

## LETTER FROM THE PRESIDENT OF ZUE S.A.



Ladies and Gentlemen,

I am pleased to present the report of the ZUE Group for 2016.

This was a special year for us. We celebrated the 25<sup>th</sup> anniversary of the company's incorporation. Over a quarter of a century we have established ZUE as one of the leaders on the Polish urban and rail infrastructure market. At the same time, however, 2016 was a very tough year for the industry as a whole. The year saw a significant downturn on the market due to delays by contracting authorities in announcing tenders and awarding the biggest contracts.

The Group thus carried out lower value contracts, and a smaller number of orders contributed to lower margins. On the other hand, the Group decided to maintain its operating capacity both in terms of its staff and equipment based on a belief that prospects for the tram and rail infrastructure market in the next years remain positive and that the Group's professional and experienced team give the Group an edge over competition and will help it win and execute new contracts. Although the Group was aware of the costs of this strategy, it was also conscious of the fact that it would be extremely difficult to re-recruit specialized staff at a time of expected market recovery.

Despite these unfavourable conditions, the Group managed to generate consolidated revenue in excess of PLN 343m in 2016. It posted a gross profit of PLN 16.7m and a net profit of PLN 406,000. This shows that the Group's long-term experience and resources combined with its management approach help it survive in a difficult market. At the end of 2016, the Group held cash reserves totalling PLN 62.7m and short-term bonds worth PLN 54.9m.

Following the restructuring of BPK Poznań (the Group's design company), the latter reported positive margins and was able to make inroads into new areas, including project management and supervision. The future of BPK Poznań is bright because the company is actively seeking new contracts and building up its order book for the coming years. Moreover, large number of tenders are being called for "design-build" projects.

The outlook is also bright for Railway gft, our sales company dealing with the distribution of materials required to build and repair tram and railway tracks, and whose fortunes are closely linked to the state of the infrastructure construction market. The coming years will bring major orders for constructions materials due, on the one hand, to an anticipated recovery on the market and, on the other, PKP PLK's introduction of an option to pay for building materials before they are used on site.

To sum up, I believe that the Group's is in good shape and we are perfectly positioned to take full advantage of market prospects by focusing, first and foremost, on entering bids in a considerable number of tenders and expanding our order book. Since the beginning of 2017, we have signed contracts worth in total approx. PLN 471m. Consequently, our order book includes contracts with an aggregate value of approx. 613m. We are also in the process of winning contracts worth in total approx. PLN 1bn (these are tenders in which we have submitted the most attractive bids either independently or as a consortium member). Following the conclusion of the above-mentioned contracts, ZUE will have an order book valued at approx. PLN 1.6bn. In addition, we are also competing in tenders for contracts with a total estimated value of approx. PLN 4.1bn and intend to take part in new tenders.

We enter 2017 with great optimism and our main goal remains to strengthen our market position and build up the ZUE's value for its Shareholders.

Yours sincerely,

Wiesław Nowak  
Management Board President  
ZUE S.A.