of Plain Vanilla Bonds and Convertible Bonds

The provisions of the terms and conditions are based on Polish law in effect as at the date of this Information Document. No assurance can be given as to the impact of any possible judicial decision or change to law or administrative practice after the date of this Information Document on rights and obligations of the Company and Bondholders set forth in the terms and conditions.

2.4.8. Exercise of certain Bondholders' rights against a Lithuanian collateral may be more complex

The Issuer has established a collateral in the form of a pledge over shares of Kauno tiltai – a company organized and existing under the law of the Lithuania - for Secured Plain Vanilla Bonds. The Bonds (incl. Secured Plain Vanilla Bonds) are governed by Polish law and the pledge agreement is governed by Lithuanian law. The exercise of certain Bondholders' rights against a Lithuanian collateral may be more difficult than the exercise of rights against a Polish collateral.

The collateral is established based on the newly adopted provisions of the Lithuanian Civil Code, and as of the date of this Information Document there is basically no practice of application of these provisions. Legal uncertainty does exist as to how these new provisions will be applied in the case of future enforcement from the pledge. Furthermore, no assurance can be given as to the impact of any possible judicial decision or change to law or administrative practice adopted after the date of this Information Document on the rights and obligations of the Bondholders under the pledge. The risk factors related to legal uncertainty provided below in this Information Memorandum should not be considered as exhaustive.

The pledge over shares securing the Secured Plain Vanilla Bonds is created in favor of the Bondholders, acting for the purposes of such security through the security agent registered as the creditors' representative in the Lithuanian Hypothec Register under Article 4.210 of the Lithuanian Civil Code. The Bondholders by accepting the terms and conditions of Secured Plain Vanilla Bonds agree that they will exercise their rights with respect to the security only through such representative.

The terms and conditions of Plain Vanilla Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majority to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority. To the extent allowed by applicable law the creditors' representative will act upon instructions of the majority of Bondholders only and not upon individual instructions of certain Bondholders.

Change of Bondholders after the transfer of Secured Plain Vanilla Bonds in the secondary market as well as bankruptcy or withdrawal of the initially appointed representative may require changes to the pledge agreement. The notary public may refuse to initiate enforcement form the pledge for the benefit of Bondholders that are not indicated in the pledge agreement or upon request of a person other than the creditors' representative registered in the Lithuanian Hypothec Register. Each Bondholder acquiring Secured Plain Vanilla Bonds in the secondary market shall be solely responsible for assessing whether the transfer of Secured Plain Vanilla Bonds requires amendments to the pledge

agreement and/or other documents or data in order to obtain the rights of the secured creditor under Lithuanian law governed pledge in all respects.

Due to the fact that the secured creditors under the pledge are all the Bondholders holding Secured Plain Vanilla Bonds, in order to initiate enforcement from the security the Security Agent will have to prove the fact and scope of his powers to act in the name and on behalf of all the Bondholders holding bonds at the time of enforcement. For that purpose, the Bondholders might be asked to confirm such representation powers of the representative by issuing additional documents. Failure to prove such representation powers granted to the representative by all the Bondholders holding Secured Plain Vanilla Bonds the time of enforcement due to lack of cooperation of certain Bondholders might prevent the enforcement.

2.4.9. Risk of potential failing to meet conditions stated in waiver received from Nordea and DNB

Establishing a pledge over Kauno shares is subject to receiving prior written consent from AB DNB and Nordea Bank Finland Plc acting through its Lithuanian branch, which results from provisions of the credit line agreement. However, the validity of pledge securing the Secured Plain Vanilla Bonds is conditional, as the banks may withdraw their consent in particular cases stated in the documentation regarding the Transaction by 31st March 2013. Consequently, the pledge over shares could become null and void and could be immediately deregistered from the Lithuanian Hypothec Register in case the banks withdraw their consent for the pledge. Unsuccessful pledge register over Secured Plain Vanilla Bonds gives rise to claiming event of default on them and earlier redemption. Unsecured Plain Vanilla Bonds can also be then subject to earlier redemption due to cross-default clause. The conditions that need to be satisfied are in line with the envisaged Transaction`s structure and were confirmed with the Issuer. Taking that into account, the risk entitling the banks providing financing to Kauno tiltai to withdraw their consent for the pledge is in the Management`s opinion remote.

2.4.10. Risk of termination of the Nordea and DNB credit line as a result of potential change in control over Kauno tiltai shares

Kauno tiltai is granted credit line by Nordea and DNB necessary for its operations. In case of occurrence of the any of the events of default described in the terms and conditions of Secured Plain Vanilla Bonds, the Bondholders holding Secured Plain Vanilla Bonds are entitled to demand their earlier redemption. In the event the Issuer is unable to redeem that bonds in the time and manner described in terms and conditions, the collateral, namely Kauno shares, will be subject to change of control in favor of Bondholders holding Secured Plain Vanilla Bonds. Such a change, however, according to provisions binding credit line agreement, can be treated as a breach of its terms and conditions and result in demanding earlier repayment of the existing credit line and even its termination, which can have an adverse effect on Kauno, its operations and financial results impeding its core activities. In the Management`s opinion such a risk is perceived to be remote, due to lack of business premises for the banks, which can entice them to earlier termination – it should be noted, that termination of the credit lines could be inextricably linked with Kauno`s bankruptcy and in consequence would result in limited ability to recover the funds lent by Lithuanian banks.

2.4.11. The risk of trading suspension of the Plain Vanilla Bonds in the Alternative Trading System and exclusion of the Plain Vanilla Bonds from trading in the Alternative Trading System

It is the Company's intention to float the Plain Vanilla Bonds on the organized trading market established and governed by the Warsaw Stock Exchange (WSE). In accordance with Article 78.2 of the Act on Trading in cases where it is required by market safety or Investor interest is threatened, the Warsaw Stock Exchange, at the request of FSA, suspends the introduction of financial instruments to trading on the ATS or suspends commencement of trading of these instruments for a period not longer than 10 days.

In accordance with Article 78. 3 of the Act on Trading, if the trading volume of financial instruments is carried out in circumstances indicating a possible threat to the proper functioning of the ATS or safety turnover made in the ATS, or damage to the interests of investors, at the request of FSA, WSE is required to suspend trading in these instruments for a period not longer than one month.

According to Article 78.4 of the Act on Trading, in case the trade of certain instruments threatens materially the proper functioning of the market or the security of ATS or impedes interests of investors, at the request of FSA, the WSE has to exclude these instruments from the market. Pursuant to Article 11 of the Rules of ATS, the WSE may suspend trading of certain financial instruments for the period for 3 months:

- at the request of the Issuer,
- if it considers that the interests and safety of market participants requires that,
- if the Issuer violates the provisions in force in the alternative system.

In accordance with Article 12.1 of the Rules of ATS, the WSE may exclude certain financial instruments from trading in the ATS in the following circumstances:

- at the request of the Issuer, decision can be dependent upon existence of additional circumstances and conditions to be performed by the Issuer,
- if it considers that the interests and safety of market participants requires that,
- as a result of bankruptcy of the Issuer, or in case application to declare bankruptcy due to lack of the issuer's assets to cover the costs of the proceedings is turned down by the court,
- as a result of the liquidation of the Issuer.

According to Article 12.2 of the Rules of ATS, the WSE excludes certain financial instruments from trading in the ATS in the following circumstances:

- in cases specified by law,
- if the marketability of these instruments has become limited,
- in case of dematerialization of these instruments,
- after 6 months from the date when the decision on the Issuer`s bankruptcy came into force, including the liquidation of its assets, or court`s decision to turn down a petition to declare the bankruptcy due to lack of the issuer's assets to cover the costs of the proceedings.

2.4.12. Risk that series H shares, that will be taken up by investors through conversion of the Convertible Bonds, may not be admitted or introduced to trading on WSE or the start of such trading will be delayed

Holders of the Convertible Bonds will be entitled to convert their bonds into series H shares of the Issuer based on the terms specified in terms and conditions of the Convertible Bonds. Admission of series H shares to trading will require consent of the Management Board of the Warsaw Stock Exchange (WSE) and decision of the National Depository for Securities (NDS). Motion for conditional registration of shares in the NDS and conditional admission to trading on the WSE will be submitted on or about the issue date of the Convertible Bonds. Still, it cannot be assured that the above mentioned consents will be obtained and the series H shares will be admitted and introduced to trading on the WSE. Until the effective registration of shares in the NDS, shares will not be allocated to the Bondholders of the Convertible Bonds.

2.4.13. Risk associated with a shareholder's claim to invalidate the EGM's resolutions on issuance of convertible bonds and on conditional increase of the share capital

Pursuant to Article 422 of the CCC a shareholder of a joint-stock company can bring an action against the company to invalidate a general meeting's resolution if the resolution is contrary to the articles of association or decency, or violates the company's interests or is intended to be unjust to the shareholder. Such action can be brought by: (a) the shareholder that voted against the resolution and who after its adoption requested its objection to be recorded in the minutes; (b) a shareholder that was unreasonably denied the opportunity to participate in the general meeting; (c) a shareholder that was absent from the general meeting, provided, however, that the general meeting was invalidly convened or the resolution was adopted on a matter not included on its agenda.

Pursuant to Article 424 of the CCC, in the case of a public company, an action to repeal a general meeting's resolution is brought within one month of the receipt of information about the resolution by the shareholders, but not later than within three months of the adoption of the general meeting's resolution.

Furthermore, shareholders of a joint-stock company entitled to bring an action to repeal the general meeting's resolution are also authorized, pursuant to Article 425 of the CCC, to act against the company in order to invalidate a general meeting's resolution that is inconsistent with the provisions of the CCC. In the case of public companies, such action must be brought within 30 days of the announcement of the general meeting's resolution, although not later than within one year of the adoption of the general meeting's resolution.

Although an action against the general meeting's resolution pursuant to Article 422 of the CCC or Article 425 of the CCC does not suspend the proceedings before the registry court to register the challenged resolution, the registry court may suspend the registration proceedings at a hearing during which the shareholder that brought the action against the general meeting's can present its arguments for suspending the registration proceedings until its action is decided by the court. If the action to invalidate a general meeting's resolution is clearly unfounded, then the court, at the company's request, may require the plaintiff to pay an amount of up to ten times the court's charges and the remuneration for one advocate or legal adviser. The adjudication of such amount does not preclude indemnity under general regulations.

On 2 January 2013, the Company became aware on claim filed to the district court in Warsaw, on 19 December 2012, by the Company's shareholder - a natural person - against the Company to invalidate of the resolutions adopted on 12 December 2012 at the EGM of the Company, i.e.: (i) resolution No. 4 on the issue of Convertible Bonds and (ii) resolution No. 5 on the conditional increase of share capital, deprivation of pre-emptive rights of the existing shareholders and the changes articles of association of the Company pursuant to Article. 425 of the CCC, or to repeal the resolutions pursuant to Article. 422 of the CCC.

In case the resolutions are successfully challenged, the issue of Convertible Bonds shall be treated as invalid and the bondholders shall be repaid by the Company.

Furthermore, it should be noted that pursuant to Article 56 section 1 of the Act on trading, in case:

- the court's decision on the entry of the increase in the Company's share capital in the register of entrepreneurs has been repealed; or
- a EGM's resolution on a share capital increase has been repealed or invalidated

and the shares issued as a result of such a share capital increase have previously been assigned the same code as other shares in the Company, a reduction of the par value of all the shares assigned that code shall be effected at the depository for securities.

If the reduction described above cannot be effected, then a reduction of the total number of securities assigned a given code shall be effected at the depository for securities.

Pursuant to Article 56 section 4 the Company is obliged to return to its shareholders the proceeds from the issue of the shares registered in the shareholders' accounts which have been affected by the reduction. The share of particular shareholders in the amount of funds to be returned by the issuer shall be determined on the basis of the ratio of the post reduction par value of the shares registered in such shareholders' securities accounts to the par value of all the shares affected by the reduction, or on the basis of the ratio of the number of shares registered in such shareholders' securities accounts which have been affected by the reduction to the total post-reduction number of shares.

4. Business of the Issuer and its Capital Group

3.1. Industry overview

3.1.1. Macroeconomic situation in Poland and Lithuania

The macroeconomic situation in Poland and Lithuania is one of the key factors determining the railway construction markets in these countries both directly – mainly through budget spending on infrastructure that tend to rise on market upswing – and indirectly, as it impacts the condition and outlook of the passenger and freight railway market and in turn – influences financial standing of companies owing railway infrastructure. The following descriptions characterize macroeconomic condition of Polish and Lithuanian economy.

Poland

Below is presented excerpt from World Bank's publications characterising developments in the Polish economy in the last few years.

"Poland was the only economy in the European Union (EU) to avoid a recession during the 2008–09 global financial crisis. In 2009, Poland's GDP grew by 1,6%, while the EU's output declined by 4,2%. This good performance stems from a combination of factors, i.e.: Poland's relatively large and diversified domestic economy, its limited external imbalances in the years prior to the crisis, and the suitable macroeconomic policies both prior to and during the crisis (accommodative monetary policy and automatic fiscal stabilizers). In addition, solid banking regulation and supervision, as well as relatively moderate credit growth in the pre-crisis period (compared to the rest of Central and Eastern Europe) strengthened the resilience of the financial sector.

Poland's economy rebounded in 2010 and 2011. Real GDP growth accelerated to close to 4,0% in 2010 and 4,3% in 2011 on the back of strong domestic demand, improved labour market conditions and credit growth. In addition, in 2010, fiscal policy continued to support growth of GDP as public demand compensated for the faltering private demand. Though this effect diminished in 2011 with the launch of the fiscal consolidation strategy. However, the good performance in industry and construction, the absorption of EU funds, and the spending for the Euro 2012 soccer championships contributed to high GDP growth in 2011. In 2012, due to continued volatility and uncertainty in the external environment, Poland's GDP growth started to slow from 3,5% in the first quarter of 2012 to around 2,5% in the second quarter. The slowdown is broad-based — both consumption and investment weakened substantially. Net exports were bolstering growth, as imports shrank and exports continued to grow, supported by a still somewhat undervalued zloty (PLN). In the second half of 2012, economic growth may slow further, on the back of still subdued domestic demand resulting from a real decline in gross wages and on-going fiscal retrenchment."[2]

Further slowdown was observed in the third quarter 2012, when the economy grew by mere 1.4%. Outlook for 2012 and 2013 remains grim with GDP growth oscillating between 2 and 3%. Unemployment is predicted to become the main economic challenge with levels not observed since 2006, impacting the average wealth level of the Polish society. In turn, railway passenger transport – both touristic and "to work" – can be negatively affected.

[2] World Bank Group – Poland Partnership Program Snapshot, October 2012

The following key indicators characterize well the macroeconomic condition of the Polish economy:

Table 7 Key macroeconomic indicators for Poland 2006 – 2013E

	2006	2007	2008	2009	2010	2011	2012E	2013E
GDP growth rate	*6,2%*	*6,8%*	*5,1%*	*1,6%*	*3,9%*	*4,3%*	*2,7%*	*2,6%*
CPI rate	*1,0%*	*2,5%*	*4,2%*	*3,5%*	*2,6%*	*4,3%*	*3,8%*	*2,7%*
Unemployment rate	*13,9%*	*9,7%*	*7,2%*	*8,2%*	*9,6%*	*9,7%*	*12,8%*	*13,2%*

Source: GUS, CASE, International Monetary Fund

Lithuania

Macroeconomic developments observed in the last decade prove that Lithuanian economy is very susceptible to external factors. It outpaces larger economies during prosperity periods but suffers economic contractions when global situation deteriorates. This is mainly caused by small relative size of the economy, dependency of the local banking system from foreign banks as well as large share of exports in the GDP.

For several years, Lithuania have reported GDP growth rate of 7-10% annually, becoming the fastest developing country in Eastern Europe. Since access to European Union in 2004, GDP growth exceeding 7,0% reflects the impressive economic development and the country – as a result – is often termed as a Baltic Tiger. Still, at the end of 2007, first signs of a slowdown occurred, i.a. in the form of inflation beating governmental forecasts, which in turn negatively impacted the level of the domestic consumption.

Outburst of financial crisis in 2008 resulted in the slowdown of GDP growth rate accompanied by surge in CPI rate above 11%, further reducing purchasing power of the society. 2009 was a critical year for the local economy with GDP slumped by nearly 15,0% and the unemployment more than doubled. In 2010 – in line with the improving external environment, there were signs of economic recovery in the Lithuanian economy. 2011 brought further improvements, leading Lithuania to reaching the highest GDP growth in 2011 among all European Union countries. Still, forecasts for 2012 and 2013 remain decent as the growth in the whole EU continues to be very volatile. According to International Monetary Fund forecasts, the GDP growth rate value after 2013 year will remain relatively stable at the level of nearly 4,0% for the next few years with inflation accounting for over 2,0%. At the same time, the unemployment rate is predicted be constantly decreasing up to 7,0% in 2017 year.

The following key indicators characterize well the macroeconomic condition of the Polish economy:

Table 8 Key macroeconomic indicators for Lithuania 2006 – 2013E

	2006	2007	2008	2009	2010	2011	2012E	2013E
GDP growth rate	*7,8%*	*9,8%*	*2,9%*	*-14,8%*	*1,4%*	*5,9%*	*2,0%*	*2,7%*
CPI rate	*3,8%*	*5,8%*	*11,1%*	*4,2%*	*1,2%*	*4,1%*	*3,1%*	*2,5%*
Unemployment rate	*5,6%*	*4,3%*	*5,8%*	*13,7%*	*17,8%*	*15,5%*	*14,5%*	*13,0%*

Source: International Monetary Fund, 2012

Impact of the macro environment on the road and railway transport

Improving macroeconomic situation in Poland and Lithuania, but also globally, would have a positive impact on demand for transportation services and thus – on development of rail and automotive transport markets. Such a situation results from the following factors:

- Increasing wealth and income of the society boosts spending on travel, what will directly translate into stronger demand for passenger transport;
- Employment growth increases demand for fast, undisturbed and high-quality transport services between large agglomerations as well as between suburbs and city centres;
- The higher economic development, the larger demand for rapid, reliable and cheap transportation of goods between major transhipment hubs and to the final customer;
- Due to still relatively low labour costs in both countries, foreign direct investments are expected to further grow in the improved market environment;
- Rising environmental awareness supports development of clean communication means;
- Higher demand for transport would improve financial condition of railway companies, leaving more funds for investments.

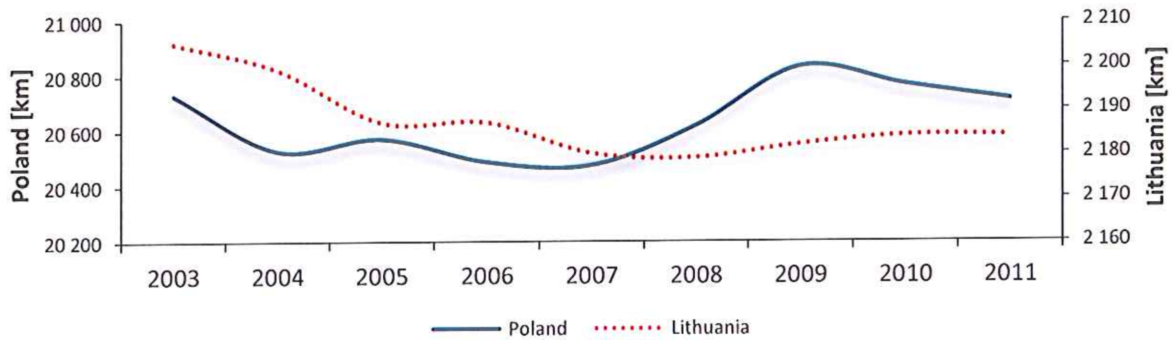
Future outlook of the European economy is also of the crucial importance in terms of the level of funds to be spent on infrastructure projects from local budgets as well as from EU funds. As of the date of this documents the shape of EU budget for years 2014-2020 has still not been agreed among member countries. The budget will define the value of funds to be transferred to both countries within structural and convergence funds, a large part of which will be spent on railway and road projects.

3.1.2. Economic importance of railway transport in Poland and Lithuania

Introduction

A continuously growing economy, increasing foreign trade with neighbouring EU partners, and expanding North-South and East-West transit needs require from Poland and Lithuania a modern infrastructure and well-organized transport and logistics services. These needs are emphasized by the fact that the underdeveloped domestic transport infrastructure (including railway infrastructure) still is perceived by local and global investors as one of the key obstacles hampering the competitiveness of both countries. From the two countries, Poland is basing on the railway transport to a larger extent with a total length of railway lines in 2011 (including narrow-gauge and wide railways) amounting to 20 716 km (or 6.3 km per 100 km^2). Length of Lithuanian railways network is approx. 2 200 km (3.3 km per 100 km^2). It is worth noting, that the length of railways in both countries was very stable in the last several years, implying that there were no significant additions (nor subtractions) to the network.

Figure 1 Length of railroads in Poland and Lithuania [km]



Source: Railway Safety Department, Eurostat, 2011

Poland

Railways in Poland play a vital role, especially in the freight. Out of 1.9 bn tonnes of goods transported in Poland in 2011, c. 13% was carried by railway transport. Total weight of goods transported via railways in 2011 was 5.8% higher than in the preceding year, showing the first increase since 2007 (the increase is even higher if measured in tonne-kilometres units). Nearly half of the freight (measured in tons) is connected with coal transportation, which is the primary source of energy in Poland. As with the economic growth and rising foreign trade turnover higher demand for goods transportation is expected, it should also translate in steady demand for railway transport. Although the rate of growth of the railway is predicted to be slower than for other modes, by 2020 the total weight of goods transported on tracks is predicted to grow by 28-36% compared to current state.

Railway transport showed declining number of passengers in the last ten years (58 million less people in 2011 than in 2001), still its share in total transportation services actually increased over time, as other means of transport (except air transport) reported even larger declines. Nonetheless, the general trend of falling number of passenger is expected to reverse in the future as the overall demand for all kinds of transport is expected to grow. Based on long term projections, railway passenger transport market by 2030 is going to increase by 77% - 85% comparing to 2010.

Table 9 Predicted change in demand for railway transport in comparison to 2010

Country	Change by 2020	Change by 2030
Demand for international travel transport	34-43%	70-97%
Demand for national long-distance travel transport	22-30%	43-62%
Railway passenger transport market	n/a	77-85%

Source: Ministry of Transport, "Strategy for transport development until 2020, with perspective until 2030"

Lithuania

In 2000, Lithuania initiated railway industry reforms, partially driven by a desire to join the European Union. EU membership promised hundreds of millions of Euros in national developmental aid and tens of millions of Euros to invest in railway infrastructure. Secondly, EU membership would enable Lithuanian Railways to intensify predominantly EU-based north-south traffic and reduce Lithuanian dependence on traffic to and from Russia. Almost a decade earlier, the political disintegration of the

Soviet Union had triggered a catastrophic economic collapse; freight and passenger market turnover had dropped by over 50%, profitability had vanished, assets condition deteriorated, and productivity plummeted.

Between 2001 and 2009 railway freight turnover increased by 91,0%, and it's market share increased by 9 percentage points. Railway freight traffic is dominated by transit cargo from/to Kaliningrad and to the main Lithuanian port of Klaipeda. In contrast, railway passenger turnover declined by 25,0% and market share fell from 2,0 to 1,0%. The continued loss of passenger market share is due to the relatively short distances of most routes within Lithuania, increased motorization among Lithuanians, limited modernization of rolling stock, and better regional accessibility compared to rail transport. The international competitiveness of Lithuania in the transport and logistics sector is to a large extent determined by its geographical position. With approximately 80,0% of freight which is transported through international transport corridors passing through Lithuania, the country has become one of the most important transport centres in the European Union, linking the EU with the East.

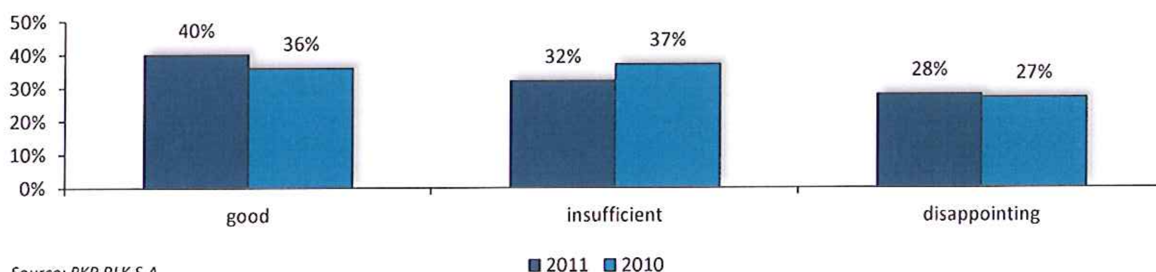
Lithuanian railways carry approximately 50 million tons of cargo and 7 million passengers per year. Direct rail routes link Lithuania with Russia, Belarus, Latvia, Poland, Ukraine, Germany and the rest of Europe. Also the main transit route between Russia and its Kaliningrad district passes the country. Lithuania plays also a vital intermediary role in transportation of goods from Asian markets to European countries.

3.1.3. Condition of the railway infrastructure

Poland

Polish railway transport infrastructure is still unsatisfactory. At the end of 2011, only 40,0% of the lines were in good condition comparing to 36,0% in 2010. The rest of the infrastructure requires current repairs or comprehensive modernization to be conducted.

Figure 2 Condition of Polish rails operated by PKP PLK S.A.



Source: PKP PLK S.A.

The quality of infrastructure translates directly into the passenger and freight transport speed, which is actually much lower than in most European countries. In 2011, the average speed of passenger railway transport in CEE was below 80 km/h, whereas, the average speed in Western Europe exceeds significantly 120 km/h.

At the end of 2011, only c. 20,0% of the lines in Poland were adapted to carry freight and passengers at the speed above 120 km/h. Polish railway infrastructure still does not enable the high speed transport (in excess of 160 km/h) on a large scale. Length of the lines on which permitted speed does not exceed 80 km/h amounted to 9 095 km (c. 44,0% of the total length of lines in Poland).

Table 10 The share of railways length by the maximum allowable speed in 2011

Speed Limit [km/h]	Length of Railways [km]	Percentage of Railways [%]
Vmax < 40	1 761	8,5%
40 < Vmax < 80	7 334	35,4%
80 < Vmax < 120	7 520	36,3%
120 < Vmax < 160	2 942	14,2%
160 < Vmax	1 160	5,6%
Total	**20 716**	**100,0%**

Source: Trends in development of high-speed rail in Poland, PKP PLK S.A., 2011

Density of the Polish railway network is significantly lower than in the most Western Europe countries but also in other major CEE countries. At the end of 2011 the average density of the railway network in Poland amounted to 6,1 $km/100km^2$, although it varied significantly in different regions of Poland: from 3,9 $km/100km^2$ in the Podlaskie up to 17,6 $km/100km^2$ in Silesia. During years 2003-2011 the density has not changed significantly implying that only few new lines were added to railway system and – on the other hand – that low-use, unprofitable lines have not been removed from network.

Table 11 Railways transport network density in target countries

Country	$km/100km^2$
Germany	*12,0*
Czech Rep.	*10,1*
Hungary	*8,5*
Slovakia	*7,5*
Poland	***6,3***
Lithuania	***3,3***

Source: Trends in development of high-speed rail in Poland, PKP PLK S.A., 2011

The low quality of Polish rails seems to be a primary result of:

- out-dated infrastructure, unsuited to the security requirements (tracks, power systems, stations and stops), resulting in low speed and comfort of travel;
- out-dated and obsolete rolling stock. The average age of passenger carriage is 25 years old, which not only severely limits the competitiveness of rail services, but also does not allow to use the technical parameters of the lines being upgraded;
- lack of cooperation among local governments regarding the organization of local transport including lack of relevant legislation.

Before EU accession Poland has been spending mere c. PLN 1 000 mn annually on railway infrastructure (including capital expenditures on intermodal terminals modernization, tracks construction and modernization, safety equipment, new locomotives and rail cars, etc.). Polish accession to the European Union in 2004, changed significantly level of investment outlays in this sector. European financial support resulted in rapidly increasing spending on railway infrastructure modernization with emphasis on international transport corridors. Within 2004-2009 period the average annual railway infrastructure investments growth amounted to 29,2%, bringing the overall value of investments to PLN 3 600 mm value in 2009. Due to economic slowdown, investments on railway transport noted a slight decrease in 2010, however they accelerated again in 2011 reporting new record value of PLN 3 700 mm value. Still, as mentioned earlier, level of spending on railway

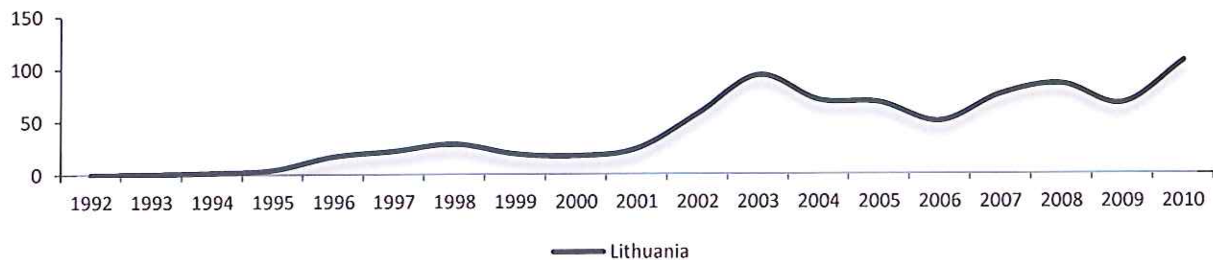
infrastructure is not sufficient to considerably improve the overall shape of the network and adjust it to needs and challenges of the Polish economy.

Lithuania

There is a considerable lag between conditions of Lithuanian and Western Europe railways` conditions. Years of undermined insufficient result in low density of Lithuanian railway trucks (3,3 km/100km^2) and their low modernization level.

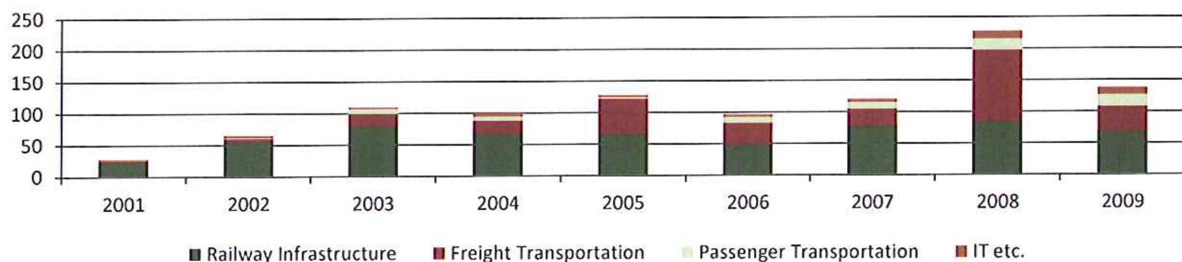
Investment spending on railway infrastructure in Lithuania were on a very low level until 2001 (not exceeding EUR 20-25 mm a year). They started to rise in 2002, mainly on the back of EU accession preparations and structural funds received (eg. 57% of all outlays in 2009). In the subsequent 8 years investment spending on railway infrastructure oscillated within the range of EUR 50-100 mm annually. The fact, that freight transport is of much higher importance for the Lithuanian economy is also reflected in the structure of spending on transportation equipment, with spending on freight being on average 3.4 times higher in 2003-2009 than on passenger transportation.

Figure 3 Railway infrastructure investment spending, [EUR mn]



Source: International Transport Forum, 2011

Figure 4 Railway infrastructure and other railway related spending, [EUR mn]



Source: G Sinkevicius, Lithuanian Railways, Helsinki 2010

3.1.4. Future planned investments in railway infrastructure

Poland

According to diagnosis published in Master Plan for railway transport in Poland by 2030 prepared and published by Ministry of Infrastructure in 2007, the most important factor hindering the development is deterioration of infrastructure. The results of this degradation is small maximum speed on a substantial part of the railway network. The Master Plan assumes, that actions taken are

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going to lead to substantial improvement of the infrastructure and consequently to improve the competitive position of rail transport in Poland.

A key elements and infrastructural investment objectives for railway transport development are to:

- improve the transport of passengers and cargo in the corridors of the trans-European transport network (TEN-T) – fulfilment of international obligations
- increase the efficiency of the rail system as a result of its complex modernization including decelerating the process of degradation of infrastructure
- enable the widest possible use of the existing rail infrastructure especially in passenger (between large urban areas and around large cities) and commodity sectors (mass transport of large consignments and intermodal transport)
- facilitate the mobility of using different modes of transport i.e: rail connections to airport, road transport links, integration with public transport with emphasis on agglomeration transport
- improve the standards of passenger service on the railway stations.
- invest in the construction of control systems on the lines characterized by small and medium traffic load. They are supposed to increase the automation of the operations and reduce the operating costs of these lines.

Table 12 Railway infrastructure investment costs in Poland by 2020

Parameter	2014-2020	2021-2030
Construction of new lives	*20 790 000*	*3 000 000*
Modernization of existing lines	*22 458 500*	*19 121 000*
Replacement investments	*7 242 400*	*7 000 000*
Control systems	*590 000*	*1 000 000*
Total	***51 080 900***	***30 121 000***

Source: Master Plan dla Transportu Kolejowego w Polsce do 2030r.(published 2007) – Ministry of Instrastructure

Lithuania

The first priority is further development of the two trans-European transport corridors crossing the national borders (corridor I and corridor IX), that include i.a. renewal of tracks, upgrading of automation, signalling and power supply facilities as well as extension of station track. These investments would establish fast and modern north-south and east-west axes, that connect the Baltic States with Poland and Russia.

The Government of Lithuania aims also to establish within the next five years public logistics centres of new generation located in Vilnius, Kaunas, Klaipeda and Siauliai regions. Logistics centres, integrated in the international transport corridors, will be located close to the major railway lines and motorways, the railways stations and Klaipeda seaport. They will be well integrated into the common network of European logistics centres and ensure the interoperability of different transport modes in trans-European transport corridors.

In its efforts to improve local infrastructure, the Lithuanian government frequently uses public private partnership framework, which – additionally to funds received from EU budget – constitutes important source of financing. In this framework the largest railway project is conducted: worth EUR 275 mm construction of the railway line of the European standard from the Polish and Lithuanian

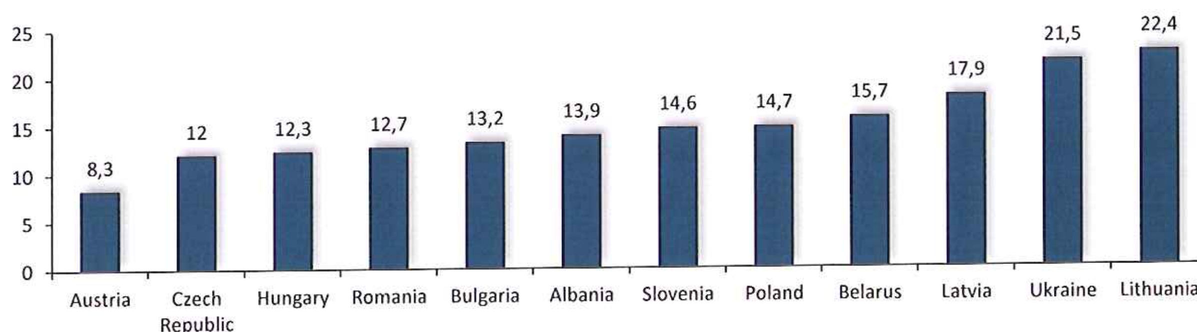
border to Kaunas (Rail Baltica). Intermodal Logistic Centres in Vilnius and Klaipeda are also constructed in cooperation with private partners. Apart from that, the country is to focus on renewal and upgrading of one of the two trans-European railway corridors running through Lithuania (corridor IX).

Similarly to Poland, future level of spending on infrastructure will be greatly dependent on the final shape of the EU budget for year 2014-2020 and the level of direct subsidies flowing from EU structural and convergence programs.

3.1.5. Road infrastructure in Lithuania: conditions and perspectives

Lithuanian road network needs upgrading and extension in order to cope with increasing volumes of traffic and congestion. Insufficient road system is a cause for deteriorating traffic safety conditions and increased waste in transportation time. As a matter of fact, Lithuania has the highest traffic death toll rate per million inhabitants and per million cars in the EU. In recent years, on average more than 700 people lost in road their lives in road accidents and approximately 7500 people got injured each year. Compared to other European countries, for example, Austria, the number of deaths in road accidents per 100 000 inhabitants is three times higher.

Figure 5 Mortality rates from road traffic injuries per 100 000 population



Source: European status report on road safety 2009, WHO Europe

On the other hand, Lithuania has one of the highest passenger car ownership per 1000 population rate among other CEE countries, which indicates, that road transport plays a vital role in Lithuania.

Table 13 Passenger car ownership per 1000 population

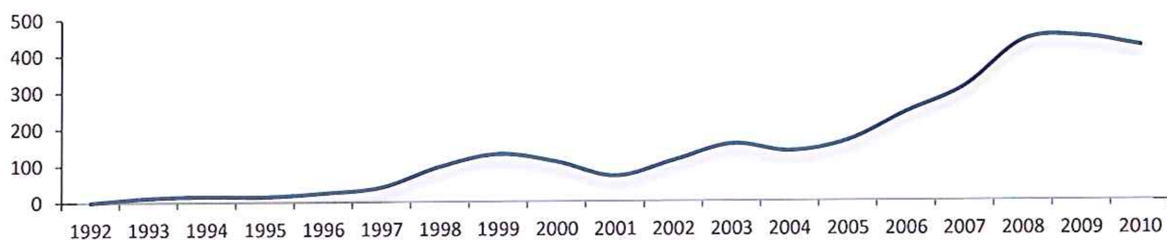
Country	rate
Lithuania	**467**
Czech Republic	403
Latvia	359
Poland	355
European Region average	339
Croatia	327
Hungary	300
Bulgaria	258
Belarus	242
Romania	170
Albania	75

Source: European status report on road safety 2009, WHO Europe

According to the long-term development strategy of the Lithuanian transport system by 2025 published by Ministry of Transport and Communications, the priority shall be given to the modernization and development of roads, full formation of a network of roads of all levels, building of missing connections, and modernization of traffic organisation technologies, in particular:

- to connect Lithuanian road networks, modernized according to European standards, with those of Poland and via Poland with the trans-European network system of other EU Member States in order to reach major towns and tourism and cultural centres of EU Member States
- to raise technical parameters of national and regional roads to the standards harmonized at the national and international levels, and implement measures of traffic safety and environmental protection
- to connect the most densely populated town areas with town centres, work and study centres, schools, universities, large objects of trade and leisure, large companies and services
- to increase the traffic capacity of streets, continue building of bypasses of towns, reconstruct and construct new infrastructure objects (bridges, overpasses, crossing of different levels), and integrate them into the existing networks of streets
- to modernize the network of trunk roads so that it complies with the EU requirements;
- to introduce new urban transport technologies, construct more effective and modern public transport routes, modernize the existing vehicle fleet
- to modernize freight transport activities by introducing intelligent technologies, creating and introducing a computerized system facilitating the use of electronic equipment for infrastructure toll collection and the control of transport condition as well as of drivers' work and rest regime

Figure 6 Road infrastructure gross investment spending in Lithuania, EUR mn



Source: International Transport Forum, 2011

Since 2008 spending on road infrastructure is on relatively high level, exceeding EUR 400 mm a year. Future perspectives in this matter are though dependent to large extent on the value of funds to be granted to Lithuania in the new EU budget.

Table 14 Estimate of the investments needed for the modernization and development of the Lithuanian road transport infrastructure

Infrastructure modernization works	Funds needed [EUR mm]
Development of transport corridor IXB (Vilnius –Kaunas–Klaipėda)	20-50
Development of I transport corridor (*Via Baltica*)	190-200
Development of the road Riga-Šiauliai-Tauragė-Kaliningrad of the transport corridor IA	1-180
Development of roads A2, A6, A9, A15, A16, A141 of the Trans-European network	2500
Development of the transport corridor IX B in Vilnius City	170
Other projec: teriorpanning rd buildin, constrction of bridgs nd overasses	28-330
Total value	1250 - 1430

Source: Long-term development strategy of the Lithuanian transport system (2005) – Ministry of Transport and Communication

3.2. Description of the Group`s main contracts

Table 15 Group`s current contracts description

No	Description	Project type	Scheduled completion date	Compensation for the Consortium	Percentage of completion (30/09/2012)	Company responsible
1	Modernisation of the E65/C-E65 railway linę, Warsaw - Gdynia, section: area of LCS Działdowo	Railway	2013	731	89%	Trakcja
2	Modernization of the railway line number 9, section from km 236,920 to 287,700, during the Local Area Control Center, based in Malbork	Railway	2013	820	20%	Trakcja
3	The design and performance of construction works on railway tracks: Dębica -Sędziszów Małopolski	Railway	2013	409	17%	PRKiI
4	Design and execution of construction works on the railway line Kraków- Medyka - state border, section: Podłęże - Bochnia from km 16,000 to 39,000	Railway	2014	589	9%	Trakcja
5	Design and construction of Łódź Widzew station and part of a railway trackŁódź Fabryczna - Łódź Widzew from km 2,250 to km 7,200 within railway traffic control and telecommunication facilities for all section Łódź Fabryczna - Łódź Widzew and modernization of detour line Łódź Widzew-Łódź Chojny - Łódź Kaliska	Railway	2014	203	18%	Trakcja
6	Modernization of the E 30 railway line, section: Jaworzno Szczakowa -Trzebinia	Railway	2014	300	5%	PRKiI
7	Design and performance of construction Works on the railway line Sędziszów Małopolski - Rzeszów Zachodni	Railway	2014	298	22%	PRKiI
8	Modernisation of linę no. E59 Wrocław - Lower Silesian Voivodeship Border	Railway	2014	206	24%	PRKiI
9	Vilniaus railroad bypass Kyviškes-Valciunai second road construction	Railway	2014	259	21%	KaunoTiltai
10	Vilnius Western bypass II stage	Roads	2014	164	59%	KaunoTiltai

Source: Consolidated financial statement of Trakcja S.A. as of 30th September 2012 and Company`s presentation for 3Q2012

As of the date of this Information Document the Group was carrying out 10 construction projects of a unit value exceeding PLN100 mm. Total value of large projects amounted to almost PLN4.0 bn. Out of these 10 project, there are 8 railway projects in Poland, 1 railway project in Lithuania and 1 road project in Lithuania.

The projects are in different stages of completion with the average weighted completion ratio of c. 32%. This ratio translates into more than PLN2.7 bn still to be reported by the Group as future revenue. All of the large projects under construction have completion dates set in agreements falling in 2013 and 2014. For some projects the Company's Management sees a risk that the completion dates may be not met. In particular this risk is valid for the following projects:

- Project 2, "Malbork". The construction works in this project progress slower than expected due to the two reasons that are beyond influence the Company. Firstly, the project documentation was in the Company's view to the large extent not accurate, causing a need

for extensive adjustments and extra works for the consortium. Moreover, some delays have been caused by bankruptcy of PNI, acting as a consortium co-member on this project.

- Project 3, "Dębica – Sędziszów Małopolski". The Group submitted a proposal for postponing the date of final works finalization until 31st December 2014 as a result of additional unexpected works to be performed. In the light of the above, the Company does not expect, that PRKiL can be subject to contractual penalties for delays on that projects.
- Project 4, "Podłęże - Bochnia". Due to the fact that environmental approval for the project was revoked, the construction works had to be suspended until new decision was announced.
- Project 6, "Jaworzno Szczakowa-Trzebinia". Claims and changes within project realization allow for completion date change to 31st December 2014 but the Company still expects Contractor`s decision in this respect. That delay should not be treated as an event giving raise to contractual penalties.
- Project 8, "E59". PNI was initially leading the project and to large extent was responsible for construction works with PRKil being a consortium co-member. Due to delays in project execution resulting from bankruptcy proceeding, in November PNI was excluded from the contract and PRKil was appointed a new consortium leader. Still it cannot be assured, that the delays will be caught up and the project will be finished as scheduled.

Apart from the abovementioned projects, the Group performs works on the two smaller projects for which the delay in terms of the completion date has occurred. The current status of the projects:

- "Zbąszynek-Czerwieńsk" – the construction works were to be accomplished by October 2012. The Company signed the annex to the construction agreement postponing the completion date until 30th May 2013.
- "Modernization of railway from Radviliskis to Pagegiai" – the construction works were to be accomplished by September 2012. Approval postponing the finalization date until after 28th October 2013. Annex is under preparations. The projects` estimated value accounts for PLN 94m as of 30th September 2012.

In case any project cannot be finalized within the deadline stipulated in the agreement, the company leading the project will initiate procedures to extend construction period. It should be underlined, that based on the Management's knowledge, in no case the delays are a result of the Group's negligence or mismanagement. Therefore, the risk the Group is imposed any kind of fine or penalty in relation with any project is assessed by the Management as very low. Furthermore, in some cases the Group may be entitled to receive compensations for delays in start or extra works on projects. Still, it is too early to estimate probability of receiving the claims and their potential value.

Apart from large projects in the construction phase, the Group has also in its portfolio several projects with a unit value exceeding PLN100 mm that are currently in preparatory phase, all being road projects in Lithuania:

- Construction of a bridge between Juozapavicius street and Tilto street
- Construction of the second road within the section Kulupenai – Kretinga
- Construction of the second road within the section Pavenčiai – Raudėnai
- Construction of the second road within the section Telšiai – Dūseikiai.

3.3. Description of the Group`s significant loan agreements

Table 15 Group`s significant loan agreements as of 30th September 2012

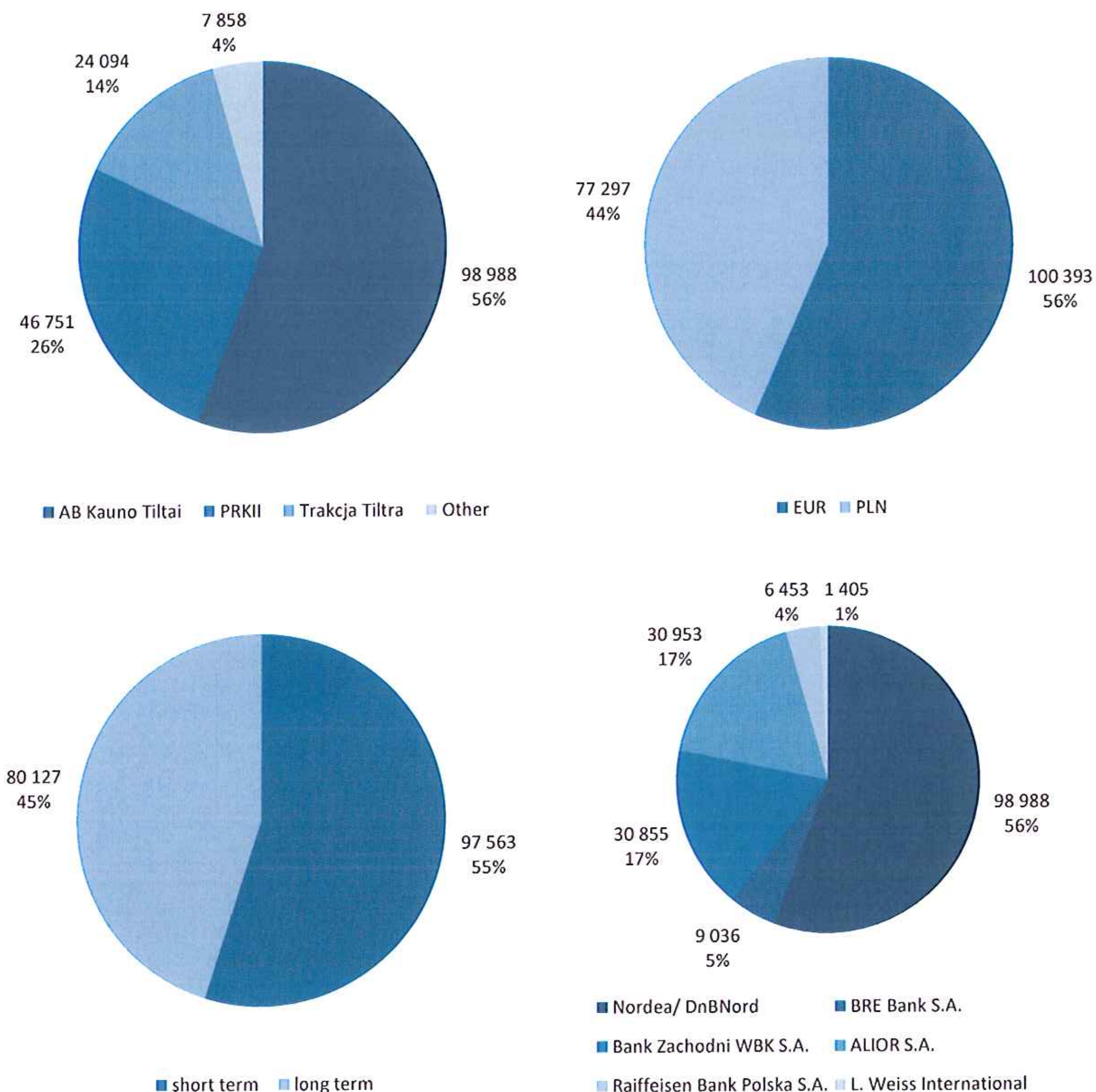
Company name	Creditor	Liability type	Initial value of debt [PLN k]	Currency	Maturity date	Interest base	Outstanding value of debt [PLN k]	Collateral	Covenants
AB Kauno tiltai	Nordea/ DnBNord	INV	27 430	EUR	2015-04-01	EURIBOR 3M	15 775	mortgage, pledge on machinery, equipment, inventory and assignment of receivables	ND/EBITDA <5 as of 30.09.2012 & 31.12.2012; ND/EBITDA <4 as of 31.03.2012 E/A > 30%, DSCR >1.2 as of end of 1Q
AB Kauno tiltai	Nordea/ DnBNord	INV	9 402	EUR	2015-04-01	EURIBOR 3M	7 621		
AB Kauno tiltai	Nordea/ DnBNord	INV	23 385	EUR	2016-04-01	EURIBOR 3M	19 926		
AB Kauno tiltai	Nordea/ DnBNord	WC	74 048	EUR	2013-04-01	EURIBOR 3M	55 666		
PRKII	BRE Bank	WC	12 000	PLN	2014-07-31	WIBOR 1M	4 784	assignment of receivables	ND/EBITDA <3,5 E/A > 25%
PRKII	BRE Bank	WC	10 000	PLN	2013-02-06	WIBOR O/N	4 252	mortgage on Kniaziewicza property / bill of exchange	ND/EBITDA <3,5 E/A > 25%
PRKII	BZ WBK	WC	20 000	PLN	2014-09-30	WIBOR 1M	14 487	assignment of receivables	ND/EBITDA <3 as of 31.12.2012
PRKII	BZ WBK	INV	18 000	PLN	2017-03-31	WIBOR 1M	16 368	Company warranty from Trakcja	ND/EBITDA <3 as of 31.12.2012
PRKII	BZ WBK	WC	23 000	PLN	2014-06-30	WIBOR 1M	0	assignment of receivables	ND/EBITDA <3 as of 31.12.2012
PRKII	Alior Bank SA	WC	20 000	PLN	2013-03-31	WIBOR O/N	6 859	none	none
Bahn Technik Wrocław Sp. z o.o.	L. Weiss International	Other	786	EUR	2013-04-30	Fixed	240	data not available	data not available
Bahn Technik Wrocław Sp. z o.o.	L. Weiss International	Other	1 316	EUR	2014-07-31	Fixed	1 165	data not available	data not available
Dalba Sp. z o.o.	Raiffeisen Bank	WC	5 000	PLN	2012-12-31	WIBOR 1M	0	credit line fully repaid	none

	Polska SA								
PEUIM	Raiffeisen Bank Polska SA	Other	10 532	PLN	2012-12-15	-	6 453	repayment of Silentio guarantee	none
Trakcja	Alior Bank SA	WC	15 000	PLN	2013-03-31	WIBOR 1M	0	pledge from PRKiI, mortgage, assignment of receivables related to "Malbork"	none
Trakcja	Alior Bank SA	WC	60 000	PLN	2012-03-31	WIBOR O/N	24 094	Company warranty from PRKiI, mortgage	not applicable
			329 900				**177 690**		

INV – investment loan
WC – credit line
ND – net debt
E – equity
DSCR - is an indicator calculated as the EBITDA by dividing from the sum that consists of the amount of the payable interest calculated for a Respective Period for all financial obligations of the Group (including the Credit recipient's liability under the Agreement) and all other sums payable under the Respective Period according to all financial obligations of the Group (including the Credit recipient's liability under the Agreement, yet excluding the financial obligations intended for financing the working capital)
Source: Consolidated financial statements of Trakcja S.A. as of 30th September 2012

As of 30th September 2012 the total value of loans accounted for PLN 177,690 k. Nearly 56% of total loans outstanding were granted to AB Kauno tiltai. In terms of currency, 56% of the loans were granted in Euro.

Figure 7 Split of the Group`s loans and borrowings as of 30th September 2012 in terms of: (1) company from the Group being a part to the agreements; (2) currency of the loan; (3) maturity; (4) creditor name



Source: Trakcja S.A. as of 30th September 2012

The vast majority of loans were granted in connection with the execution of contracts. The sector in which the Group operates is working capital intensive. Market practice for settlements on the railway and road construction contracts is that the consortium (the leader, other members and subcontractors) needs to deliver works on a contract before receiving payments from the ordering party (on part of contracts the consortium is additionally entitled to prepayments, in the value of up to 5-10% of the contract value). Invoices are submitted on a monthly basis and the invoice payment period may take additional 2 months. During that period the company needs to cover expenses on its own staff (contract personnel) as well as construction materials (subcontractors and other member

of consortium are paid from money received from the client). For efficiency purposes own expenses are to the large extent covered with debt financing, normally in the form of working capital credit lines. The short-term, revolving nature of the bank loans is typical for companies in the industry.

Current level of credit lines is sufficient to cover the Group's needs relating to the project realization in 2012 and 2013 (assuming the availability of lines is extended). The majority of debt attributable to the Lithuanian business as contracts realized by AB Kauno tiltai are more advanced and – as road contracts – require higher proportion of debt.

100% of bank loans are collateralized on the Group's assets.

3.4. Description of the existing bond obligations

Key parameters of the existing series A and B bonds:

- Issue date – 19th April 2011
- Coupon – fixed, 7% annually
- Outstanding value:
  - PLN 148 364k series A
  - PLN 13 000k series B
- Maturity date:
  - 12th December 2013 series A
  - 12th December 2014 series B
- Early redemption option embedded

As of 30th September 2012 the existing bonds outstanding value (including accrued interests) amounted to PLN 163,359k.

3.5. Off-balance sheet liabilities

Table 16 Group`s off-balance liabilities as of 30th September 2012

Off-balance sheet liabilities	30th September 2012 (PLN k)	Share (%)
From related parties:	**272 925**	**11,2%**
Guarantees and warranties	271 594	11,1%
Promissory notes	1 331	0,1%
From other parties:	**2 174 436**	**88,8%**
Guarantees and warranties	573 211	23,4%
Promissory notes	547 129	22,4%
Mortgages	202 855	8,3%
Cession from insurance	73 613	3,0%
Assignment of receivables	738 405	30,2%
Sureties	1 305	0,1%
Other	37 918	1,5%
Total off-balance sheet liabilities	**2 447 361**	**100,0%**

Source: Consolidated financial statements of Trakcja S.A. as of 30th September 2012

Guarantees and warranties accounted for 34,6% of total off-balance liabilities as of 30th September 2012 and they mainly secured performance of the projects under construction. Mortgages, which mainly secured loans, accounted for 8,3% of total off-balance liabilities and reached PLN 203 mm. Mortgages split in terms of the party liable shows, that 55% of the mortgages were established on the Company`s assets, 21% on PRKil and 24% on Kauno assets. As of 30th September 2012 assignment of receivables were recognized in the value of PLN 738 mm. This kind of off-balance sheet financing secures PRKil loans (PLN 134 mm) and prepayment on Malbork contract attributable to the Company (PLN 603 mm). Promissory notes reached PLN 548 mm at that date and were securing: performance guarantees, retention guarantees, the time of payment guarantees, deposits and lease agreements. Majority of promissory notes were attributable to PRKil (61%), whereas the remaining part mainly to the Company. Large level of off-balance sheet liabilities is typical to the construction companies.

3.6. Liquidity requirements

As mentioned earlier, construction sector is a liquidity intensive and seasonal business. Construction activity usually recovers in early spring and peaks in the summer and autumn season, resulting in the highest levels of liquidity needs. Construction activity is limited in winter period due to unfavorable weather conditions. First winter months are also when the last large invoices with the ordering party are settled, so the net working capital usually bottoms down towards the end of the first quarter of the year.

Increasing need for liquidity throughout the project realization season is mainly a result of the typical way, the construction works are settled with the client. Construction companies need to provide materials and deliver works on contracts before receiving payments from the ordering party (prepayments are more and more uncommon). Furthermore, the invoice payment period may take additional 2 months. All the above leads to increase in current assets in form of inventories (materials, work in progress) and trade receivables. On the other hand, current liabilities (in form of mainly trade and other payables) do not increase as much, as companies need to pay their staff on a monthly basis and settle outlays on materials and small external services.

Future liquidity needs of the Group will depend to the large extent on the value of projects under realization as well as on share of own works in projects. As mentioned earlier, own staff is covered on an ongoing basis, whereas the consortium co-members and large subcontractors are paid only when the payment from the client is received. Hence, projects with large share of own staff will create larger demand for external bank financing.

3.7. Information on pending litigations, administrative litigations, together with the subject of the dispute and its value

As of 30th September 2012 the Group was not a party to any material pending litigation and arbitration which value individually or in aggregate terms exceeded 10% of the equity of the Group.

5. Description of the collateral

4.1. Legal description of collateral

AB Kauno tiltai is a limited liability company registered in the Republic of Lithuania. Kauno was established in 1949 as a state company and since that time engaged in road construction and other infrastructure development works. In 1993 the company was privatized and reorganized into public limited liability company. On 19th April 2011 the main shareholders of Kauno have signed an agreement with Trakcja Polska S.A. whereby they disposed of the shares of Kauno to the Company. In consequence, Kauno became a part of the Group.

Table below presents the shareholder structure before and after-acquisition by the Company:

Table 17 Shareholders structure as of 30th September 2012

	31st March 2011		30th September 2012	
	No of shares held	%	No of shares held	%
Trakcja-Tiltra S.A.	0	0,00%	148 981	96,84%
AB Invalda	66 713	43,36%	0	0,00%
UAB NDX Energija	23 933	15,56%	0	0,00%
Other non-controlling shareholders	63 201	41,08%	4 866	3,16%
Total	**153 847**	**100,00%**	**153 847**	**100,00%**

Source: Consolidated financial statements of Kauno tiltai AB as of 30th September 2012

All shares are ordinary shares with a par value of LTL 130 each and were fully paid as at 30th September 2012. As at 30th September 2012 share capital amounted LTL 20 000k. There were no changes in share capital of the Kauno during the current period. Subsidiaries and associates did not hold any shares of the Kauno as at 30th September 2012. Kauno owns 1,25% shares as the treasury shares.

There were no pledge established on Kauno's shares nor any restrictions in registering any pledge on these shares.

4.2. Description of the company, whose shares are securing Secured Plain Vanilla Bonds

4.2.1. Brief description of its business activities

Kauno is the largest transport infrastructure company in the Baltics. Kauno's core activity includes implementing large scope, technically sophisticated transport infrastructure projects in Lithuania. Since the beginning of its operations in 1949, the company has built over 100 bridges, and constructed and reconstructed 3 000 km of roads in Lithuania. The growth of the company has led to an expansion of its portfolio of activities. Currently it includes not only motorway and road construction projects, but also a number of others, e.g. the construction of tunnels, railways, airports, water ports, erection of engineering and energy networks, production of building materials, and installation of waste facility sites. Kauno continues to relate its business prospects with the road and bridge construction, although the impact is also placed on development of other activities and

portfolio diversification. Due to similarities between the traditional and new projects performed by Kauno, some synergy effects have already been obtained.

To ensure quality control, Kauno has its own certified laboratory whose test results are recognized throughout the EU. Currently, over 1,000 employees are employed in Kauno, of which 200 are highly qualified transport infrastructure construction engineers.

Kauno's strategy is to maintain leading position in Baltics in infrastructure construction market, as well as to follow geographical and portfolio diversification strategy when opportunities arise. This year Kauno won first contract in Latvia and intends to increase its share in Latvian market in the forthcoming years. Furthermore, Kauno is analyzing business opportunities in Scandinavian and former USSR countries. Especially the second region seems to be attractive from the business perspective, due to high number of infrastructure objects to be renovated or newly constructed. In the last few years Kauno has also significantly increased its market share in railway sector from 10.7% in 2008 to 22.9% in the first half of the current fiscal year. Thanks to know-how obtained from its new owner, this year Kauno over 20% its revenues generated by railroads construction and around 10% by energy construction services. The company is anticipating further increase in market share in these segments. Kauno's management believes that current know–how will allow the company to win tenders and executing them with margins outperforming the competitors.

According to Management of the Company, Kauno has good development prospects in the short term future for several reasons, including but not limited to:

- 75% of 2013 and c. 40% of 2014 backlog coverage;
- usage of number of analytical tools assisting in risk management, projects` assessment and constant monitoring during construction process, allowing Kauno to maximize margins and predict and avoid choke points;
- experienced management with long term commitment.

In terms of market competition, Kauno is a downright leader in Lithuania. Over 60 years of market experience, diversified business and expansion to other countries allows the Group to maintain this position. The nearest competitors are about 20 to 30% smaller taking into account revenues.

4.2.2. Basic financial data

Accounting period for Kauno is not standard calendar year but lasts from 1st April to 31st March.

Financial statement of Kauno are prepared in Lithuanian currency (LTL). For the analytical purposes, the table below presents the exchange rates published by NBP as of the end of accounting periods as well as average exchange rates in these periods indispensible for translation of Kauno`s financial statements into PLN or EUR.

Tabela 18 Average and end of period exchange rates published by NBP for the reporting periods ended 31st March 2011, 31st March 2012 and 30th Septemebr 2012

	31st March 2011	31st March 2012	30th September 2012
EUR/PLN as of the end of accounting period	4,0119	4,1616	4,1138
EUR/PLN average exchange rate in the period ended	3,9842	4,1903	4,1985
LTL/PLN as of the end of accounting period	1,1619	1,2053	1,1914
LTL/PLN average exchange rate in the period ended	1,1539	1,2136	1,2160

Source: NBP

Table 19 Kauno tiltai AB assets as of 31st March 2011, 31st March 2012 and 30th September 2012

LTL Thousands	31st March 2011		31st March 2012		30th September 2012	
	Value	%	Value	%	Value	%
Fixed assets	**172 847**	**54,6%**	**173 696**	**57,9%**	**185 727**	**41,9%**
Goodwill	66 302	20,9%	63 988	21,3%	63 999	14,4%
Other intangible assets	1 373	0,4%	1 605	0,5%	1 435	0,3%
Property, plant and equipment	83 594	26,4%	73 670	24,6%	68 417	15,4%
Investment property	7 184	2,3%	5 544	1,8%	5 562	1,3%
Long-term receivables	4 217	1,3%	2 463	0,8%	24 241	5,5%
Other non-current investments	6 683	2,1%	22 527	7,5%	18 260	4,1%
Other non-current assets	1 488	0,5%	1 074	0,4%	1 096	0,2%
Deferred income tax asset	2 006	0,6%	2 825	0,9%	2 717	0,6%
Current assets	**143 947**	**45,4%**	**126 227**	**42,1%**	**257 211**	**58,1%**
Inventories	14 383	4,5%	12 348	4,1%	17 772	4,0%
Trade receivables	58 808	18,6%	49 165	16,4%	157 212	35,5%
Other current receivables	16 180	5,1%	320	0,1%	979	0,2%
Amounts due from customers for	18 201	5,7%	31 317	10,4%	30 008	6,8%

construction contracts in progress						
Other current financial assets	991	0,3%	20 080	6,7%	21 407	4,8%
Other current assets	15 216	4,8%	3 114	1,0%	5 103	1,2%
Prepayment of income tax	2 498	0,8%	2 577	0,9%	89	0,0%
Cash and cash equivalents	17 670	5,6%	7 306	2,4%	24 641	5,6%
Total assets	**316 794**	**100,0%**	**299 923**	**100,0%**	**442 938**	**100,0%**

Source: Consolidated financial statements of Kauno tiltai AB as of 31st March 2011, 31st March 2012 and 30th September 2012

As of 30th September 2012 total assets of Kauno amounted to LTL 442 938k and they were 1,5 times higher than as of 31st March 2012. The key reason for that considerable increase in total assets value was due to rise in total receivables value recognized in the financial statements, which rose by LTL 108 047k. This increase is attributable mainly to the seasonality of construction works, which peak in the third quarter of the year, entailing increase in the net working capital.

41,9% of total assets accounted for fixed assets, which were valued at LTL 185 727k as of 30th September 2012. Within that group of assets long term receivables rose by LTL 21 778k and accounted for 5,5% of total assets value. No significant changes in values were noticeable with regard to other fixed assets categories.

Current assets as of 30th September 2012 amounted to LTL 257 211k and were two times higher in comparison to 31st March 2012. Within the current assets structure the biggest share was attributable to trade receivables, which accounted for 35,5% of total assets value.

There were no significant changes in the asset structure between 31st March 2011 and 31st March 2012. Minor decrease of main asset items as of 31st March 2012 can be explained by lower value of revenue recognized in the financial year ended 31st March 2012 than in the preceding financial year.

Table 20 Kauno tiltai AB liabilities and equity as of 31st March 2011, 31st March 2012 and 30th September 2012

LTL Thousands	31st March 2011		31st March 2012		30th September 2012	
	Value	%	Value	%	Value	%
Total equity	**134 632**	**42,5%**	**97 804**	**32,6%**	**110 953**	**25,0%**
Share capital	20 000	6,3%	20 000	6,7%	20 000	4,5%
Share premium	18 525	5,8%	18 525	6,2%	18 525	4,2%
Revaluation reserve	2 535	0,8%	2 535	0,8%	2 530	0,6%
Foreign currency translation reserve	-2 192	-0,7%	-2 895	-1,0%	-2 877	-0,6%
Legal reserve	2 000	0,6%	2 000	0,7%	2 000	0,5%
Retained earnings	93 499	29,5%	57 269	19,1%	68 803	15,5%
Minority interest	**265**	**0,1%**	**370**	**0,1%**	**307**	**0,1%**
Long-term liabilities	**63 012**	**19,9%**	**75 404**	**25,1%**	**53 514**	**12,1%**
Goverment grant	41	0,0%	13	0,0%	3	0,0%

Non-current borrowings	54 335	17,2%	66 983	22,3%	35 096	7,9%
Employee benefit obligations	995	0,3%	504	0,2%	512	0,1%
Provisions	2 145	0,7%	2 119	0,7%	2 007	0,5%
Non-current payables	527	0,2%	1 781	0,6%	12 723	2,9%
Other non-current liabilities	110	0,0%	41	0,0%	3	0,0%
Deferred income tax liability	4 859	1,5%	3 963	1,3%	3 170	0,7%
Short-term liabilities	**119 150**	**37,6%**	**126 715**	**42,2%**	**278 471**	**62,9%**
Current borrowings	36 054	11,4%	8 445	2,8%	66 990	15,1%
Trade payables	54 867	17,3%	50 500	16,8%	136 866	30,9%
Amounts due to customers for construction contracts in progress	18 191	5,7%	46 353	15,5%	50 801	11,5%
Employee benefit obligations	4 711	1,5%	3 543	1,2%	6 431	1,5%
Provisions	538	0,2%	9 610	3,2%	475	0,1%
Income tax payable	882	0,3%	219	0,1%	3 300	0,7%
Other current taxes payable	2 708	0,9%	3 614	1,2%	6 692	1,5%
Other current liabilities	1 199	0,4%	4 441	1,5%	6 883	1,6%
Total equity and liabilities	**316 794**	**100,0%**	**299 923**	**100,0%**	**442 938**	**100,0%**

Source: Consolidated financial statements of Kauno tiltai AB as of 31st March 2011, 31st March 2012 and 30th September 2012

As of 30th September 2012 the total equity value amounted to LTL 110 953k and was higher by LTL 13 149k in comparison to 31st March 2012. Share capital value for the periods of 31st March 2011, 31st March 2012 and 30th September 2012 was unchanged and accounted for LTL 20 000k.

Long-term liabilities accounted for 12,1%, while short-term liabilities amounted to 62,9% of total assets value. Long term borrowing amounted to LTL 35 096k and were lower by LTL 31 887k in comparison to 31st March 2012. Short term borrowings amounted to LTL 66 990k and were nearly eight times higher in comparison to 31st March 2012. In short term liabilities structure, significant increase was also attributable to trade payables, which accounted for 30,9% of total assets value, and reached level of LTL 136 866k (in comparison to LTL 50 500k as of 31st March 2012). The above mentioned movements result from the normal course of the AB Kauno tiltai's business, with trade payable rising in relation to purchase of materials and use of external services for construction projects and new loans are incurred to finance rising net working capital.

Table 21 Kauno tiltai AB debt structure ratios as of 31st March 2011, 31st March 2012 and 30th September 2012

	31st March 2011	31st March 2012	30th September 2012
Short term debt / total debt	39,9%	11,2%	65,6%
Long term debt / total debt	60,1%	88,8%	34,4%
Debt / Equity	67,1%	77,1%	92,0%
Debt / Assets	28,5%	25,1%	23,0%

Net debt / EBITDA	1,4x	129,0x	3,3x

Source: Consolidated financial statements of Kauno tiltai AB as of 31st March 2011, 31st March 2012 and 30th September 2012

As of 30th September 2012 the majority of debt financing came from short term loans. This relation was different in previous periods: 11,2% and 39,9% of loans had short term character on 31st March 2012 and 31st March 2011 respectively. The fluctuations are a result of maturity of different credit lines being adjusted to projects under construction.

Debt to equity ratio is systematically increasing, from 67,1% as of 31st March 2011 to 92,0% as of 30th September 2012. Increase as of 31st March 2012 is related to net loss reported by AB Kauno tiltai for financial year ended on 31st March 2012, whereas further increase in course of 2012 relates to loans incurred to finance working capital needs in the capital intensive summer/autumn periods.

Net debt / EBITDA increased significantly as of 31st March 2012, in comparison to previous accounting period, from 1,4x to 129,0x. The increase was associated with significant decrease in EBITDA value in the last full accounting year.

Table 22 Kauno tiltai AB income statement as of 31st March 2011, 31st March 2012 and 30th September 2012

LTL Thousands	31st March 2011	31st March 2012	30th September 2012
Revenue	**542 471**	**384 723**	**275 964**
Materials and consumables	-154 488	-115 125	-70 012
Subcontractor services used	-195 662	-148 246	-130 160
Employee related expense	-78 251	-59 917	-30 092
Value of goods and materials sold	17 746	-9 923	-2 589
Other operating expenses	-59 823	-55 764	-21 206
Other activity income (expenses), net	3 900	4 778	1 251
Net investment gain (loss)	8 704	2	47
Share of profit of associates	1 089	-	-
Earnings before taxes, depreciation and amortization	**50 194**	**528**	**23 203**
Depreciation and amortization expenses	-13 397	-9 781	-4 928
Operating profit	**36 797**	**-9 253**	**18 275**
Financial revenues	3 240	1 607	744
Financial costs	-7 685	-14 634	-2 166
Profit before tax	**32 352**	**-22 280**	**16 853**
Tax	-4 544	1 733	-2 954
Net income	**27 808**	**-20 547**	**13 899**

Source: Consolidated financial statements of Kauno tiltai AB as of 31st March 2011, 31st March 2012 and 30th September 2012

For the two quarters of the current financial year AB Kauno tiltai recognized revenues amounting to LTL 275 964k, accounting to 72% of the revenue for the last full financial year. Taking into account

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that in the third and fourth quarter of the calendar year construction companies usually book the most revenue, it may be assumed that revenue in current year rebounded from the drop in the last financial year EBIT for the two quarters reached LTL18 275k, while net profit accounted for LTL 13 899k.

For financial year ended on 31st March 2012 revenues reached LTL 384 723k, and were by LTL 157 748k lower than in preceding financial year. The lower revenues translated into lower variable costs, but operating leverage effect connected with considerable fixed costs share resulted in drop of EBIT to negative value. The 29% decline in revenue was related to the lower value of construction projects performed by Kauno as compared to the preceding financial year. Net profit of the last full financial year was further depressed by the financial leverage effect. Furthermore, AB Kauno tiltai reported c. LTL 9 000k one-off financial costs relating to guarantee provided by PEUiM Sp. z o.o. (Kauno's subsidiary) to the Tiltra Group AB, that went bankrupt in that year.

Table 23 Kauno tiltai AB margins as of 31st March 2011, 31st March 2012 and 30th September 2012

%	31st March 2011	31st March 2012	30th September 2012
EBITDA margin	9,3%	0,1%	8,4%
EBIT margin	6,8%	-2,4%	6,6%
Net profit margin	5,1%	-5,3%	5,0%

Source: Consolidated financial statements of Kauno tiltai AB as of 31st March 2011, 31st March 2012 and 30th September 2012

EBIT and net profit margins were relatively stable as of 31st March 2011 and 30th September 2012 and oscillated in the range of 6,6%-6,8% and 5,0%-5,1% respectively. The considerable drop was noticeable as of 31st March 2012, when EBIT margin reached -2,4% and net profit margin amounted to -5,3%. Such considerable decrease was related to significantly lower revenues in that period, entailing negative effects of operating and financial leverage.

Table 24 Kauno tiltai AB consolidated statement of cash flow as of 31st March 2011, 31st March 2012 and 30th September 2012

LTL Thousands	31st March 2011	31st March 2012	30th September 2012
Profit before tax	32 352	-22 280	16 853
Amortization	*13 396*	*9 781*	*4 923*
Cash flow from operations	74 755	39 037	-2 055
Cash flow from investments	25 678	-28 104	4 471
Cash flow from financing activities	-103 554	-21 270	14 891
Total cash flow for the period	-3 132	-10 364	17 335
Cash (BoP)	*20 802*	*17 670*	*7 306*
Cash (EoP)	17 670	7 306	24 641

Source: Consolidated financial statements of Kauno tiltai AB as of 31st March 2011, 31st March 2012 and 30th September 2012

For financial year ended on 30th September 2012 Kauno`s cash balance amounted to LTL 24 641k. Cash flow from operations was negative and reached LTL 2 055k. Main drivers of negative operating cash flow included: significant decrease in receivables partially offset by increase in trade payables and depreciation and amortization. Cash flow from investment activities reached LTL 4 471k and was mainly a result of disposal of assets (which value amounted to LTL 2 515k) and long- and short-term deposits (LTL 3 118k). Cash flow from financing activities reached LTL 14 891k and was driven by change in loans and borrowings level (net value of new borrowing and repayments equal LTL 17 475k) and interest paid (LTL 1 816k).

For financial year ended on 31st March 2012 cash flow from operations reached LTL 39 037k. The increase was to large extent driven by positive impact of increase in trade payables and advances received. Cash flow from investments was negative and amounted to LTL 28 104k. The negative value was mainly attributable to long and short-term deposits established in relation to credit agreement (LTL 34 808k) and granted loans (LTL 15 000k). Cash flow from financing activities amounted to LTL -21 270k and was mainly the net result of borrowing received (LTL 77 966k) and borrowings repaid (LTL 94 469k). Cash balance at the end of period accounted for LTL 7 306k.

For financial year ended on 31st March 2011 net cash flow from operating activities amounted to LTL 74 755k. Main drivers of positive operating cash flow included: profit before tax, depreciation and decrease in receivables. Cash flow from investments reached LTL 25 678k and was mainly a result of disposal of subsidiaries and associates valued at LTL 13 390k and loans retrieved (LTL 9 515k). Financing cash flow accounted for LTL -103 554k and was mainly a net effect of borrowings received (LTL 68 236k) and borrowings repaid (LTL 164 730k). At the end of the period Kauno generated LTL 17 670k cash.

4.2.3. Information on major ongoing contracts

The main under development and pending contracts were broadly described under 3.2 'Description of main contracts'.

4.2.4. Information on off-balance sheet debt and liabilities

As of 30th September 2012 Kauno`s off-balance sheet debt and liabilities are presented in table 25.

Table 25 Kauno tiltai AB off-balance sheet financing as of 30th September 2012

Off-balance sheet liabilities	30th September 2012 (PLN k)	Share (%)
Guarantees and warranties	125 524	75,2%
Mortgages	40 587	24,3%
Other	847	0,5%
Total off-balance sheet liabilities	**166 957**	**100,0%**

Source: Consolidated financial statements of Kauno tiltai AB as of 30th September 2012

The off balance sheet liabilities of Kauno tiltai AB amounted to LTL 166 957k as of 30th September 2012, with 75,2% attributable to guarantees and warranties. The remaining part of off-balance sheet liabilities was connected mainly with mortgages securing loans (24,3% share in total off-balance sheet liabilities).

6. Purpose of the Transaction together with use of proceeds

The Company has taken robust approach to change structure („the Transaction") of its bond (A and B-series) debt with face value of c. PLN 161 364k, majority of which is falling in December 2013. Apart from the bond debt, the Group had an outstanding debt of PLN 193 853k as of the end of 30th September 2012. As a result of the Transaction, the Company expects to reduce its net debt after the Transaction by at least PLN 80 mm.

The proposed terms of the Transaction include combination of:

- cash repayment (PLN 20 mm),
- roll over until 2015 (by way of issue of Plain Vanilla Bonds with 3-year maturity with the nominal value not exceeding PLN 53 mm),
- conversion into share capital (by way of issue convertible Convertible Bonds with the nominal value not exceeding PLN 102 mm).

Management believes that planned changes in the debt structure of the Company will have positive impact on the operational situation of the Group and increase the safety of its operations in the coming years. Currently, the companies within the Group experience problems similar to the vast majority of other entities on the Polish construction market, that include delays in realization of construction contracts and decrease of their profitability. In parallel, the current framework of the construction market makes the access to financing and performance guarantees more difficult for all the construction companies. The above tendencies influence negatively the financial results and cash flows generated by the Group in 2012. On the other hand, the Company possess a significant portfolio of projects, whose implementation would require access to bank credit lines. Especially on the Lithuanian the Group is experiencing dynamic growth. The Management Board believes, that in case of no significant improvement of the situation on the Polish construction market in the nearest future, changing the existing bond debt structure would improve perception of the Group by financial institutions and increase the availability of credit lines and guarantees for the companies of the Group in an amount sufficient to accomplish existing and potential new projects. Besides, the Management Board is of the opinion that the construction companies that will manage to continue with its operations in the next years will have better positioning to face the new EU budgetary period.

To sum up, the primary objective of the ordinary Plain Vanilla Bonds and convertible Convertible Bonds issue is to change structure of the existing bond debt in order to focus on core business, provide capacities to finalize existing and win new projects as well as to take advantage of the current turmoil on the Polish construction market. Proceeds from the Plain Vanilla Bonds and Convertible Bonds issues will be therefore used to redeem the existing A and B-series bond debt.

7. The value of the Issuer`s liabilities as of 31st December 2012 and potential changes in its value until the complete redemption of the Plain Vanilla Bonds

6.1. The value of the obligations incurred as of 31st December 2012

Given the characteristics of the Issuers` business and short period of time after 31st December 2012, data provided in this point should be treated as estimates and may be subject to changes after closing period process (especially trade payables). Moreover, the data below includes only main positions of the Issuer`s liabilities (bonds, loans, leasing and trade payables), excluding the minor ones. To the best knowledge of the Issuer as of 31st December 2012, consolidated liabilities amounted to PLN 559 mm, whereas the stand-alone ones amounted to PLN 259 mm.

Selected Issuer's stand-alone and consolidated liabilities as of 31st December 2012 (estimated data)

PLNk	Value as of 31st December 2012 Stand-alone figures (Not audited)	Value as of 31st December 2012 Consolidated figures (Not audited)
Leasing	8 460	18 084
Loans	17 000	118 535
Bonds	161 364	161 364
Trade payables	72 493	261 219
Total	**259 317**	**559 349**

Source: Preliminary Issuer`s estimates as of the date of the publication of Proposal to Acquire, which may be subject to changes as of 31st December 2012

Interest-bearing loans

As of 31 December 2012 the total value of the Issuer and its Group`s used loans accounted for PLN 17 mm PLN 118 mm respectively. The majority of loans were granted in connection with the execution of contracts, what is the effect of the specifics of the construction activity. For efficiency purposes own expenses on contracts are to the large extent covered with debt financing, normally in the form of working capital credit lines. The short-term, revolving nature of the bank loans is typical for companies in the industry.

Existing bonds

The total value of existing A and B-series bonds as of 31 December 2012 amounted to PLN 161 mm. Outstanding bonds comprised the following series:

- 12 December 2013 for A-series bonds with the face value reaching PLN 148 mm and
- 12 December 2014 for B-series bonds with par value amounting to PLN 13 mm.

The existing bonds were issued in connection with the acquisition of the AB Kauno tiltai and Tiltra Group AB on 19 April 2011. Annual coupon rate on bonds is 7%.

Trade payables

Trade liabilities are another Issuer of liabilities that is directly related to the value of projects under realization and the structure in which a project is fulfilled. As of 31 December 2012 they amounted to PLN 261 mm on the consolidated level and to PLN 72 mm on stand-alone basis (the values should not be treated as a final figures for 2012 and can change as of the date of the publication of the financial statements since the Issuer is still anticipating receiving invoices). The value resulted from the obligations towards subcontractors and all payables due to suppliers of the construction materials. Contrary to the bank debt, level of trade liabilities tend to rise for projects with low share of own works.

6.2. The prognosis of the value of obligations of the Issuer until the time of the final redemption of Plain Vanilla Bonds

Bearing debt

The level of the Issuer's debt during the life of the Plain Vanilla Bonds will be directly related to the value of projects under construction in respective periods. Since in 2012 the Issuer has not won any material contracts and taking into account time needed to commence works on currently pending projects in case the Issuer places the best offer, debt level in 2013 will be mainly determined by advances in realization of projects in the Issuer's current pipeline (as of 30th September 2012 the Issuer's backlog was worth c. PLN3.4 bn). The Issuer expects that in 2013 the realization of the current projects will be speeded up as compared to 2012. In 2013 and 2014 the share of bank debt relating to newly acquired projects should be systematically rising. In the absolute terms it will be dependent on the value, realization schedules and share of own works in newly acquired projects. The Issuer intends to keep the value of it pipeline on the relatively stable level during life of the Plain Vanilla Bonds.

The Issuer's policy is to be able to finance up to 100% of own project outlays with working capital debt. Therefore, the Issuer's total credit lines should allow for covering all expenditures in the most capital intensive months of the year (August, September and October). In other periods of the year demand for working capital is normally lower so the utilization of credit lines should be lower as well.

As mentioned above, share of own works in a project is an important determinant of Issuer's demand for bank debt. It differs substantially across projects in the Issuer's pipeline – from 15% on projects with large share of outsourced construction works, up to 70-80% on other projects (esp. in which the Issuer is a subcontractor to other parties). The Issuer is unable to predict, what proportion of own works will be reported in future.

Current level of credit lines is sufficient to cover the Issuer's needs relating to the project realization in 2012 and 2013 (assuming the availability of lines is extended). The majority of debt attributable to the Lithuanian business as contracts realized by AB Kauno tiltai are more advanced and – as road contracts – require higher proportion of debt.

The Issuer currently does not envisage incurring any form of interest bearing debt not related to realization of the construction projects.

Trade liabilities

Expected intensification of construction works on current projects in 2013 should result in an increase of the level of trade liabilities throughout 2013. Level of trade liabilities in the following years will be to larger extent dependent upon the Issuer's capability to win new contracts as well as on the required realization structure (with own forces or outsourced). In the latter case, the value of trade liabilities should be increasing in the future.

6.3. Ability of the Issuer to repay Plain Vanilla Bonds

Cash flows raised from the current and future projects are expected and preferred source of the Plain Vanilla Bonds repayment. As of 30th September 2012 the Issuer was operating several construction projects with the total value still to be booked amounting to PLN3.4 bn. The projects are realized on various but positive margin levels. Furthermore, cash margin should be additionally improved by non-cash nature of depreciation costs. Additionally, the Issuer expects to win new construction projects in road and in railway segments. The sooner the new projects are launched the greater contribution is expected.

The Issuer cannot exclude that – in case of coincidence of negative market developments – its capacity of the Plain Vanilla Bonds repayment entirely from its own funds may be undermined. Potential issues limiting the Issuer's ability to repay the Plain Vanilla Bonds may include: further price increase of construction materials deteriorating margins recorded on contracts in progress; substantial delays in project realization, postponing cash from these projects beyond the Plain Vanilla Bond's maturity; disputes on responsibility for delay on project with clients that may result in penalties for the Issuer and fierce competition limiting the Issuer's ability to win new projects on acceptable margins. In case of potential difficulties in repaying the Plain Vanilla Bonds from own funds the Issuer will take all steps necessary to refinance the Bond debt with other interest bearing financing, e.g. by means of bond revolving or incurring bank facility. Given the relatively low proportion of the Plain Vanilla Bonds to the Issuer's assets, the Issuer does not see a risk of not refinancing this debt.

8. Definitions

"**AB Kauno tiltai**" shall mean a public limited liability company incorporated and existing under the laws of the Republic of Lithuania, legal entity code 133729589, having its registered office at Ateities pl. 46, Kaunas, Lithuania; Issuer`s subsidiary

„**Act on Bonds**" shall mean the Act on Bonds of 29th June 1995 (*consolidated text: Journal of Laws of 2001, No. 120, item 1300, as amended*)

"**Act on Trading**" shall mean Act on Trading as of 29th July 2005 with all future amendments

"**ATS**" shall mean Alternative Trading System

"**Bondholder**" shall mean a holder of the Plain Vanilla Bonds and Convertible Bonds whose rights are registered on the securities account

"**CCC**" shall mean Commercial Companies Code

"**COGS**" shall mean Cost of Goods Sold

„**Company**" shall mean Issuer

„**COMSA S.A.**" means the main shareholder of the Trakcja S.A.

"**Convertible Bonds**" – shall mean unsecured series D bonds convertible into Issuer`s shares issued in 2012 within the Transaction

"**EGM**" shall mean Extraordinary General Meeting „**Group**" shall mean Issuer and its subsidiaries

"**EU**" shall mean European Union

"**FSA**" shall mean Polish Financial Security Authority

"**GDP**" shall mean Gross Domestic Product

"**Group**" shall mean Issuer and its subsidiaries

"**Issuer**" means Trakcja S.A., ul. Złota 59 XVIII p., 00-120 Warszawa

"**Kauno**" shall mean AB Kauno tiltai

"**Management**" shall mean the management of the Issuer

"**Maturity Date for Plain Vanilla Bonds**" shall mean 31st December 2015

"**Maturity Date for Convertible Bonds**" shall mean 31st December 2027

"**PKP PLK**" shall mean PKP PLK S.A., ul. Targowa 74, 03-734 Warszawa

„**Plain Vanilla Bonds**" – shall mean Secured Plain Vvanilla Bonds and Unsecured Plain Vanilla Bonds

"**PNI**" shall mean Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o., ul. Chodakowska 100, 03-816 Warszawa

"**Poldim**" shall mean Poldim Spółka Akcyjna w upadłości likwidacyjnej,ul. Jana Kochanowskiego 37a, 33-100 Tarnów

"**PRKiI**" shall mean Przedsiębiorstwo Robót Kolejowych I Inżynieryjnych S.A. with its registered office in Wrocław at ul. Kniaziewicza 19, 50-950 Wrocław, entered in the Register of Entrepreneurs maintained by the District Court for the Wrocław-Fabryczna, VI Business Department of the National Court Register, under KRS number 110835,

"**Rules of ATS**" shall mean Rules of ATS as of 20th June 2012

"Secured Plain Vanilla Bonds" shall mean series C plain vanilla bonds issued within the Transaction in 2012, secured on Kauno shares

"**Security Agent**" shall mean Orion Securities, A. Tumėno str. 4, B Corp., floor 7, LT-01109 Vilnius or other entity chosen by the Issuer and approved by the majority of Bondholders

"**Tiltra Group AB**" shall mean the Issuer`s subsidiary acquired in 2011 and disposed of in 2012

"**Transaction**" shall mean the transaction aiming at the Issuer`s bond debt restructuring connected with issue of Plain Vanilla Bonds and Convertible Bonds

"Unsecured Plain Vanilla Bonds" shall mean series E plain vanilla bonds issued within the Transaction in 2012

"**WSE**" shall mean Warsaw Stock Exchange