Polimex-Mostostal SA - summary of 2012

03/19/2013

- During the preparation of the report for 2012, as it has been announced, we managed to complete the in-depth review of contracts in terms of their profitability and the prospects associated with them. As a result, it was necessary to update their values and, in effect, make write-offs, which significantly influenced the results. Write-offs related to the intangible and legal assets, the so called goodwill assets, as well as the property portfolio of the Group. This is not surprising, since we have already announced it.

– Robert Bednarski, Vice President, Chief Financial Officer of Polimex-Mostostal SA., informs

Advanced operational restructuring

The company timely pursues objectives in the area of operational restructuring. The Management Board is implementing a program leading to significant reduction in operating costs of the Company.

One important element of fixed cost reduction program is to reduce the number of posts. Since August 2012, employment in the Company decreased by 2.2 thousand persons. One hundred more people serve notice period. This has a significant impact on the reduction of fixed costs.

Centralized purchasing system was implemented. The objective is to obtain measurable savings. In accordance with the guidelines adopted by the Board prices of all materials and services purchased by Polimex-Mostostal should be drastically reduced.

Through the restructuring program Polimex-Mostostal shall reduce costs by at least PLN 300 million in the period 2013-2015.

Changes of the management system have been introduced improving and streamlining procedures for risk management. A number of other initiatives have increased the transparency of operations. Formerly multi-department organizational structure has been changed, it includes five main business segments, namely:

- Power Engineering and Chemistry,
- General Construction
- Infrastructure Construction,
- Service and
- Production

The new structure allows us to operate more efficiently and flexibly respond to changing market conditions and focus on promising areas of activity, with particular emphasis on Energy.

Polimex sells its assets not related to the core business at the same time.

- We have selected to sell assets that do not belong to the Company's core business, which is the construction industry. After only a few months of intensive work the sale of Sefako and Energomontaż-Północ Gdynia was completed - including the port real estate in Gdynia. Highlander Partners Fund acquired ZREW transformers division based in Lodz. The total proceeds from these transactions is estimated at PLN 200 million, of which a substantial part has already been received. Currently we are finalizing talks with potential buyers of galvanizing divisions in Dębica and Częstochowa. Polimex-Mostostal has also put on sale more than 50 real estates, the common feature of which is their significant potential for property development. The first transactions should be finalized in the second quarter this year. - Przemysław Milczarek, the Director of Operations of Polimex-Mostostal, informs.

The conclusion of an Agreement providing funding for the Company with the creditors

On December 21, 2012, successful negotiations allowed concluding by Polimex Mostostal an agreement with creditors. The agreement was concluded for the provision of Financing the Company (the so-called restructuring agreement). Key provisions of the agreement involve:

- deferral of repayment of bonds not converted into shares till the end of 2016,

- maintaining credit lines at the current level, and deferral of repayment until the end of 2016 and determining the conditions of maintaining bank guarantees for the implementation of existing and new contracts,

- obtaining by the Company at least PLN 600 million proceeds from the sale of assets not related to the core business by the end of 2015,

- reduction of operational costs of the Company by a total amount of at least PLN 300 million till the end of 2015

According to the findings of the restructuring agreement, on February 15 this year the Extraordinary General Meeting of shareholders of the Company adopted decisions on capital increases (conversion of bonds into shares and issue of shares to the investor - the Industrial Development Agency and the issuance of shares with pre-emptive rights).

- Financing and restructuring strategy developed in December last year enabled the Group to conclude an agreement with its creditors being a milestone in the consistently implemented recovery process saving the company from bankruptcy. Due to the restructuring agreement, executed disinvestments and reducing operational costs, we are gradually regaining financial stability, and are able to continue operations in the most attractive sectors of the market - Robert Bednarski adds.

Financial results in 2012

- PLN 4.11 billion revenue

- PLN 1.09 billion EBITDA loss

- PLN 1.24 billion net loss.

Adjustments to the budgets of implemented contracts have negative impact on the results. Write-offs concern intangible and legal assets, as well as the Group's property portfolio.

Despite the write-offs the Group generated positive cash flows from operating activities in the fourth quarter of 2012.

The current backlog of the Group: PLN 11.3 billion is all about concluded contracts. In subsequent years the portfolio is as follows: 2013 - PLN 2.7 billion, 2014 - PLN 3.2 billion, 2015 - PLN 3.1 billion, in the next years PLN 2.3 billion.

The company focuses on the activities of the Power Engineering and Chemistry segment (61% of orders).

- The value of the Group's backlog is PLN 11.3 billion, with the largest portion attributable to the prospective Power Engineering sector. We believe that, not only those orders, but also the prospect of obtaining new ones, will provide us with significant income in the coming years - Vice President Bednarski summarizes.

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