Polimex-Mostostal completed first half-year of 2009 with significant profit.

08/28/2009

Summary of the first half-year of 2009

The consolidated income from sale in the first half-year of 2009 amounted to 2,053.7 million PLN.

Net income in the compared period increased by 22.92 per cent and amounted to 72.1 million PLN.

Following the first half-year of 2009, the operating profit amounted to 123,3 million zlotys and was 13.48 per cent higher than in the analogical period of 2008.

The gross margin of profit from sale amounted to 11.9% as compared to 10.5% in the first half-year of 2008.

The net margin of profit in the first half-year of 2009 amounted to 3.5 per cent as compared to 2.9% in the first half-year of 2008.

The portfolio of orders currently amounts to 6.9 billion PLN.

- The results of the Company and of the Group follow the budget assumptions and distinguish us positively as compared to the result presented by other industry companies, in particular given the current market situation.

The achieved dynamics of profit increase is higher than in was planned.

The Group holds a portfolio of orders ensuring budget execution until the end of the year, and the profitability of the projects is satisfactory, says Konrad Jaskóła, President of Management Board of Polimex-Mostostal.

Organic development.

The works provided for in the programme of development of the Company and Group production capacities, adopted by the Management Board of Polimex-Mostostal in 2008, are being finalised. The new plant in Siedlce, located in the Tarnobrzeg Special Economic Zone, the development of which was commenced in September 2008, will launch production in Q4 this year.

- In 2009, we are going to invest 140 million PLN in doubling the output of the Zakład Wyrobów Stalowych in Siedlce. On the other hand, investments at the level of approximately 30 million PLN will make it possible to increase the output of platform grates in Siedlce by 50 per cent. In the area of anti-rusting, we are going to launch in Siedlce a modern galvanising line worth 80 million PLN; thus, the total cost of the investment in Siedlce will amount to 250 million PLN, says Konrad Jaskóła.

Also, the investment programme for Sefako where, at the expense of 70 million PLN there has been built a modern manufacturing module, is about to be completed. It will make it possible to double the volume of the power boilers manufactured. The investment in Sefako is also located within a Special Economic Zone – the Starachowice Special Economic Zone.

- Both investments will result in a modernised stock of machinery, more effective manufacturing processes, and increased production capacities. In this way, this year we will increase the production capacities regarding high margin steel structures, hot-dip zinc galvanising services, and power boilers fuelled with various fuels. An important issue are the significant tax abatements due to the Company (in the amount of up to 40% of the investment value) resulting from the fact of realising the investments within special economic zones, adds President Jaskóła.

Polimex-Mostostal has developed its design capacities, treating it as one of the priorities. The Company has established and put into operation a design studio in Gliwice.

Design Centre (Centrum Projektowe) is a renowned, modern and efficiently operating engineering studio taking advantage of over 50 years of experience in designing and executing commercial undertakings for the chemical, power engineering and environment protection industries. Current employment amounts to approx. 300 persons.

- Launching our own Design Centre is a reaction to the insufficient design potential, the socalled 'bottleneck' of the timely development of designs.

Moreover, more and more investments are being executed in the ‘design and construct’ formula. Centrum Projektowe Polimex-Mostostal will contribute to a further increase of competitiveness of our bids in tenders, informs Konrad Jaskóła.

Acquisitions.

In the first half-year of 2009, Polimex-Mostostal has not made any significant acquisitions:

- in January this year, the Management Board took a decision on the merger of Energotechnika and Biprokwas and locating activity at new headquarters in Gliwice, thus developing Centrum Projektowe Polimex-Mostostal.

- In February 2009, Polimex-Mostostal signed a contract of purchase of shares in Pracownia Wodno – Chemiczna ‘EKONOMIA’ Sp. z o.o. having its seat in Bielsko – Biała. 'EKONOMIA' specialises in services with respect to water and industrial sewage treatment.

Domestic demand.

Since the beginning of the year, Polimex-Mostostal has signed numerous contracts, inclusive of contracts for the realisation of large investments, such as:

- construction of a section of the A1 motorway from the Sośnica junction to the Maciejów junction for 900 million PLN net,

- another contract for works on the reconstruction of the Wisła Football Stadium in Cracow – the value of the works executed there amounts to 244 million PLN net,

- construction in Warsaw of the Museum of History of Polish Jews for 125 million PLN net,

- delivery and installation of steel structures at the Neurath Power Plant in Grevenbroich, Germany for over 55 million PLN net,

- construction of a new exhibition hall and an entrance and reception building at the premises of the Kielce Fair for over 35 million PLN net,

- reconstruction of one of the main arteries in Gorzów Wielkopolski –ul. Wyszyńskiego – for over 18 million PLN net,

- modernisation of the Warsaw - Gdynia railway line for over 250 million EUR net concluded by the consortium featuring Torpol – a 100% subsidiary company of Polimex-Mostostal S.A.

Perspectives for new contracts.

- Power engineering is one of the most developing areas of the economy. In this sector, Polimex-Mostostal has significant experience and a strong position of the general contractor.Building its strategy for the coming years, we have allowed for the perspectives for the industry and actively participate in its development. Polimex-Mostostal offers comprehensive execution of power industry projects, mainly as the investment general contractor, informs Konrad Jaskóła.

- We cooperate with renowned, most important world leaders of the power engineering industry, such as: Alstom Power, Tecnimont SpA, BWE, Siemens, Austrian Energy. Our portfolio features contracts for the largest Polish and foreign power engineering companies. At present, we are executing works for, among others, Bełchatów Power Plant, śerań Heat and Power Generating Plant, and Neurath and Westfallen power plants (Germany). We expect further significant orders, adds the President.

- Apart from that, we are interested in the operator’s activity within the power engineering sector. Hence our agreement with Polskie Górnictwo Naftowe i Gazownictwo S.A., Zakłądy Azotowe w Tarnowie-Mościcach S.A. and Tauron Polska Energia S.A. for the construction of a new heat and power generating plant of the output of 200 MW, generating power based on natural gas. The Company assuming the so-called operator’s functions, which will constitute a long-term business of satisfactory profitability, e.g. in the power engineering or the transportation infrastructure sector, will make it possible to achieve further, beneficial diversification of the activity conducted by our Company. Such approach towards one’s own development has been successfully applied by companies similar to ours in other countries, explains President Jaskóła.

For several years now, Polimex-Mostostal has been consequently increasing the number of road and railway contracts in its portfolio. The increase of the investments in the national transportation infrastructure as well as projects associated with the organisation of the European football championships in 2012 constitute the grounds for an optimistic assessment of the level of orders in this sector. At present, the Group is executing several commenced road and railway contracts. Polimex-Mostostal is going to continue to develop this activity. This year’s sale in the road sector will amount to approximately 500 million PLN, as compared to last year’s sale slightly exceeding 400 million PLN. Similarly, in the railway sector our sale will increase from 300 million PLN in 2008 to over 500 million PLN this year. The increase in these sectors will be much higher than the average increase within the entire Group.

It ought to be mentioned that the GDDKiA (General Directorate of National Roads and Motorways) yesterday, i.e. on 27 August, selected our bid as the most advantageous one, regarding execution of the A2 expressway section B for the amount of over 843.6 million PLN gross.

We have also submitted a bid with the most advantageous price amounting to 80 million PLN gross for the execution in Cracow of the Surzycki – Christo Botew Road.

Polimex-Mostostal attempts to provide small and medium-sized construction companies with opportunities to jointly counteract the difficulties arising from the economic slowdown which we are facing. Small and medium companies are undergoing negative impacts of the economic slowdown and may be facing problems. This can be clearly seen in the property development sector, for instance. To these companies, Polimex-Mostostal is a potential source of orders appearing along new contracts successively concluded by Polimex-Mostostal. The cooperation is all the more looked forward to by Polimex-Mostostal that the Company will not be capable of executing 100% of the orders independently.

Stable and strong position of Polimex-Mostostal.

- Valid remain the foreseen good perspectives for Polimex-Mostostal. Despite the arising difficulty winning new contracts with deadlines set for 2010 and the years to follow, we are intensely supplementing the portfolio with further contracts. We are facing a difficult market yet favouring large, having a diversified portfolio of services, and well managed engineering and construction companies such as Polimex-Mostostal, informs the President.

Our forecasts regarding good perspectives are based on, among other things, the following premises:

- lower prices of steel and building materials,

- maintaining export profitability due to the weakening of the zloty,

- low inflation and a decrease of interest rates,

- continuing domestic demand,

- easier acquisition of valuable personnel for the realisation of domestic investment projects resulting from the returns of part of the Poles from economic migration.

The good financial standing of the Company results from, among others, the contracts signed and the beneficial relations with numerous cooperating banks. Our objective is a further dynamic growth of the Group including improvement of profitability as well as reduction of the operating activity related risk. We care for the profitability of the contracts concluded and assume successive increase of the net profitability in the next 2 to 3 years, informs President Jaskóła.

In the first half-year of 2009, the Management Board continued the works on the plan of reorganisation of the Group's structure. The plan stipulates that in the nearest perspective the Company will acquire further shares (so as to gain 100% of the shares) of crucial Group companies: EnergomontaŜ Północ, Naftobudowa S.A., Nafroremont Sp. z o.o., as well as ZRE Kraków Sp. z o.o., ZRE Lublin Sp. z o.o., EPE Rybnik Sp. z o.o. and ECE Remont Sp. z o.o.

Advantages of reorganisation:

- full consolidation of the results of the companies,

- better utilisation of the effects of synergy of the companies within the Group and simplification of the organisational structure as well as making the Group management process more flexible. Simplification of the structure will also result in greater transparency to analysts and the investment market;

- standardisation of the management systems and precise allocation of competences within the organisational structure;

- strengthening the position of the domestic leader with respect to the activity conducted;

- reductions of overhead expenses;

- increase of the complementarity of the services provided and gaining market advantage in perspective sectors;

- increase of liquidity Polimex-Mostostal S.A. shares at the Warsaw Stock Exchange;

- increase of bidding effectiveness due to the extended scope of services provided with the Company's own potential and utilisation of the scale effect;

- optimisation of utilisation of free resources (human and hardware resources) by means of allocating them to developing sectors;

- decrease of the seasonality effect;

- elimination of internal competition between the entities constituting the Group.

In the case of the Group, Polimex-Mostostal does not only have no need to lay off employees but quite the opposite – realisation of the investment plants in Special Economic Zones stipulates employment of new people.

In total, 13.5 thousand persons currently work for the Group.

Despite the relatively good financial standing, the Management Board of the Company conducts system activities aimed at reducing the costs and, on the other hand, is planning further development of the Company. Such approach is aimed at stabilising and further increasing the value of the Company.

The activity allows for, among other things:

- further optimisation of the cost and improvement of contract profitability,

- completion of the commenced investments in organic development, and commencement of production and sale of high margin products,

- potential acquisition of new companies.

Polimex-Mostostal and its Management Board have been recognised.

In the first half-year of 2009, Polimex-Mostostal S.A. and the President of the Management Board have been awarded:

The Title of ‘Ambasador Polskiej Gospodarki’ (“Ambassador of Polish Economy”) in the ‘Marka Europejska’ (“European Brand”) category – title for Polimex-Mostostal S.A. in the contest organised by the Business Center Club under the honorary patronage of the Minister of Foreign Affairs of the Republic of Poland [06.2009];
1st place in the TOP TSR (Total Shareholder Return) 2004 – 2008 ranking in the WIG 20 Group [06.2009];
3rd place among 100 Most Valuable Companies in Poland in 2008 in the construction sector; Newsweek and Atkearney ranking [27.04.2009];
the title and statue of ‘Diamentowy Inżynier’ (“Diamond Engineer”) for Konrad Jaskóła, the President of the Management Board in the jubilee, 15th Contest for the readers of ‘Przegląd Techniczny’ – an engineering magazine [27.02.2009]
Professor Stanisław Pilat Medal for Konrad Jaskóła, President of the Management Board, for the activity in favour of the development of the petroleum industry in Poland and long-time creative cooperation with the Institute of Petroleum Processing granted by the Chapter of the Medal in coordination with the Head of the Oil and Gas Institute and the Scientific Board of the Oil and Gas Institute

[01.2009].

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