

LETTER FROM THE PRESIDENT OF ZUE S.A.

Ladies and Gentlemen,

I am pleased to present the report of the ZUE Group for 2020.

This time last year we began to cope with the COVID-19 pandemic whose consequences were difficult to predict. I wrote about it in my letter accompanying the report for 2019.

Today I can say that despite the new challenges experienced in 2020, the Group did remarkably well in terms of organisational quality and efficiency. The Group reacted quickly and implemented proper procedures, and the Group's employees acted responsibly as a result of which the pandemic did not influence the Group's financial or organisational standing. We carried out all our projects without major obstacles and complied with relevant sanitary measures in all areas of our operations.

Consequently, the Group generated the revenue of PLN 901.4m in 2020; i.e. slightly (by 9.5%) less than the record-high figure reported in 2019. We improved the results at all levels. The Group reported the gross profit on sales of PLN 31.3m (+12%), operating profit of PLN 10.6m (+35%), EBITDA of PLN 23.9m (+14%) and net profit of PLN 4.3m (+13%).

It could be achieved through cost discipline and measures taken by us to improve the profitability of the railway contracts won in the years 2016-2017 whose share in the Group's backlog decreased. A considerable number of these contracts have been performed in 2020 and we are planning to complete some of them in 2021.

High revenues go hand in hand with a safe number of orders. Our backlog is now worth PLN 1.5bn and is being effectively diversified to include urban contracts (approx. 21% of the backlog), which is one of our strategic objectives. Apart from the provision of urban infrastructure construction services, the Group continues to expand the offer of urban maintenance services. At the beginning of 2021, we won the contract for the maintenance of tram infrastructure in Wrocław where we will be able to use our 18-year experience gained as a provider of maintenance services in Cracow.

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.

The development of rail transport is one of the priorities of the new EU budget 2021-2027. It is a great opportunity for the Polish railway system which is still in the process of modernisation and expansion. Poland is now witnessing the biggest ever railway modernisation programme; i.e. the National Railway Programme whose total value is approximately PLN 76bn. Apart from the main EU budget, rail projects will be financed, *inter alia*, under the new EU post-pandemic Recovery Fund. Another funding instrument is the Connecting Europe Facility offering EUR 27.5bn for the entire EU. PKP PLK has so far been the biggest EU beneficiary of the programme.

The 2021-2027 EU perspective offers excellent potential in terms of financing environmentally friendly projects, for instance tram projects. Cracow, Warsaw, Gdańsk, Bydgoszcz, Szczecin, Poznań or the Upper Silesia cities are planning the construction or modernisation of the new tramlines.

The COVID-19 pandemic has made us act with an intense feeling of responsibility for our employees, subcontractors and clients. We make prudent decisions about the future. We plan further stages of our projects after we have signed the contracts with subcontractors and suppliers. When we search for a new contract we always carefully analyse whether it is attractive to the Group.

We have entered the year 2021 as a stable company with robust foundations and safe financing structure ready to respond to the new challenges we may encounter in a constantly changing business environment.

Our main strategic goal is to take a maximum advantage of the current EU perspective, to continue to strengthen the position of ZUE on the urban and railway infrastructure market and to expand the offer of repair and maintenance services. We can see growth potential for our business and performance and, consequently, further building up of the Company's value for its Shareholders.

Yours sincerely,

Wiesław Nowak
Management Board President
ZUE S.A.