



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)	270 172
Market Comparable Method	276 196
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 	270 172
<ul style="list-style-type: none"> • Value of the subject of the pledge 	261 635

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 46% growth of net income comparing 2019 and 2015 projections, while the increase of sales revenues during this period by 35%. Company assumed that the sales revenue in 2015-2016 period will be lesser than in 2014 due to participation in project Rail Baltica (almost 40% growth in sales revenue) in 2014. This project will terminate in 2015 and Company will generate revenues bigger in comparison to levels reported in 2013 and lesser compared to 2014. In following years AB Kauno will be growing annually with average rate

about 9,5%. 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.

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 270 172 ths,
- **market value of the subject of the pledge at the Valuation date at the level of:**
PLN 261 635 ths.

Maciej Richter



Managing Partner

Poznań, 27th April 2015

DCF valuation

General assumptions made for the DCF valuation

- 1 Financial projections are presented in nominal prices and includes period from January 2015 to December 2019.
- 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, Company has contracted part of projects till 2015, which are worth over PLN 372 m. AB Kauno tiltai assumes that in the forecast period sales revenues will increase by 40% thanks to further strengthening its market position in the constructor sector in Baltic countries and entrance to Nordic 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 equal to the replacement level (equal to depreciation) except 2015 due to replacement of main machinery.
- 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 2014 and relationship of the individual components of current assets (advances to subcontractors and advances from customers on construction contracts in progress) and current liabilities (other liabilities) to revenues at the Valuation Date.
- 8 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.
- 9 The market value of equity was estimated by subtracting from the value of the Company, the value of credit debt, lease (excluding debt due to project finance) as of the Valuation Date and

addition of the value of 75,1% enterprise value of project finance entity (due to Palangos project) (measured by discounted cash flow value) 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.

10 The rate of growth after the specific projection period (g) – 1%

Cost of Capital

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

- a Effective tax rate has been assumed to be at the level 15%.
- b Risk free rate – 1,451% (average profitability of 10-year Euro area bonds)¹,
- c Market premium – 7,40%²,
- d Beta unlevered– 0,8³, The coefficient was then levered with the market capital structure and the effective tax rate,
- e Specific risk premium - 2%.

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 3,2 %.

¹ Average yield on 10-year Euro area bond yields at the valuation date by http://www.finmin.lt/web/finmin/vyriausybes_vertybiniai_popieriai/aukcionu_rezultatai

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 2014 presents following table.

Table 1: DCF valuation results (PLN ths)

Specification	P 2015	P 2016	P 2017	P 2018	P 2019	RV
Net cash flow	5 779	24 293	18 522	18 295	31 738	30 504
Discount rate (WACC)	10,3%	10,3%	10,3%	10,3%	10,3%	
Discount factor	0,91	0,82	0,74	0,68	0,61	
Discounted net cash flow	5 238	19 964	13 798	12 355	19 430	
Present value of future cash flows	70 784					
Growth rate after the projection period	q=	1,0%				
Cash flows in residual period		30 504				
Residual value	202 536					
Enterprise value	273 321					
Debt		-82 446				
Cash surplus		30 956				
Value of Palangos Project (+)		41 625				
Adjustment of Palangos Project (-24,9%)		-2 967				
Value of other long-term investments (+)		9 733				
Minority shareholders (-)		-51				
Equity value	270 172					

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 270 172 ths**, while the market value of 96,84% of AB Kauno tiltai shares held by Trakcja is estimated at the level of **PLN 261 635 ths**.

Market comparable method

Grant Thornton found nine 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, Budimex SA, Nordecon AS, Skanska AB, Veidekke ASA, ZUE SA, YIT Group, 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 (01.01.2014-31.12.2014).

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	20 925	32 068	203 046	1 079 703	228 956
MIRBUD S.A.	PLN	17 073	39 861	294 509	932 306	310 762
Budimex SA	PLN	193 938	267 587	522 509	4 949 939	1 762 485
Nordecon AS (EE)	EUR	2 298	5 777	36 367	161 289	46 487
Skanska (SWE)	SEK	3 850 000	7 006 000	21 405 000	143 325 000	70 518 881
Veidekke (NO)	NOK	859 000	1 383 000	2 744 000	24 027 000	9 755 549
ZUE	PLN	10 659	22 673	201 450	644 131	97 354
Yit	EUR	55 800	107 400	535 600	1 778 600	876 827
Selvaag Bolig ASA (NO)	NOK	254 531	386 917	2 457 298	2 887 604	3 937 851

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.	13,82	1,42	0,27	7,14
MIRBUD S.A.	6,42	0,37	0,12	7,80
Budimex SA	18,15	6,74	0,71	6,59
Nordecon AS (EE)	13,73	0,87	0,20	8,05
Skanska (SWE)	17,91	3,22	0,48	10,07
Veidekke (NO)	10,84	3,39	0,39	7,05
ZUE	13,91	0,74	0,23	4,29
Yit	10,19	1,06	0,32	8,16
Selvaag Bolig ASA (NO)	7,04	0,73	0,62	10,18
Median:	13,73	1,06	0,32	7,80

Source: Grant Thornton compilation

To calculate net income, EBITDA and revenues of AB Kauno tiltai average from 2013-2015 period for the appropriate positions was used.

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
		26 568		44 716		178 508		727 628	
Valuation on the basis of chosen financial data	296 256	364 840	13,73	326 831	7,80	189 549	1,06	232 667	0,32
Weights		30%	P/E	30%	EV/EBITDA	10%	P/BV	30%	P/S
Value of assets for sale (PEUM, DALBA, PDM)	9 999								
Palangos Project	8 949								
Other financial assets	9 733								
AB Kauno equity value after 15% discount rate due to lack of liquidity	276 196								

Source: Grant Thornton compilation

The Equity Value of AB Kauno tiltai valued with market comparable method accounts for **PLN 276 196 ths**, while the market value of 96,84% of AB Kauno tiltai shares held by Trakcja is estimated at the level of **PLN 267 468 ths**.

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

