

LETTER FROM THE PRESIDENT OF ZUE S.A.

Ladies and Gentlemen,

I am pleased to present the report of the ZUE Group for 2021.

2021 was another year in which the Group operated in changing and demanding conditions. After we had met the challenge of functioning during the COVID-19 pandemic in 2020, last year we managed to improve the efficiency of our processes and effectively diversify our backlog.

2021 saw an almost threefold increase in the Group's net profit. Compared to 2020, the figure grew from PLN 4.3m to almost PLN 12m. We are pleased to see strong operating growth and improved gross margin on sales which amounted to 4.1% after 2021. Good operating results were accompanied by slightly lower sales revenue which stood PLN 851.5m in 2021 (-5.5% y/y).

A very good performance in 2021 was significantly influenced by a reduced number of difficult contracts acquired in 2016-2017. Despite a huge hike in costs, we managed to complete them indexation. At the same time, we won new higher margin contracts and diversified our backlog to include city contracts as a result of which the Company's financial condition is stable and the prospects look promising.

Last year, when a smooth transition was expected between different EU perspectives, there were forecasts for railway tenders with a total value in the region of more than ten billion zlotys. Eventually, however, the actual tenders announced were worth several billion zlotys overall. As a consequence, since last year we have been dealing with an investment gap and facing increased competition from contractors for new orders. This is due to the absence of agreement on financing for planned investments from the EU. However, the situation of railways has improved since the beginning of 2022. Nine tenders were called in January and February with a total value of more than PLN 10bn.

In anticipation of the complications affecting railway orders, in 2021 we took active steps to win investment contracts on the tram market. Numerous tenders were called in this sector last year, as a consequence of which ZUE won contracts with a total value of approximately PLN 636m. Consequently, we have a diversified backlog worth approximately PLN 1.5bn. We continue to prepare new tenders for infrastructure projects, including international projects.

The Group's prospects for the years to come are positive and we look to the future with optimism. PKP PLK declare it will announce new tenders worth more than ten billion zlotys a year, which should contribute to greater stability on the market. It should be emphasized that the investment plans envisaged by Polish railways for the current decade have a much larger scope than the current National Railway Program worth approximately PLN 76bn.

Our backlog mainly includes railway contracts but the number of tram contracts is growing. Virtually all urban centres with tram systems are planning investments. The Group submits tenders on the railway market and the acquisition of new, large-scale railway orders will translate into a greater share of railway contracts in the Group's future portfolio.

We have entered the year 2022 in good financial and organisational condition as a stable company with robust foundations and safe financing structure.

Our main strategic goal remains to take a maximum advantage of the current and future 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.

Our report is published in times of geopolitical tensions relating to the war in Ukraine. We carefully analyse the related challenges and risks for the economy. However, I believe that our stable financial position and long-term experience will help us face new risks and changing reality.

Yours sincerely,

Wiesław Nowak
Management Board President
ZUE S.A.