Polimex-Mostostal SA starts to come up from behind. Positive EBITDA of the Company in first quarter of 2013

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In the first quarter of 2013 Polimex-Mostostal continued remedial actions by implementing the financial and operational restructuring programme and carrying out work under its contracts

Financial performance in Q1 2013

- In the 1st quarter of 2013 the Polimex-Mostostal Group reported much better performance than in the same period last year. It improved by PLN 129 million. From operational activities we generated a profit to the amount of PLN 32.6 million, i.e. PLN 198.7 million more than in the first quarter of 2012 – informed Dariusz Krawczyk acting President and CEO of Polimex-Mostostal SA.

- We should emphasize the fact that the Company and the Group generated a considerable profit from operating activities increased by depreciation - EBIDTA. At this stage, it is a great success – added Dariusz Krawczyk.

In the first quarter of 2013Polimex-Mostostal achieved:

PLN 382.1 million revenues,
PLN 48.9 million EBITDA profit,
PLN 72.5 million profit before tax.

Whereas in the first quarter of 2012 it had PLN 685.3 million revenues, PLN 165.4 million EBITDA loss and PLN 160.1 million loss before tax.

In the first quarter of 2013 the Polimex-Mostostal Group achieved:

- PLN 532.6 million revenues,
- PLN 52 million EBITDA profit

and suffered:

- a PLN 23.5 million loss before tax.

Whereas in the first quarter of 2012 the Group had PLN 903 million revenues, PLN 141.6 million EBITDA loss and PLN 152.5 million loss before tax.

The actual value of contract portfolio of the Group amounts to PLN 7.4 billion.

Operational restructuring and reduction of costs

In the first quarter of 2013 activities resulting from the restructuring agreement with Creditors signed in December last year were continued.

- The Board is implementing the programme aimed at restructuring operating activities of the Company in order to reduce operating costs through, among others, reduction in general and administrative costs, centralisation of procurement, optimisation of organisational structures, optimisation of the contract portfolio, continuation of the disinvestment programme, i.e. programme of selling of assets unrelated to the Company’s core business – explained Dariusz Krawczyk.

- In recent months significant changes have been made in the Company in order to, among others, improve the risk management procedures and increase transparency of the Company’s operations – added Krawczyk.

A special controlling unit has been created to analyse and verify budgets of long-term contracts. It reports directly to the Board. The Company is also in the process of introducing changes on the level of its systems and defining reports using the available IT tools to coordinate and verify the implementation of the plan.

The organisational structure has also changed fundamentally – from numerous divisions to five basic business segments. The new structure enables to Company to operate more efficiently, to flexibly respond to the changing market conditions and to focus on promising areas of activity, with special emphasis on power engineering.

One of key agreements with the Creditors concerns a considerable reduction of fixed costs to the total amount of at least PLN 300 million by the end of 2015. Reduction of fixed costs is strongly influenced by reduction in the number of employees. Reducing the number of jobs was necessary in order to adapt the workforce potential to the current needs of the Company, which result from the number and scope of implemented contracts. Since August 2012, the workforce of the Company has been reduced by 2.3 thousand people. It facilitates annual savings to the amount of PLN 120 million. Another collective redundancy programme could not be avoided however. It will cover employees at various locations and positions, including in particular a considerable group of employees in non-production, directorial and management positions. In this way, employment in the Company will decrease by another 1200 persons until the end of September 2013. Also, the Company will adjust its internal regulations to the current economic situation and the new organisational structure.

In April this year, the Board terminated the Corporate Collective Labour

Agreement. Due to that it was possible to apply more flexible forms of payment, which are better adapted to the market conditions.

Disinvestments

The restructuring agreement includes provisions which bind the Company, among others, to obtain PLN 600 million revenues from the alienation of assets not related to its core business by the end of 2015.

Sales transactions of Sefako and Energomontaż-Północ Gdynia – including port property -in Gdynia have already been finalised. The Highlander Partners fund purchased the transformer production plant ZREW with its office in Lódź. Also, the Transport Division in Siedlce has been sold. Total revenues from these transactions have been estimated at nearly PLN 200 million, a major part of which the Company already received.

On April 26th this year, Polimex-Mostostal concluded a preliminary agreement for the sale of the Corrosion Protection Division in Częstochowa. Value of this transaction will be about PLN 50 million, the price of the Division is PLN 44 million. The above-mentioned amount will be increased by the value of stocks of the Division, which on the day on which the preliminary agreement was concluded was estimated to be about PLN 6 million. This transaction will be finalised by the end of July at the latest, as soon as all formal requirements are fulfilled.

Polimex-Mostostal also put up over 50 properties for sale. Their common trait is a considerable development potential. First transactions should take place in the 2nd quarter of this year.

- To fulfil provisions of the restructuring agreement in terms of disinvestment, we selected assets unrelated to the Company’s core business, i.e. industrial construction, for sale. The hitherto course of the disinvestment process confirms that assets selected for sale are attractive on the market and for this reason Polimex-Mostostal receives satisfactory prices for them – informed Paweł Szymaniak, spokesman of Polimex-Mostostal.

At the same time, Polimex-Mostostal has been reorganising its Group. The purpose of the reorganization is to simplify structures of the Group and reduce the costs of its operations. In this scope, apart from the sale of companies unrelated to the core business of the Company, the following steps are being taken:

- liquidation of special purpose vehicles, which finished the implementation of their projects,
- liquidation or reorganisation of companies and divisions which are not profitable and don't show promise of profitable operations in the future.

Operating activities

- Thanks to revenues from private issue of new shares and cost reductions achieved so far, as well as the sale assets unrelated to the core business, Polimex-Mostostal is gradually recovering its operating capability – emphasised Dariusz Krawczyk.

- The Group is focussing its activities on profitable projects in industrial construction and applies for new contracts in the most promising market segments, i.e. power engineering and railway infrastructure etc. – added Krawczyk.

For example, the bid submitted by a consortium headed by Polimex-Mostostal in a tender for construction and installation works to the considerable value of PLN 75 million in the Copper Works in Głogów has been selected as the best one. In connection with considerable expenditure planned under the present and future EU budget, the Group also has good prospects on the national railway market. Torpol – a company owned in 100 percent by Polimex-Mostostal – is one of the most important entities on the market in this sector. It is implementing, among others, a contract for designing and modernizing the E-65 Warsaw-Gdynia railway lines or the construction of a multi-modal railway station in Łódź Fabryczna.

- Cooperation with the General Directorate for National Roads and Motorways (GDDKiA) is looking better now. After the winter break, the Company resumed work on its road and motorway sections. It is negotiating with the GDDKiA about amendments to contracts in order to make completion dates more realistic and obtain remuneration for additional work carried out by the Company – informed Szymaniak.

The value of the Groups's contract portfolio, excluding consortium partners, (also excluding the project for construction of power generating units in Opole) amounts to PLN 7.4 billion, including: signed contracts PLN 7.2 billion, contracts in the last phase of negotiations – more than PLN 0.1 billion. The current contract portfolio in individual years has been developing as follows: 2013: PLN 2.2 billion – signed contracts only; 2014: PLN 2.7 billion (signed contracts PLN 2.6 billion, contracts in the last phase of negotiations – more than PLN 0.1 billion); 2015: PLN 1.7 billion - signed contracts only; in the following years: PLN 0.7 billion - signed contracts only.

- The actions we have taken are our response to the still difficult economic situation of the Company and are necessary in order to come out of the crisis and operate in the future. Our priority is to improve the cash flow of the Company and rebuilt the trust of investors, creditors, contracting authorities and subcontractors, which will translate into the acquisition of new profitable contracts and increase the Company's value to its shareholders – summarised Dariusz Krawczyk.

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