



Trakcija PRKiI S.A.

Valuation Report of
AB Kauno tiltai

Introduction

This document has been prepared pursuant to the terms of the Contract signed between Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością Sp. k based in Poznań, Poland (hereinafter referred to as the Contractor or Grant Thornton) and Trakcja PRKiI S.A. based in Warsaw (hereinafter referred to as the Principal or Trakcja)

The subject matter of the engagement consists of the preparation of independent valuation of the market value of AB Kauno tiltai (hereinafter referred to as the Company or AB Kauno tiltai). The aim of the valuation process is to verify the collateral value of 96,84% shares (total number of shares, which are subject to the pledge is 148 981) of AB Kauno tiltai related to bond issue for Trakcja PRKiI S.A.

The valuation has been carried out with application of two methods:

- Discounted cash flows method (DCF), on the basis of projections presented by the Company,
- Market comparable method on the basis of AB Kauno tiltai financial forecasts and information about comparable companies listed on foreign stock markets.

DCF valuation was based on the consolidated financial statements of AB Kauno tiltai, projected financial data and other information and explanations, which have been obtained from the Principal. We assume that the information, which we have received, is true and fair and has been provided to us in accordance with the best knowledge of the Principal. Grant Thornton does not take responsibility for accuracy and reliability of financial data received from the Principal.

Please note that the forecast of financial information, presented in the valuation, concerns events which may, but do not have to occur in the future. Due to the nature of such information it is not possible to achieve a satisfactory certainty that the Company would actually accomplish financial results as presented herein. The Company's actual performance in the forecast years may vary from that presented in our valuation as we have determined it based on a set of premises which included also certain hypotheses concerning future events and actions, which do not necessarily have to come true.

Grant Thornton is not responsible for any use of the Valuation Report (in part or in whole) by persons other than the addressee (not part of Trakcja PRKiI Board of Management), as well as for the consequences of any decisions taken based on information contained in this document. In particular, this document does not constitute an investment recommendation.

This document constitutes only a Valuation summary, and the full report from the valuation is available on the premises of the Principal.

Executive summary and recommendation

On the basis of the adopted assumptions, received additional information and applied valuation methods, we have obtained the following values of AB Kauno tiltai.

Valuation method	Results in thousand PLN
Discounted Cash Flow Method (DCF)	249 425
Market Comparable Method	258 760
Equity Value of AB Kauno tiltai recommended by Grant Thornton is estimated at the level of:	
<ul style="list-style-type: none"> • Value of 100% of Equity of AB Kauno tiltai 	249 425
<ul style="list-style-type: none"> • Value of the subject of the pledge 	241 543

The results of the AB Kauno tiltai valuation show that the market value of the Company estimated with the application of income method DCF is lower than the value of the entity calculated by using the market comparable method. In income methods, enterprise is defined as an entity focused primarily on revenue growth and value. Valuation with the application of discounted cash flow method determines the Company ability to generate income (benefits and profits) that result from a combination of managerial skills, use of their tangible and intangible assets owned by the company and other available resources. While the market comparison method result shows the valuation which takes into account the current economic situation at the market. Due to the fact that it includes current financial results of companies characterized by a similar profile of activity, whose shares are listed on stock exchanges, both in Poland and in other markets.

By AB Kauno tiltai valuation, in the opinion of Grant Thornton, the value of the Company is not determined by the possessed property but its ability to generate operating surpluses. During the Projection Period AB Kauno tiltai assumes almost doubled growth of net income, while the increase of sales revenues during this period by 6%. Company assume that the highest sales revenue will be reported in 2014, when AB Kauno will participate in project Rail Baltica (almost 40% growth in sales revenue). This project will terminate in 2015 and Company will generate revenues similar to levels reported in 2013. In following years AB Kauno will be growing annually with average rate about 5%. Main reasons for growth of profit since 2015 are: increase in the

Company's involvement in projects in the field of road construction (more profitable than other segments), possible entrance into new markets (especially into Nordic countries) and maintaining the Company's position in the currently occupied sectors.

The basis for the revenues forecast assumptions were signed by AB Kauno tiltai contracts for infrastructure projects (road, railway and energy) and future expectations of the Management Board of AB Kauno tiltai concerning the possibility of obtaining new contracts. The above mentioned assumptions relating to the size of the projected revenues of the Company are consistent with the current trends in construction market, which assume both an increase in the value of construction industry in the near future, as well as numerous carried out construction projects in railway and road segment.

In case of signed by AB Kauno tiltai contracts for building works, which are the part of the projections used in DCF valuation, Grant Thornton did not carry out an analysis of individual contracts, in particular, did not examine the rules and regulations adopted in the process of accounting revenues due to the realization of long term-contracts.

The valuation result obtained by using the market comparable method is determined mainly by the current situation on the Warsaw Stock Exchange and other foreign exchanges market, as well as the financial performance of similar companies in the sector. AB Kauno tiltai in comparison to other companies in the construction industry sector recorded very good performance, which positively affects the value of the Company calculated with the application of the market comparison method. It should also be noted that previous valuation prepared in 2012 due to the weak economic situation of European countries, many players in the construction industry were unprofitable, and therefore it was impossible to use their market multipliers to calculate the market value of AB Kauno tiltai with the application of market comparable method. Currently when the economic situation improved list of peers used in comparable method valuation has been extended by several new companies.

In summary:

Taking into consideration the Company's financial results, presented forecasts, recent market position and good perspectives for the market Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością Sp. k. recommends valuation of:

- market value of 100 % of Equity of AB Kauno tiltai at the Valuation date at the level of:

PLN 249 425 ths,

- market value of the subject of the pledge at the Valuation date at the level of:

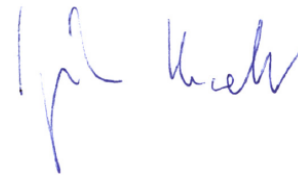
PLN 241 543 ths.

Maciej Richter



Managing Partner

Przemysław Hewelt



Manager

Poznań, 25th April 2014

DCF valuation

General assumptions made for the DCF valuation

- 1 Financial projections are presented in nominal prices and includes period from January 2014 to December 2018.
- 2 Forecast of sales, investments and operating costs is based on financial plans covering the forecasted period obtained from the Company.
- 3 Revenues forecast was based on the financial data provided by the Company concerning information about AB Kauno order portfolio, including forecasts of new contracts. Currently, the Company has contracted work till 2016, which is worth around PLN 872 m. AB Kauno tiltai assumes that in the forecast period sales revenues will increase by 6% thanks to further strengthening its market position in the constructor sector in Baltic countries.
- 4 The basis for the forecast of operating costs are the Company's expectations to the level of its margins in each individual contracts (both signed and new), cost of products, goods and materials, as well as the level of selling or general and administrative costs.
- 5 Level of investments in the projection period has been assumed close to the replacement level (close to depreciation).
- 6 Forecasts of financial costs are based on the information from the Company concerning the repayment schedules, interest rates and balance of the loan at the Valuation Date. Financial income in projection period is assumed on the basis of forecasts prepared by the Company.
- 7 Working capital requirements were estimated on the basis of historical turnover ratios achieved by the Company in years 2012-2013 and relationship of the individual components of current assets (advances to subcontractors and advances from customers on construction contracts in progress) to revenues at the Valuation Date.
- 8 As of Valuation Date AB Kauno had PLN 16,992 thousand and PLN 27,516 thousand long-term and short-term deposits in banks, respectively, intended to secure the issued guarantees. It has been assumed that due to increased amount of realized contracts in 2014 Company need to increase value of mentioned deposits. In following years starting from 2015 AB Kauno assumed decrease in guarantees and maintaining deposits at aggregated level of PLN 47,665 thousands (in the rest of forecasted period 2016-2018).

- 9 To calculate the residual value, it was assumed that the cash flow in residual period would be equal to the value of the last year of cash flow, with proper relationship between the volume of purchases of fixed assets and depreciation, and the volume of demand for capital.
- 10 The market value of equity was estimated by subtracting from the value of the Company, the value of credit debt, lease as of the Valuation Date and addition of the value of shares in subsidiaries available for sale (measured by cost of investment) which revenues were not included in forecasted revenues and costs of the Group, deposits and cash held by the Company as of the Valuation Date.
- 11 The rate of growth after the specific projection period (q) – 1%

Cost of Capital

The ratios and rates assumed in the projection of the cost of capital and their values:

- a Based on company assumptions the effective tax rate in 2014 and 2015 is equal to respectively 16,50% and 16,19%. Since 2016-2018 the level of effective tax rate has been assumed to be at the level 15%.
- b Risk free rate – 3,85% (average profitability of 10-year government bonds)¹,
- c Market premium – 7,40%²,
- d Beta unlevered– 0,803³, The coefficient was then levered with the market capital structure and the effective tax rate,
- e Specific risk premium - 3%.

Cost of debt is calculated on the basis of the Company's financial liabilities (loans and financial leases). During the projection period AB Kauno tiltai does not plan to incur new financial liabilities. Weighted average annual interest rate at the Valuation Date was equal to 2,3 %.

¹ Average yield on 10-year government bond yields at the valuation date by <http://pl.investing.com/rates-bonds/lithuania-10-years-bond-yield-historical-data>

² Risk premium in Lithuania by Aswath Damodaran (<http://pages.stern.nyu.edu/~adamodar/>).

³ Beta calculated for companies from "Construction" sector for Europe market based on Aswath Damodaran (<http://pages.stern.nyu.edu/~adamodar/>)

DCF valuation results

The result of the valuation of AB Kauno tiltai estimated with the application of DCF valuation method as of 31st December 2013 presents following table.

Table 1: DCF valuation results (PLN ths)

Specification	P 2014	P 2015	P 2016	P 2017	P 2018	RV
Net cash flow	65 940	-4 598	22 474	22 627	25 163	26 304
Discount rate (WACC)	13,9%	13,9%	13,9%	13,9%	13,9%	
Discount factor	0,88	0,77	0,68	0,59	0,52	
Discounted net cash flow	57 914	-3 547	15 225	13 463	13 149	
Present value of future cash flows	96 204					
Growth rate after the projection period $q=$	1,0%					
Cash flows in residual period	26 304					
Residual value	107 957					
Enterprise value	204 162					
Debt	-49 300					
Cash surplus	36 053					
Value of deposits for guarantees	44 520					
Value of assets for sale PEUM, Dalba, PDM (+)	14 533					
Minority shareholders (-)	-543					
Equity value	249 425					

Source: Grant Thornton compilation

The market value of 100% of the equity of AB Kauno tiltai has been estimated with the application of DCF method at the level of **PLN 249 426 ths**, while the market value of 96,84% of AB Kauno tiltai shares held by Trakcja is estimated at the level of **PLN 241 543 ths**.

Market comparable method

Grant Thornton found eleven companies quoted on the international capital markets which operating activities are similar to AB Kauno tiltai's profile and have been selected as a comparable companies: UNIBEP SA, MIRBUD SA, Elektrobudowa SA, Budimex SA, Nordecon AS, Skanska AB, Veidekke ASA, ZUE SA, YIT Group, Erbud SA, Seelvag Bolig ASA.

The valuation of the Company with market comparable method was based on four ratios with the following weights:

- P/E – 30%
- P/BV – 10%,
- P/S – 30%,
- EV/EBITDA – 30%.

The ratios were calculated for eleven companies listed above on the basis of their interim consolidated financial statements for the period of 4 quarters (01.01.2013-31.12.2013).

Financial data used in the valuation are presented the table below.

Table 2: Financial results of comparable companies (ths)

Name	Currency	Net income	EBITDA	Book value	Revenue	EV
UNIBEP S.A.	PLN	13 641	34 015	185 820	920 547	558 922
MIRBUD S.A.	PLN	17 816	39 999	262 966	936 065	689 512
Elektrobudowa SA	PLN	17 585	38 722	326 724	905 553	893 110
Budimex SA	PLN	301 300	362 199	645 175	4 749 459	4 650 460
Nordecon AS (EE)	EUR	5 200	7 856	23 962	174 000	48 418
Skanska (SWE)	SEK	3 769 000	7 123 000	21 339 000	136 488 000	57 047 553
Veidekke (NO)	NOK	556 000	1 012 100	2 466 000	21 781 000	7 123 952
ZUE	PLN	5 607	14 408	191 055	410 547	224 752
Yit	PLN	70 200	121 400	698 200	1 743 000	1 894 129
Erbud	PLN	18 373	40 094	268 513	1 225 104	338 483
Seelvag Bolig ASA (NO)	NOK	185 000	289 089	2 258 986	2 133 000	4 771 284

Source: Grant Thornton on the basis of interim consolidated reports

The level of the particular multipliers used in the valuation was calculated separately for each comparable company and the ratios used in the valuation of AB Kauno tiltai were set as a median of a particular group of multipliers.

By counting the capitalization of each company the average share price from the last 10 quotations before the Valuation Date were used, including the price from the date of valuation. That allows elimination of the risk concerning a one-day abnormal deviation of the quotation.

Table 3: Multipliers of comparable companies⁴

Name	P/E	P/BV	P/S	EV/EBITDA
UNIBEP S.A.	20,61	1,51	0,31	16,43
MIRBUD S.A.	6,45	0,44	0,12	17,24
Elektrobudow a SA	29,84	1,61	0,58	23,06
Budimex SA	10,85	5,06	0,69	12,84
Nordecon AS (EE)	6,11	1,33	0,18	6,16
Skanska (SWE)	13,38	2,36	0,37	8,01
Veidekke (NO)	11,53	2,60	0,29	7,04
ZUE	39,98	1,17	0,55	15,60
Yit	16,93	1,70	0,68	15,60
Erbud	23,08	1,58	0,35	8,44
Seelvag Bolig ASA (NO)	8,91	0,73	0,77	16,50
Median:	13,38	1,58	0,37	15,60

Source: Grant Thornton compilation

The result of the valuation of AB Kauno tiltai with market comparable method is presented in the table below.

Table 4: Valuation results of AB Kauno tiltai

Specification	Capitalization (in ths PLN)	Net income	P/E	EBITDA	EV/EBITDA	Book value	P/BV	Revenues	P/S
		13 247		29 226		148 252		605 674	
Valuation on the basis of chosen financial data	289 890	177 263	25,79	487 181	17,87	234 154	2,67	223 806	0,61
Weights		30%	P/E	30%	EV/EBITDA	10%	P/BV	30%	P/S
Value of assets for sale (PEUIM, DALBA, PDM)	14 533								
AB Kauno equity value after 15% discount rate due to lack of liquidity	258 760								

Source: Grant Thornton compilation

The Equity Value of AB Kauno tiltai valued with market comparable method accounts for **PLN 258 760 ths**, while the market value of 96,84% of AB Kauno tiltai shares held by Trakcja is estimated at the level of **PLN 250 583 ths**.

⁴ The value of capitalization has been presented in the currency of the country of origin of the Company.

