

LETTER FROM THE PRESIDENT OF ZUE S.A.

Ladies and Gentlemen,

I am pleased to present the report of the ZUE Group for 2019.

In 2019, the Group generated its highest ever sales revenue of about PLN 1bn – up by 20% over the sales revenue achieved in 2018 and by 140% compared to the analogous figure reported in 2017. Despite a demanding market environment, we recorded positive results at all levels and generated the gross profit on sales of PLN 27.9m (compared to the loss of PLN 56m in 2018), EBITDA of PLN 21m (compared to the loss of PLN 67m) and the net profit of PLN 3.8m (compared to the loss of PLN 62.6m in the prior year). The Group's profitability, however, was influenced by the performance of the national railway contracts won in 2016-2017. They were low-margin contracts and the reasons for this included unpredictable factors beyond the Group's control such as growing costs of project execution and no real price indexation of which the Group repeatedly informed.

A dynamic increase in revenues went hand in hand with a big number of orders. Our backlog is now worth PLN 1.9bn and offers a bright outlook for the next quarters. We won the new contracts worth PLN 787m in 2019. In addition, at the end of 2019, the consortium including ZUE as the leader submitted the most economically advantageous tender in the tender procedure worth approx. PLN 56m. We are actively searching for further contracts.

Urban contracts accounted for about 20% of the contracts won in 2019. We are very pleased to report it because we can expect our backlog to build up in this segment. They are high-margin contracts and can be performed faster, which entails a smaller risk of changes in the costs of labour and materials. The Group is now dealing with 19 such projects in various Polish cities.

Our annual report is published in times of many fears and doubts about the COVID-19 pandemic whose economic impacts are now difficult to predict. At the date of publication of this report, we observe no disruptions to construction processes or supply chains caused by the imposed restrictions. However, the situation is dynamic and difficult scenarios, such as suspension of works under certain construction contracts or a slow-down in or discontinuation of administrative procedures, cannot be excluded. Potential risks concern both general contractors and subcontractors or contracting authorities.

There is no doubt that the pandemic will have a negative influence on the Polish economy.

We have taken any measures to reduce the risk of infection among the Group employees. We constantly monitor the projects carried out by the Group and keep in touch with subcontractors and contracting authorities.

Although the market environment and the current situation remain difficult, we can see positive signs, the most important of which is the biggest ever modernisation of the Polish railways – the National Railway Programme (the “NRP”). In September 2019, the amount to be spent on the NRP was increased by PLN 5.7bn to the total amount of more than PLN 75bn. The NRP will be carried out until 2023. The projects, whose execution is planned after the completion of the NRP, are also promising.

In addition, 2019 witnessed intense activity in putting urban infrastructure construction contracts out to tender. Poznań is planning the reconstruction of tracks. Warsaw intends to start the procedure for the construction of Poland’s state-of-the-art tram depot. There is a pending tendering procedure for the construction of a new line in Wrocław. Other cities, such as Łódź, Grudziądz or Szczecin, are also planning major investments. Cracow is planning to develop a KST (Kraków Fast Tram) tram line (stage IV) through a public-private partnership.

Accordingly, I believe that the long-term perspectives for the markets in which we operate are favourable even if there is a downturn in economic activity caused by the pandemic.

We have entered the year 2020 as a stable company with robust foundations ready to respond to the challenges unexpectedly faced by the Polish and global economy. We will be supported by our cost discipline, the production potential we have built over the years and the safe financing structure.

Our main strategic goal is to take a maximum advantage of the current EU perspective and to continue to strengthen the market position of ZUE and build up the Company’s value for its Shareholders.

Yours sincerely,

Wiesław Nowak

Management Board President
ZUE S.A.