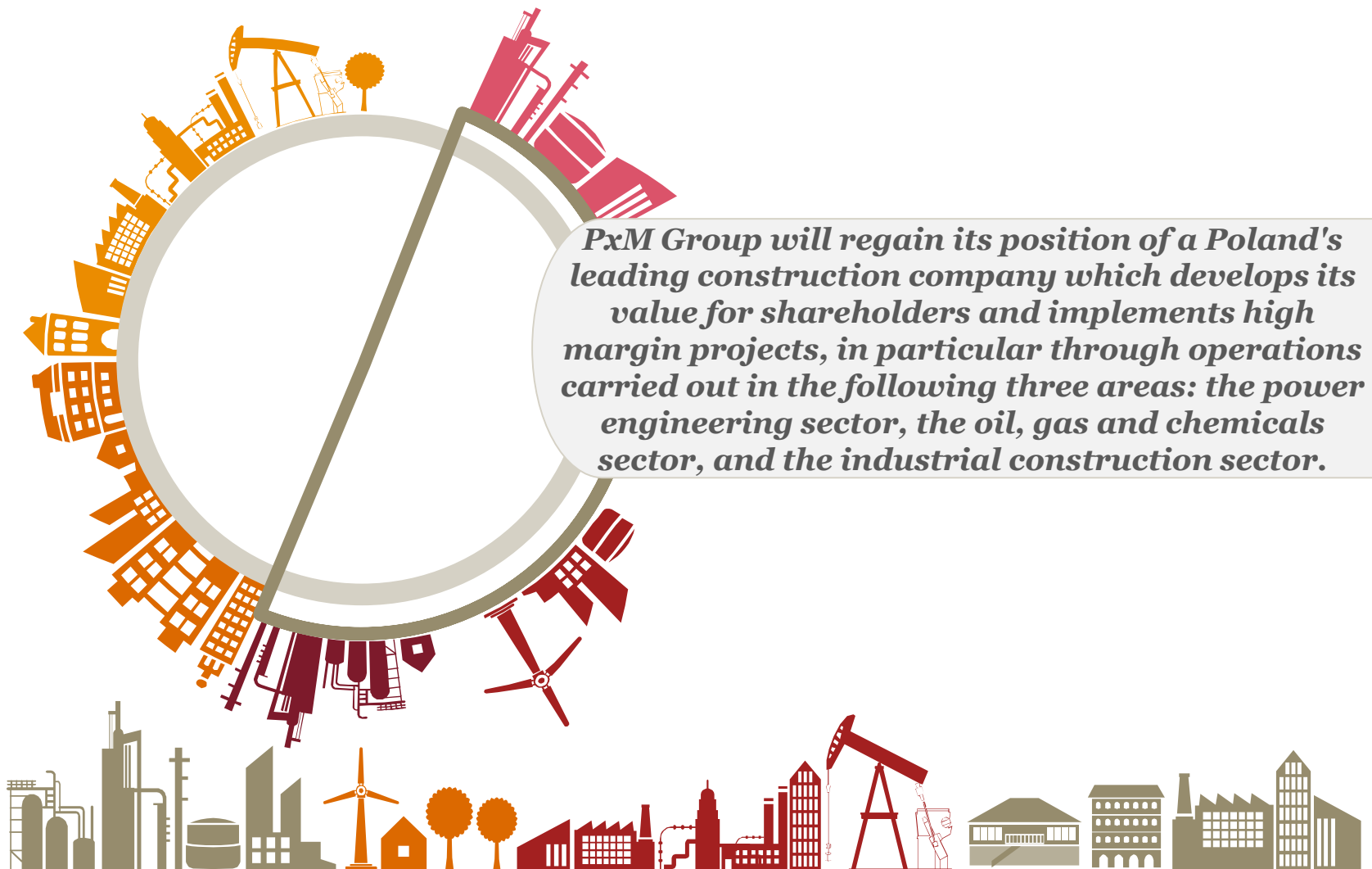


# **Polimex Mostostal S.A.**

## **Development Plan for the years 2017-2023**

## *Polimex-Mostostal Capital Group Vision in perspective of the year 2023*



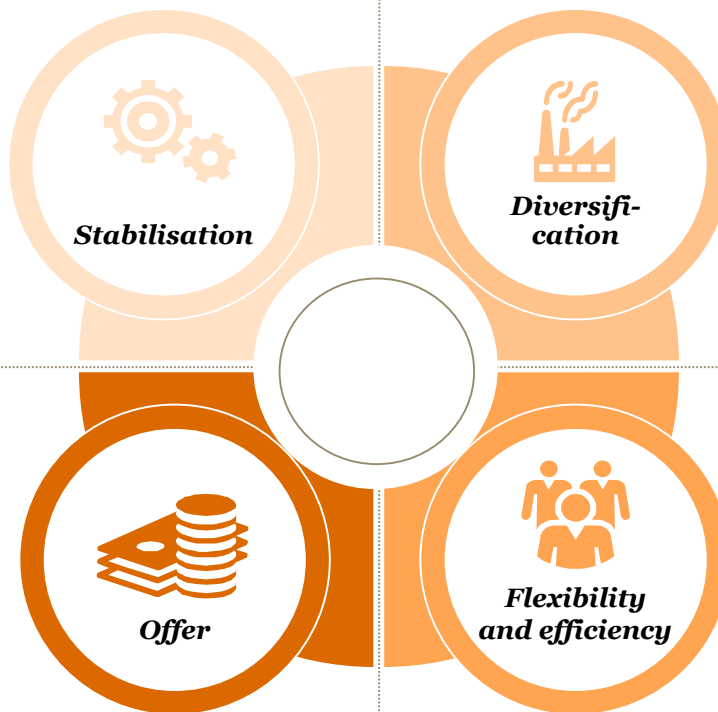
## ***Primary pillars of the PxM Group strategy***

### ***Sustainable revenues***

Given the business cycle in the construction sector, PxM Group stabilises its revenues with its production activities; in addition, the Group seeks other stabilising sources of revenue, such as - for instance - service / maintenance activities.

### ***Offer as comprehensive as possible, inclusive of high margin products***

The development of the PxM Group product offer ought to be focused on product supplementation within the entire investment cycle, for instance by means of developing service / maintenance activities. On the other hand, the offer ought to evolve in the direction of large EPC projects, implemented with satisfactory margins.



### ***Geographic and product diversification***

PxM Group expands its operations into foreign markets, in particular in Western Europe, initially functioning as a subcontractor and eventually, in the long-term perspective, operating in the capacity of a general contractor. In addition, within the framework of product diversification, it is assumed that the industrial construction sector will develop.

### ***The manner of organisation supports flexibility and efficiency***

The functioning of PxM Group is characterised by project-based organisation, divided into business segments, with a high level of governance and control over projects, and flexible adjustment of operating costs through appropriate management of limited yet fully utilised own resources as well as subcontractors. The Group is characterised by the continuous improvement philosophy, supported by well-functioning management systems.

***The Group strategy defines objectives as divided into the main areas of operations. Implementation of them will make it possible to improve the annual average margin and to lower the financial leverage.***



***Improvement of the average annual margin on the operating profit***



***Reducing the net financial leverage***

***Power engineering***



- Improvement of the segment profitability
- Increasing the efficiency of contracts implemented in the EPC formula
- Development in West European markets in the subcontractor formula
- Development of service / maintenance activities in the power engineering sector

***Oil, gas and chemicals***



- Improvement of the segment profitability
- Development in West European markets
- Reinforcement of the position among selected business partners in Poland
- Development of competences required in the implementation of GC / EPC projects

***Industrial construction***



- Development of the industrial construction segment based on high margin projects

***Production***



- Maintaining high operating profitability
- Boosting sales of high margin steel structures in foreign markets
- Increasing revenues in the platform grating segment

***PxM Group***

- Improvement of the tendering and budgeting process
- Improvement of the project implementation management competences
- Increasing the role of risk management, controlling and governance mechanisms within the Group
- Implementation of investment project evaluation and supervision processes within the Group



# ***Strategic objectives in the area of power engineering assume increasing profitability, acquisition of new contracts in West European markets, and development of service / maintenance activities***

## ***Strategic objectives***

**1** *Improvement of segment profitability*



**2** *Increasing efficiency of contracts implemented in the EPC formula*



**3** *Development in foreign markets in the subcontractor formula*



**4** *Development of service / maintenance activities in the field of power engineering*



## ***Strategic initiatives***

Objective pursued through segment-level and Group-level projects

**1.1** Improvement of cost efficiency

**2.1** Development of effective project management competences at the Company level

**2.2** Development of designing competences within the Company, inclusive of effective supervision over external design offices

**3.1** Development of relationships with key foreign partners

**4.1** Redevelopment of service / maintenance related competences

**4.2** Redevelopment of relationships with key partners in the field of power engineering and industrial service / maintenance

## ***Segment changes summarised***

- The recommended option is to maintain the position in the conventional power market and to develop in the heat power market in Poland due to the planned capital expenditures related not only to the construction but also to the modernisation and repairs of power generating units in our country.
- Within the product offer, on the one hand it is necessary to further develop competences involved in the implementation of EPC projects, and - on the other hand - to gradually develop in foreign markets in the subcontractor formula. Development of competence involved in service / maintenance activities may be an opportunity to diversify the offer.
- Within the framework of the implementation of the Development Plan, it is necessary to improve the profitability of this segment, inclusive of the cost-effectiveness and, consequently, and among other things, efficient utilisation of the Group's own resources. It also involves improvement of the contract management process which makes it possible to appropriately control costs, in particular on large-scale contracts.





## ***Within the oil, gas and chemicals sector, implementation of strategic objectives is to increase profitability, to reinforce the Company's position in this area, and to develop in foreign markets***

### ***Strategic objectives***

**1** *Improvement of segment profitability*



**2** *Reinforcement of the position among selected business partners in Poland*



**3** *Development of competences required to implement projects in the GC / EPC formula*



**4** *Development in West European markets*



### ***Strategic initiatives***

Objective pursued through segment-level and Group-level projects

**1.1** Improvement of cost efficiency

**2.1** Reinforcement of relationships with and credibility among key large clients in the oil, gas and chemicals market in Poland

**3.1** Development of project management competences at the Company level

**3.2** Improvement of intermediate and senior management personnel competences

**4.1** Development of relationships with and credibility among new foreign clients

### ***Segment changes summarised***

- The strategic objective is to maintain and develop the position in the Polish market as well as in foreign markets based on the planned, sustainable level of investments in the oil, gas and chemicals sector.
- Of fundamental importance is to take measures aimed at improving profitability of the segment, inclusive of current contracts, by means of, among others, development of project management competences and improvement of cost efficiency through reducing rigidities in fixed costs.
- Ultimately, the strategic direction of development is to progressively extend the offer with more advanced services consisting in GC / EPC project implementation both in Poland and abroad.



# ***The main strategic objective in the industrial construction sector is for the Company to develop within the segment through reinforcement of its competences and implementation of high margin projects***

## ***Strategic objectives***

**1**

*Development of the industrial construction segment based on high margin projects*



## ***Strategic initiatives***

- 1.1 Redevelopment / reinforcement of competence in the field of industrial construction
- 1.2 Development of the reference base

## ***Segment changes summarised***

- It is assumed that the position in the industrial construction market will be further redeveloped due to the significant current potential, among others, in the field of construction and extension of production facilities.
- An important strategic task is to expand the reference base through, among other things, implementation of part of the work outsourced by other P&M companies.
- Eventually, the Group is assumed to reinforce its competences in the field of, among other things, project management, towards GC / EPC projects, based on independently implemented projects.



## ***In the field of production, a strategic objective is to maintain high profitability and to increase the level of sales of high margin steel structures, and to increase the level of revenues from the sale of platform gratings***

### ***Strategic objectives***

1

*Maintaining high operating profitability*



2

*Increasing the level of sales of high margin steel structures*



3

*Increasing the level of revenues from platform gratings*



### ***Strategic initiatives***

Objective through other initiatives in the segment

2.1

Active search for clients in various markets (inclusive of foreign markets)

3.1

Extension of the production capacity

### ***Segment changes summarised***

- A key objective for the production segment is to maintain high operating profitability. Production of steel structures (among others, for investments in the power engineering sector, the infrastructure sector, and the oil and gas sector in the country and abroad) and platform gratings as well as provision of galvanisation services will remain the primary area of operations. Maintaining a high margin requires continuous improvement of the operational functioning of the Company.
- It is assumed that projects implemented in the steel structure production segment will be further diversified based on high margin contracts in the domestic market as well as in foreign markets.
- The direction of strategic development is to continue to gradually adjust production capacity in the platform grating segment to the demand of the market.





## ***Strategic objectives accomplishment of which is to enable the Company to implement the strategy adopted have also been set at the Group level***

### ***Strategic objectives***

<b>1</b>	<i>Improving the tendering and budgeting process</i>	
<b>2</b>	<i>Improving project implementation management competences</i>	
<b>3</b>	<i>Increasing the role of risk management, controlling and corporate mechanisms within the Group</i>	
<b>4</b>	<i>Implementation of investment project evaluation and supervision processes within the Group</i>	



























### ***Strategic initiatives***

<b>1.1</b>	Reorganisation and standardisation of the offer development process within the Group
<b>1.2</b>	Development or modification of a uniform and transparent incentive system applicable to sales services.
<b>2.1</b>	Increasing personal competences and increasing the use of system tools in the field of project management
<b>2.2</b>	Implementation of a system and a philosophy of action in the field of coordination of the material and financial plan management
<b>2.3</b>	Reorganisation of the structures, definition of tasks, and identification of optimisation and savings related objectives for procuring units
<b>3.1</b>	Implementation of a consistent risk management system at the Group level
<b>3.2</b>	Reorganisation of the controlling system within the Group
<b>3.3</b>	Reinforcement of corporate governance mechanisms within the Group
<b>4.1</b>	Implementation of system solutions in the field of corporate governance of investment projects within the Group

### ***Changes summarised***


- An important element of changes throughout the organisation is, among other things, increase tendering efficiency through reorganisation and standardisation of tendering processes, and to develop a single incentive system applicable to sales services.
- Another element of the changes is to improve project management competences. Reorganisation of the structures, implementation of a material and financial plan coordination, and increasing personal competences will make it possible to implement projects in accordance with originally established budgets and schedules.
- It is planned to improve selected management processes, such as risk management, control and governance. Reinforcement of the corporate governance process, reorganisation of the controlling system, or implementation of a consistent risk management system will enable the Group to appropriately control costs, to react better to emerging risks regarding projects, and to reduce the risk of winning unprofitable contracts.
- Structurisation and formalisation of processes in the area of investment project evaluation and supervision will make it possible to increase control over investments being implemented, and to maximise their outcome.

# Power engineering construction - summary of the decision on involvement in the sector

	 <b>Conventional power engineering</b>	 <b>RES</b>	 <b>Generation, distribution and transmission of</b>	 <b>Distribution and transmission of electricity</b>	 <b>Hydropower engineering</b>
Market potential for the years 2017-2023	 ~ 41 billion PLN	 ~ 10 billion PLN	 ~ 17 billion PLN	 ~ 51 billion PLN	 ~ 0.5-2 billion PLN
Margin level					
PxM competences					
Decision on involvement			 Generation  Linear infrastructure		
Possible type of involvement	<ul style="list-style-type: none"> <li>GC / EPC</li> <li>Subcontractor</li> <li>Consortium member</li> </ul>		<ul style="list-style-type: none"> <li>GC / EPC - smaller projects</li> <li>Consortium member</li> <li>Subcontractor</li> </ul>		<ul style="list-style-type: none"> <li>Subcontractor</li> </ul>

**Potential:** ● High ● Medium ● Low



















**Decision:** ✓ Market involvement

 Exit / Resignation from entering the sector

Source: based on publicly available data on investments and publicly available data of power engineering groups



# Summary of decisions on PxM involvement in individual sub-segments of the oil, gas and chemicals market

Market potential for the years 2017-2023	 <p><b>Oil sector</b></p> <p>~ 29-31 billion PLN</p>	 <p><b>Gas sector</b></p> <p>~ 24 billion PLN</p>	 <p><b>Chemical sector</b></p> <p>~ 11 billion PLN</p>	 <p><b>Foreign projects in the oil, gas and chemicals segment</b></p>
Margin level				
PxM competences				
Decision on involvement	  Linear infrastructure	  Linear infrastructure		
Possible type of involvement	<ul style="list-style-type: none"> <li>GC / EPC</li> <li>Consortium member</li> <li>Subcontractor</li> </ul>	<ul style="list-style-type: none"> <li>GC / EPC</li> <li>Consortium member</li> <li>Subcontractor</li> </ul>	<ul style="list-style-type: none"> <li>GC / EPC - smaller projects</li> <li>Consortium member</li> <li>Subcontractor</li> </ul>	<ul style="list-style-type: none"> <li>Subcontractor</li> <li>Ultimately, GC / EPC</li> </ul>

**Potential:** ● High    ● Medium    ● Low

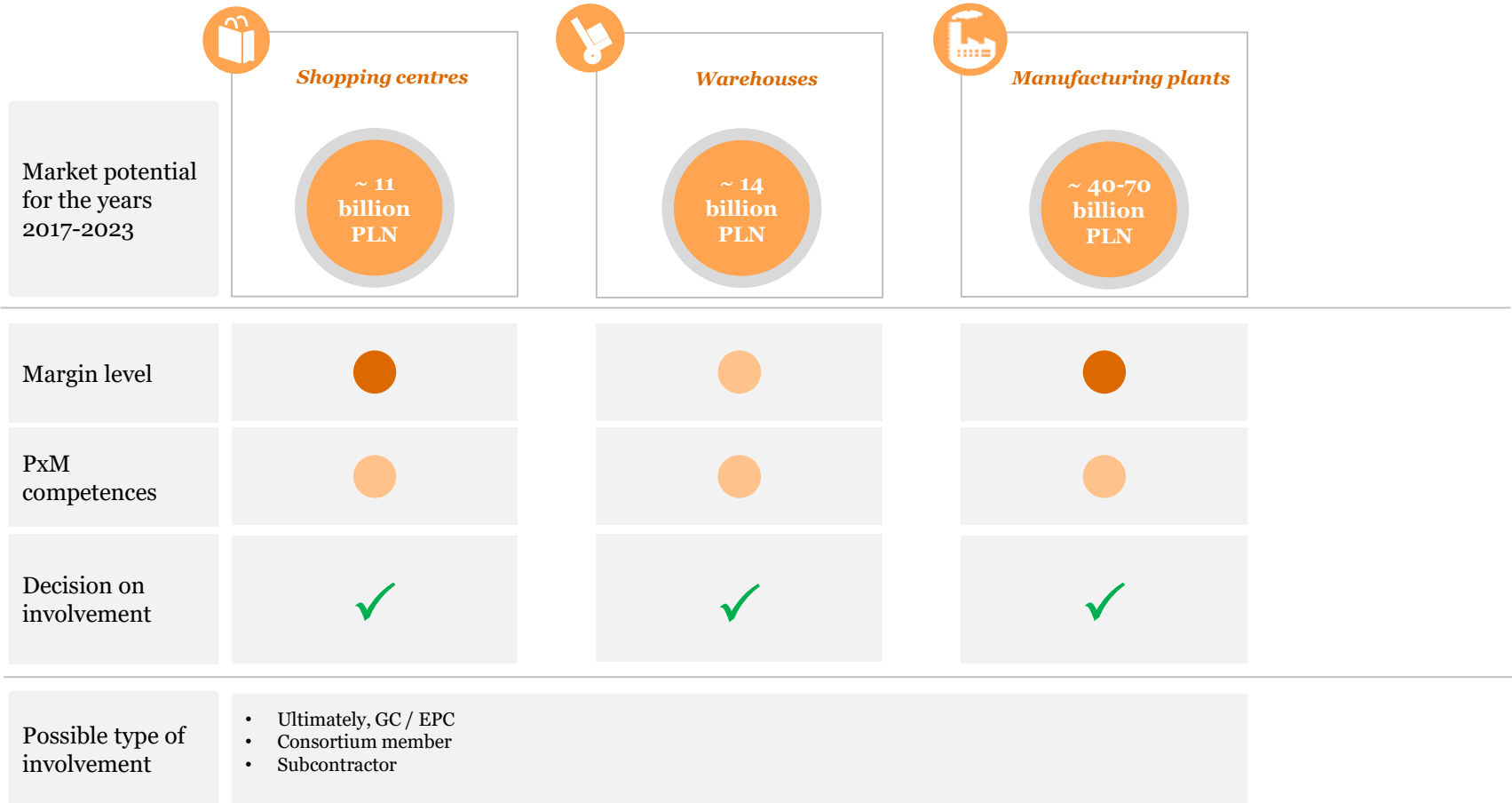
**Decision:** ✓ Market involvement

Exit / Resignation from entering the sector

Source: based on publicly available data on investments



# Summary of decisions on PxM involvement in individual sub-segments of the industrial construction market



**Potential:** ● High    ● Medium    ● Low

**Decision:** ✓ Market involvement

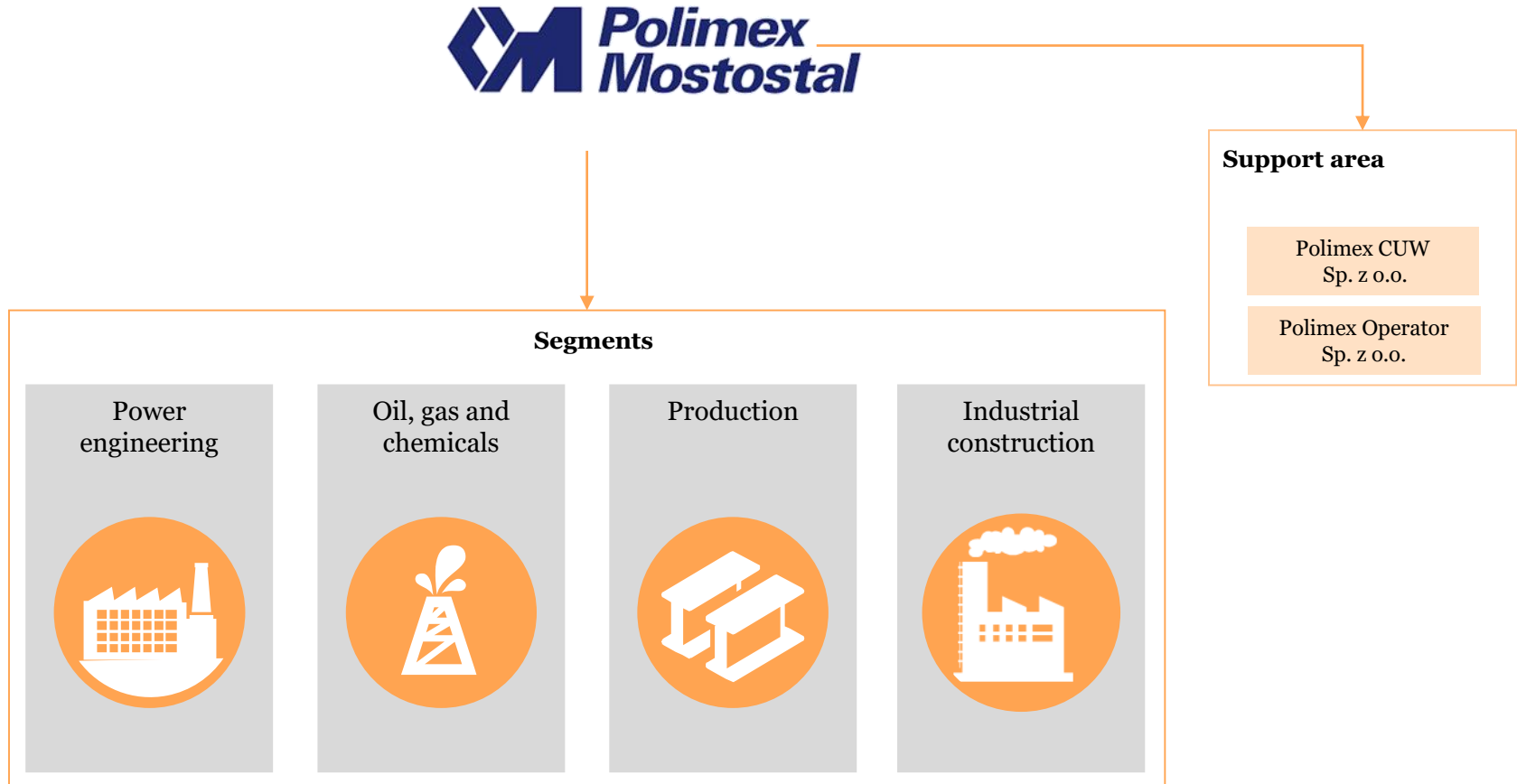
Exit / Resignation from entering the sector

# Development potential of individual areas in the Production segment





***Structure - segment activity developed on the basis of dedicated subsidiaries, save for strategic contracts carried out in the SPV formula***





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