



OPENING REPORT OF PGZ” AND FINANCIAL RESULT FOR 2014

21.07.2015

Companies belonging to the Polish Armaments Group (PGZ) recorded revenue exceeding PLN 5B and profit amounting to PLN 226M. The company’s Management Board has presented the “Opening Report of PGZ,” which shows the starting point for creating, based on PGZ, a strong and modern armaments group capable of competition with global tycoons in this sector.

PGZ commenced its operating activity nearly one year ago, during the last year’s edition of the International Defence Industry Exhibition (MSPO) in Kielce. Over this period the formal consolidation process of armaments companies was successfully completed. Today, PGZ holds shares directly or indirectly in 105 companies. PGZ owns more than 50% of shares in 54 of them. 38 companies are of great significance for the execution of “The Strategy of PGZ Capital Group for 2015-2030”. Companies belonging to PGZ operate mainly in the armaments, shipyard, offshore, new technologies, finance and real property sectors, in nearly all regions (in 12 out of 16 voivodships). PGZ employs more than 17.5 thousand high-performance specialists. Over 30 thousand more are employed by Group’s co-operators.

“Over one year we managed to achieve what could not be accomplished for ten-odd years. Hardly anyone believed that, many doubted that, but ultimately we have consolidated the dispersed companies of the Polish armaments industry, which used to compete with one another. Now we are facing an even more difficult task: the business integration of our companies in numerous processes, e.g. manufacturing, R&D, financial, business or marketing processes,” said Wojciech Dąbrowski, President of the Management Board of PGZ.

TMP, ongoing projects and international cooperation

PGZ finds three programmes as part of the Technical Modernisation Plan (TMP) of Polish Armed Forces particularly important: “Air Defence System”, “Combating Sea Threats” and “Image and Satellite Reconnaissance”. The broad participation of PGZ companies in these programmes will be an opportunity for the Group to create innovative products and bridge the technology gap. Therefore, in the first months of operation PGZ established joint ventures for “Wisła”, “Narew” and „Orlik” programmes, and prepared for the execution of “Wizjer”, “Gryf”, “Zefir”, “Czapla” and “Miecznik” programmes. In the case of the last two, PGZ was invited by the Ministry of National Defence (MON) for their execution.

The other programmes as part of TMP, related e.g. to the upgrade of artillery and armoured equipment, individual soldier equipment or patrol reconnaissance, are supervised on an ongoing basis by the Manufacturing and Services Division of PGZ.

Moreover, PGZ has also undertaken to resolve issues related to, among others, the manufacturing of chassis for the purposes of ‘Krab’ self-propelled howitzer, upgrade of ‘Leopard’ tanks, as well as the execution of WZT3’s contract to India.

The Group has also supported its companies in export projects, as a result of which an opportunity arose to deliver 30 ‘Rosomak Scipio’ vehicles to Slovakia, 1000 ‘Beryl’ assault rifles went to Nigeria, while ‘Grom’ systems were sold to Lithuania. Export efforts are continued in cooperation with the government bodies, in particular Ministries of National Defence, State Treasury, Economy and Foreign Affairs. Apart from standard business talks, the company took part in international fairs, above all in Brazil and Turkey.

“An important moment was signing the contract on a new floating wheeled armoured carrier with Rheinmetall. This is the right direction. We are going to continue the international cooperation with the best, and make joint products;” – added President Dąbrowski.

Financial results and analyses

In 2014, the aggregate revenue of PGZ companies amounted to PLN 5 billion 94 million, while the profit – PLN 226 million 75 thousand. They are composed of aggregate results of armaments companies subject to consolidation and of Mars Shipyards & Offshore group. The consolidated financial statements of PGZ disclose revenues amounting to PLN 1 billion 917 million, while the profit – PLN 84 million 847 thousand, due to the fact that the companies joined the Group in Q3 and Q4 of the last year. PGZ forecasts that good financial results will be maintained in the coming years. TMP provides business opportunities for PGZ but in the longer term the Group has to seek other sources of income, coming primarily from export. Highest revenues from TMP will be achieved by the Group by 2022. Afterwards, the growth in export business will be necessary.

The “Opening Report of PGZ” presented by President Dąbrowski reveals that the broad participation of PGZ in TMP will create more than 100

modern products with the export potential. The majority of them might be made thanks to the execution of the following programmes “Upgrade of Armoured and Mechanised Forces” (32), “Air Defence System” (22), “Upgrade of Missile Forces and Artillery” (15), “Combating Sea Threats” (9) and “Rosomak Wheeled Armoured Vehicle” (6).

“We are counting on the participation in TMP but we are not waiting and are making our pro-export activities more dynamic as we speak. An example is the very likely contract with Slovakia on 30 ‘Rosomak Scipio’ vehicles or the contract with Rheinmetall. We have also begun ‘tidying up’ the R&D field in the Group: far-reaching improvement must be achieved in this area. The Group has to create innovative products with export potential in a more effective and efficient manner,” stressed President Dąbrowski.

Competition is becoming fiercer on the armaments market. Globally, national defence budgets have decreased in the recent years, which is why armaments groups are seeking revenue in export, including on the Polish market. The whole defence expenses are nearly USD 2 trillion annually, including circa USD 50 billion annually for import expenses, but – as estimated by PGZ – the potential of export markets which the Group could enter, slightly exceeds USD 20 billion annually. Other companies are also competing for these markets.

Presentation during MSPO in Kielce.

The mission and vision of the strategic directions of Group’s activities will be presented during this year’s edition of MSPO in Kielce.

PGZ is the leader of the Polish armaments industry, the primary partner of MON and global defence groups in the Polish Army upgrade process. It is composed of more than 60 companies employing circa 17,500 high-performance specialists. By making use of the technology Polonisation potential, close cooperation with the Polish scientists and focus on the research & development process, PGZ offers innovative products which enhance Poland’s security.