An interview with Gregor Sobisch, the President, and the Vice Presidents of Polimex Mostostal - Joanna Makowiecka and Robert Bednarski for the Polish Press Agency (from biznes.pap.pl)

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Polimex wants to go back to the profile of an engineering company, it is planning to separate the plant in Siedlce.

Polimex-Mostostal wants to go back to the profile of an engineering and technology company. It is planning wider accession to foreign markets. The construction group plans to separate the activity of the plant in Siedlce and does not preclude the sale - the President of the company, Gregor Sobisch, said in an interview with PAP.

„The new management has developed a new line of action which assumes that Polimex-Mostostal returns to the roots. The company will be a fully engineering and technology company. The key segments of its business will be: energy, chemicals, petrochemicals, industrial construction and industrial services and railway construction. All of the other existing areas of activity of the company and the group will not be included in the core business" – Sobisch said.

"In recent years, Polimex-Mostostal has not been sufficiently closely involved in the implementation of the projects in the chemical and petrochemical sectors. This was due to the fact that the company had to focus on the infrastructure contracts, where we are striving for minimizing losses" – he added.

"Our priority is to return to the activities we specialize in, and are strong at, the construction industry. In this segment, we have a better and stronger competitive

position than in the residential/commercial/industrial building or road construction " – he said as well.

The Group intends to withdraw from infrastructure and the residential/commercial/industrial buildings’ contracts.

"We will carry out road contracts that are in progress. We are, however, freezing this activity which means that we will not apply for new orders in the sector. We will serve the market. We'll see what the future holds, the more that foreign road companies are withdrawing from Poland" – the President said.

"We are finishing operations in residential/commercial/industrial building construction. Both road contracts and residential/commercial/industrial building construction are risky and conducted on low margins. The execution contracts often unilaterally prefer the employers. We are not interested in participating in such projects" – he added.

The construction group intends to strengthen its presence in foreign markets.

"We intend to have a wider access to foreign markets, such as Germany and Scandinavia. We will gradually increase our presence there. This brings us back to the roots of Polimex. We know that the Germans give up nuclear energy. This means that in the coming years they will replace it with the conventional or renewable energy" - the President said.

"We have well trained but cheaper workers, which is one of our major competitive advantages. We also have enough experience to apply for the orders abroad as a general contractor, subcontractor and not only. Most of the members of the Board of Polimex have extensive experience in foreign market operations" – he added.

Sobisch points out that in order to achieve the company's strategic plans ensuring financial liquidity is crucial.

"The sale of assets, including the recently completed sale transaction of the galvanizing plant in Częstochowa, is a source of cash, but given in a drip. We, however need to get a solid boost to be able to obtain the necessary financial guarantees and ensure subcontractors that we are prepared to keep them accountable" – he said.

In his opinion, the separation of the plant in Siedlce is one of the key issues for further operation of Polimex.

"Production is a stationary business and in conflict with the construction sector, which belongs to operational activities. Therefore, the production activities of the plant in Siedlce do not fit in with the context of the strategic areas where we want to be active. We believe, taking into account the efficiency and liquidity of the organization, that it would be advisable to change the plant into a separate company as soon as possible" – he said.

He also said that after the separation, there two scenarios are possible: leaving the company in the Polimex group as a non-core business one and the sale of it.

Polimex is expecting to return to profitability in 2015.

Polimex-Mostostal should begin to generate profits from core operations already in 2014 and the return to overall profitability is expected in 2015 - the representatives of Polimex informed the PPA.

„This year is crucial to us as far as the survival of the company is concerned. Please note that the company has suffered very heavy losses. There are limited possibilities of bidding. The optimization of employment now results in the appearance of cost and cost cutting in this respect will emerge in the coming years" – the President of the company, Gregor Sobisch, said.

"As a result of the corrective actions implemented in 2013 years Polimex-Mostostal should generate profit from the core operations already in 2014. We expect that in 2015 Polimex-Mostostal will return to normal, profitable business" – he added.

Polimex had PLN 23.5 million net loss in the first quarter of 2013 net attributable to the shareholders of the parent company, PLN 32.6 million operating profit and PLN 532.6 million revenue. The reversal of provision for jubilee actuarial and retirement benefits and the sale of the property Suchy Dok in Gdynia had positive impact on the group's result from the ongoing operations in the first quarter of 2013, and the negative one was caused by - the sale of shares in: EPN Gdynia and Sefako. The reduction in general and administrative expenses also had positive impact on the earnings from ongoing operations. They fell by 25 percent in relation to the comparative data for the first quarter of 2012.

Robert Bednarski, the Vice President of Polimex indicates that one-time events could have an impact on the group's results in the second quarter, but they were not significant.

„We do not expect significant results of one-offs in the second quarter this year, apart from the transactions related to the sale of assets, restructuring costs, including the next round of redundancies” – he said.

„Road construction contracts will no longer have impact on our results. We do not say, however, what the impact on the cash flow will be” – he added.

Sobisch announced that the company has developed a plan to solve the problem of road contracts and complete their implementation.

"At the moment I can only say that we are going to limit the participation of own resources in this area, we will be wider supported by the subcontractors. We are still holding talks with GDDKiA - the issue of all of our construction contracts should be resolved comprehensively" – he said.

Among the major contracts executed by Polimex the construction of the power unit in Kozienice is included. The contract is worth PLN 5.1 billion net, of which 42.7 percent accounts for Polimex. In the first quarter of the contract the company accounted PLN 31.3 million. Earlier on, Polimex stated that the estimated revenues from the contract for the whole year was about PLN 300-350 million.

„The contract in Kozienice had its perturbations, but now it thrives. It has well provided and separate funding, which ensures smooth execution of the settlements with subcontractors. We have moved the construction forward. The mixing plant is ready now, we are executing piling of the main building. We have signed one of the largest subcontracts on the implementation of the cooling tower" – Sobisch said.

" If only the weather favors us, this project will be implemented according to schedule " – he added.

The President also announced that Polimex is planning to submit a tender for the construction of the unit in Turów and has been working on the concept of participation in the procedure.

Polimex continues restructuring; Torpol will be sold only when it is necessary.

Polimex-Mostostal continues the process of restructuring, and the following planned actions include the centralization and simplification of the structure. After the simplification of the structure further reduction of employment may be

continued. Currently, the sale of Torpol is not planned, but such a move is possible in the absence of financial resources.

„We will change the structure of the organization in such a way that it becomes simple and clear. It is now too extensive. We will carry out further centralization, which will provide additional savings. The changes that we are planning to achieve, are not just cosmetic – they are very deep” – the President of Polimex, Gregor Sobisch, said.

„Ultimately we will liquidate the overlapping processes we are currently experiencing. We shall centralize all ancillary services, such as purchasing and logistics. Within individual segments of the company only the executive power, operating activities will be located - other functions shall be located in the center of the internal services” - Joanna Makowiecka added, the Vice President of the company.

The statement of the Vice President suggests the most recent announcements of redundancies by 1.2 thousand people may not complete the process of the group’s employment reduction.

„The April announcement concerning the reduction of employment by 1200 people by September this year is up to date, but we're going to implement it also through the sale of a part of the organized business. It should be made clear that within the implementation of the new structure downsizing iteration may be necessary” – she said.

Robert Bednarski, the Vice President of Polimex announced that the company is constantly working on sale of assets.

"Recently, we have completed the sale of the galvanizing plant in Częstochowa. Soon we shall announce the completion of the sale of another galvanizing plant" – he said.

"The real estate sales proceeds, but slowly. On 20 June this year, the company Polimex-Development Kraków, owned by Polimex-Mostostal, signed a preliminary agreement for sale of the property located in Katowice. The conclusion of the contract of sale is expected by the end of 2013. Within a few months we shall announce the sale of the property in Warsaw for a significant amount " – he added.

He also said that, from the beginning of the year, Polimex has signed two preliminary agreements with a total value of about PLN 14 million net as part of

its divestiture plan concerning the real estate portfolio.

The slow process of selling the real estate portfolio results, among others, from the fact that the real estate owned by Polimex were pledged to banks - signatories to the restructuring agreement.

"We are in talks with the creditors to simplify the procedure for the disposing of real estate property, as now, under the restructuring agreement, the procedures are just as challenging for the sale of a large property as in the case of a single flat" – Bednarski said.

Sobisch announced that Polimex is currently not planning to sell the Torpol, but does not rule out such a move, if is necessary.

„Railway construction market is important to us. We do not want to sell Torpol and do not plan to do that. Only the lack of funds could force us to sell the company. Torpol is a prosperous, separate business that has been growing fast along with the market" – he said.

He added that Polimex looks forward to a dividend from the profit of Torpol for 2012.

In mid-October 2012, the Extraordinary General Meeting of Polimex resolved to issue from 300 million to 396.15 million of N1 series shares, including 300 million shares to the IDA. The issue price of N1 series was set at PLN 0.50 per unit for the IDA (i.e. a total of PLN 150 million) and PLN 0.52 per unit to other investors. The General Meeting also resolved to increase the share capital of Polimex by no more than 256.63 million O series, which were addressed to the IDA.

At the end of six months from the registration of the conditional increase of the share capital by the court (registration took place on January 23) the IDA can acquire shares by exercising its warrants at a price equal to the arithmetic average of the 40 closing prices of trading shares listed on the Warsaw Stock Exchange immediately preceding the date of the declaration of the acquisition of shares on the exercise of the warrants.

"We are not speaking about the plans of the Industrial Development Agency in the context of the potential acquisition of Polimex-Mostostal shares to exercise its warrants. We have no statement on that matter from the IDA but we know that it is still interested in Polimex-Mostostal. We continue talks with the Agency on many issues, "- Bednarski said.

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