

moderator: Welcome to our Q&A chat session with Paweł Łapiński, Grupa Azoty's CFO. Today we will discuss the results reported by the Grupa Azoty Group for 2017.

moderator: A quick reminder of the rules of our chat room: you first send your questions to the moderator. The questions selected by our guest will be published together with the answers. You can see the order of questions at the bottom of the screen. The moderator has the right to reject questions which do not comply with the rules.

moderator: Information for journalists reporting our session: when citing today's chat you are required to specify the source. If you have any questions or doubts, please contact: biuro@stockwatch.pl

moderator: You may now ask your questions. Our guest will start answering them at 11:00 am. If you can't see the answers, please use the F5 key to refresh the page.

Paweł Łapiński: Our previous chat sessions via StockWatch.pl were very popular, but we still hope to break the record. So, welcoming you on this beautiful spring day, I am ready to take your questions.

Guest: What is the outlook for fertilizer prices this year?

Paweł Łapiński: The current situation is largely a consequence of weather conditions prevailing across Europe in March this year. The fertilizer market, as other industries, is sensitive to such factors. It may take several months before we see a rebound. Market prices are now trending towards low ranges, which is typical for April and May. Considering a noticeable upward trend in feedstock prices, the result may also affect fertilizer prices.

Antoni: Do you expect payroll costs to rise over the year?

Paweł Łapiński: It is a well known fact that labour costs are growing throughout the economy. For some time now we have been having an employee's market, and we at Grupa Azoty are well aware of that. For the time being, we are not struggling with any labour or payroll-related issues. Payroll costs increase every year at all companies, if only to reflect rising inflation.

Guest: Is the Company planning any new equity issues to raise funds for its extensive investment plans?

Paweł Łapiński: Grupa Azoty can afford to implement its investment plans without the need to issue new equity.

Guest: Hello. From what I understand, a sales consolidation process is under way at the Group. How do you allocate products sold by individual companies, given that product ranges partially overlap?

Paweł Łapiński: Sales consolidation is taking place in several of our segments.

In the Fertilizers segment, we have set up a Corporate Fertilizer Sales Department based in Puławy, mainly to manage the process of allocating nitrogen in various forms dedicated to different crops, and thus to different regions. This is supported by appropriate logistics (distribution) management. The product consolidation will not lead to any changes in the portfolio of fertilizer products of each plant, but we intend to optimally capitalise on their geographical locations by reviewing the sales areas. For

example: through efficient management, we want to eliminate situations where Puławy products would be distributed in West Pomerania, when the same products could be supplied by the Police plant. We would then save on logistics costs.

In the Plastics segment, the consolidation is already bringing tangible benefits whose common denominator is the use of caprolactam – now that the caprolactam unit has been commissioned – for conversion into polyamide at the expense of limited sales to Asian markets (especially in the context of the depreciating dollar and rising freight costs). The location of its production has not changed, but the Group-wide management of the caprolactam to PA6 chain is generating additional synergies.

Michau: What exactly is Idea4Azoty about and what is its annual budget?

Paweł Łapiński: Idea4Azoty is an initiative characterised by a very open approach to financing innovative ideas.

What we have in this case is virtually open innovations and an open budget.

What the initiative is about:

It consists in submitting ideas to the Group via a dedicated website, involving mainly technologies and new products, both at a very early stage of development (universities, inventors from start-ups), and almost ready for industrial implementation (research institutes, start-ups). A third category of innovative projects we would be ready to finance includes new joint projects with other market players, in the areas of our traditional products or completely new ones.

As in labour, where we now have an imbalance towards an employee's market, so in innovations we have a slight imbalance towards demand for valuable start-ups, and therefore we are eager to win this competition.

What is the budget:

Funding for ideas that can be swiftly translated into industrial implementation is so high on our agenda that the Group would indeed be ready to outlay up to several dozen million on a project we see as viable. However, based on the few weeks' intake, we expect that most projects would in fact require lower financing – from one to several million złoty for projects in the research phase and up to several million złoty for projects in the development phase.

Guest: What was the first quarter of 2018 like in Plastics? Did the favourable trend from 2017 continue?

Paweł Łapiński: In Plastics, the first quarter of 2018 should be viewed in terms of the continuing favourable conditions on the target markets of our flagship products, and the commissioning of our new production unit adding 80 tonnes to our annual PA6 capacity. That's all I can tell you as the financial data must of course be withheld until publication.

piotr: What about your work on the commercialisation of graphene? Is the Company still working on the project?

Paweł Łapiński: We are not giving up on graphene. Around the world, recent years have seen many discoveries at the level of graphene synthesis, but little has been discovered to enable cost-effective applications of these materials. While the possibilities of industrial graphene synthesis are already well explored, we are not abandoning research into its possible applications.

We will certainly not undertake any basic research, though, because our aim is to create value on new products and build processing markets.

piotr: Are you planning any acquisitions this year besides Compo Expert?

Paweł Łapiński: The point I have stressed in all our chats is that we are constantly eyeing potential acquisition targets. We are looking for gems that would fit into our business model. Another thing worth noting is that we do not limit our search to companies active in fields that go slightly beyond our business profile.

Guest: Hello. How would you sum up your decade on the stock exchange?

Paweł Łapiński: 10 years on the Warsaw Stock Exchange is a fine jubilee. The Company's market valuation, and of course the Grupa Azoty Group itself, are on a completely different level than 10 years ago, when our opening share price was around PLN 15. The progress we have made since the IPO is a source of great satisfaction to Grupa Azoty, whose consolidated revenue has grown over that period from PLN 1.4bn in 2008 to almost PLN 10bn in recent years. We touched the historical high at PLN 113, but our share price also fell as low as PLN 6. We have carried out three share issues over the period, we have been consolidating the Polish chemical industry, and are looking for global investment opportunities. A lot has happened and is still happening. We hope to have provided our shareholders with plenty of attractive investment opportunities, and our loyal shareholders certainly appreciate the Group's open communication policy.

piotr: When will you decide to engage in a coal gasification project? It it already included in the CAPEX budget?

Paweł Łapiński: We are currently working on a feasibility study and financing options for a coal gasification project, but Grupa Azoty's expected capital expenditure has already been included in the CAPEX budget.

Guest: Can we expect an increase in imports into Poland driven by a relatively weak dollar?

Paweł Łapiński: An increase in imports is possible, especially from countries east of Poland (Russia), but also from non-European directions. It may concern only certain types of fertilizers (e.g. NPK, urea or ammonium nitrate). A factor that may play a role (as an entry barrier) in the case of fertilizer supplies by sea may be the reception and storage capacities, but unfortunately it is not a major impediment to imports.

pinkmartini: Hello. Does the Company have plans to raise dividends? So far, they have been rather skimpy, compared with the market.

Paweł Łapiński: The Company has defined its dividend policy in the updated Strategy for 2013-2020, in which it declares its willingness to share profits with shareholders, while capping the dividend payout ratio at 60% of net profit. However, one should also take into account Grupa Azoty's ambitious investment plans and the need to ensure long-term financial security.

af trader: Could you, please, bring us up to date on the equity involvement and relations in the undoubtedly very touchy matter of the shareholder Mr Kantor and Akron.

Paweł Łapiński: Relations with that shareholder are limited to his participation in the general meetings. Recently, as far as we know, he has not increased or reduced his equity interest in the Company.

Sema4: What investment plans can you boast of at the moment?

Paweł Łapiński: We always boast in our public releases and reports, so just to remind you – our planned investment projects fall into three groups:

The first one includes large-scale projects with corporate coverage, such as Police Polymers, a global-scale propylene and polypropylene production plant now at an advanced stage of preparations, which in effect will double the scale and role of the Police plant. It will also have great impact on the business environment, as the Polish polypropylene processing industry will focus around one of Grupa Azoty companies.

The second group of future investment projects includes corporate projects with slightly lesser impact on the Group and the economy, which are growth and capacity maintenance-oriented, such as coal gasification together with Tauron, and, for example, the Puławy Power Plant, where we have decided on the 100 MWe option, i.e. enough to meet the power and heat requirements of the entire Puławy plant.

The third group includes a complex of projects around nitric acid renewal in Puławy and polyamide processing in Tarnów (plastics compounding), the second stage of the CHP project in Kędzierzyn-Koźle and similar projects.

I hope we will still have more than one or two occasions to boast our pipeline of projects.

Goldi: Hello. Does Grupa Azoty intend to pay dividend for 2017? Is a dividend policy part of Grupa Azoty's strategy for the coming years?

Paweł Łapiński: As I said, Grupa Azoty has adopted a dividend policy in its updated Strategy for 2013–2020. Our financial results for 2017 have already been released, so you know what separate net profit we earned, but the Management Board's dividend recommendation has not yet been approved or announced.

investor_2k: Hello again! I have a question about dividend. When will we learn more details, i.e. the Management Board's recommendation?

Paweł Łapiński: I can see the topic of dividend has dominated today's chat. That is quite understandable, especially at this time of year. The Management Board's recommendation should be made known within the next few weeks.

Guest: We are chatting here nicely and your share price is about to drop below this year's low of PLN 55. What is the Management Board doing to stabilise and protect the share price? Maybe you should consider a share buyback, as your stock is terribly undervalued.

Paweł Łapiński: It would not be very reasonable to spend funds to buy back shares while we are implementing an extensive investment plan. We believe in the long-term value and growth of the Company, and we are taking practical steps to make that happen.

Investors will appreciate that with time. Those who can see that today stand to earn the most.

Seba: Hello. Nowhere in the profit figures could I find information on the ratio of domestic sales to exports. Do you export products only or services as well?

Paweł Łapiński: In the section with the geographical breakdown, we present our revenue by countries and regions. We mainly export products, but occasionally we also sell services abroad.

Guest: Could you please specify what is going to bring an additional PLN 5bn in revenue to the Company by 2023?

Paweł Łapiński: We expect to generate revenue growth mainly on our flagship projects aimed at building a new business PDH – Polimery Police, whose target sales are to reach 400,000 tonnes of polypropylene. In addition, we are carrying out projects to increase margins on the back of organic growth in Fertilizers by expanding our nitric acid capacities, which will translate into higher sales of fertilizers, including speciality products. In Chemicals, we focus on more advanced processing (modified plastics in the Plastics segment), which entails higher prices, and on increasing the volumes of special esters (non-phthalate products) in the OXO business. We expect to earn the PLN 15bn in revenue in 2023 or 2024. It is worth noting, however, that the calculations do not factor in acquisitions. If any acquisitions are made, the target revenue may be achieved much sooner.

pinkmartini: Taking into account the results for 2017, do you think the current stock price reflects the Company's condition and prospects for the coming years?

Paweł Łapiński: In our opinion, the current price of Grupa Azoty stock does not reflect the expected effects of our strategic investment projects, which – obviously – will lift our debt within ratios agreed with the banks. Our investment plan supports sustained growth of the Group's EBITDA and achievement of the rates of return specified in the Group's Strategy. In addition, the Group should become more resilient to business cycles.

It is important to note that the Grupa Azoty Group's 2017 performance is considered strong relative to its major competitors in the fertilizer industry, which confirms that the Group is doing well in its main markets.

Therefore, we think that our stock price is not sufficiently indicative of the reported results or expected outcomes of our growth plans.

Guest: Can you confirm the words of Wojciech Wardacki that the acquisition of Compo Expert will be effected in late April or early May, or maybe the transaction will take place at a later date?

Paweł Łapiński: I am afraid I cannot answer your question.

Guest: Given that your net profit improved in 2017, can we expect a higher dividend?

Paweł Łapiński: The Management Board's dividend recommendation is due within the next few weeks, but – as usual – a final decision on dividend payment will be made by the General Meeting.

Guest: Could you explain what is happening to the Company's share price? It has dropped over 50% since the end of 2015, even though your financial performance has been improving year on year.

Paweł Łapiński: The market valuation does not entirely depend on the Company. As you well know, the crucial factor is general perception of the Polish market. Liquidity, which in the case of Grupa Azoty is not particularly high, also plays a role. However, the discount is not really justified, as the results we generated and reported for 2017 are markedly better compared with our European peers. Another thing is that the Polish market is looked at over a single quarter, while companies listed on western stock exchanges are assessed over time horizons of 3–5 years. In Poland, valuations change every quarter and equity analysts can change their valuations by 50% within months. You must judge for yourselves whether such approach is professional and worth relying on. As part of our investor communication and investor relations, we seek to be as transparent as possible and offer information that can help investors in making decisions.

Guest: When do you expect to launch PA expansion? How much can it add to EBITDA in the current market environment?

Paweł Łapiński: Our new PA6 plant was commissioned already in the fourth quarter of 2017 and the total volume is expected to increase in 2018. To evaluate the project's impact on EBITDA in 2018, I recommend putting together the 2017 market spread between CPL and PA6 with the growing utilization rate, which however is still low – at around 50%. This should translate into EBITDA growth.

SW-fan: Hello. It is nice to have such a great personality on our retail investors portal. Looking at your stock price, though, the situation is not quite as rosy. Your winning streak ended some time ago and now your share price is about to hit triple bottom. What steps is the Company taking to increase its value again?

Paweł Łapiński: It is no use arguing with the market valuation, so to make sure our current and prospective shareholders have reliable information based on which they can make investment decisions, we pursue a transparent communication policy. We are committed to delivering comprehensive information and keeping investors up-to-date on our R&D activities, ongoing projects and growth plans. From the Polish perspective, with stocks assessed over a time horizon of a single quarter, the planned CAPEX may be seen as a burden, but only in the short run. Our investment plan is a great answer to the question asked by foreign investors: "Where will Grupa Azoty be in a few years' time?" If the stock price hits triple bottom, this may be a good moment to buy – an option certainly worth considering.

Stanisław: Will investment in Grupa Azoty shares for at least two years now produce a higher rate of return than 10-year treasury bonds?

Paweł Łapiński: The chances are high, I think.

Guest: Could you at least let on if the dividend will be lower or higher than last year?

Paweł Łapiński: I need to ask you for a little more patience. I will make sure the Management Board knows how much you are looking forward to its dividend recommendation :)

vagabunda: I have a question about your current strategy. What revisions had to be made and what are your key opportunities and threats now? Also, how would you describe the position of the U.S. as a producer and supplier of gas and gas products to Europe? How is the market changing and what is the balance of power?

Paweł Łapiński: Last year, we updated our Strategy until 2020 to be able to operationalise it, or express it in the language of projects, in the three years. At the moment, we are engaged in strategic initiatives and the Management Board will follow their progress, prioritising the projects, because it is impossible to focus on all of them at the same time.

The revisions, or updates to be more specific, concerned projects which were abandoned in response to rapid developments in the global economy.

We will soon start strategic analyses leading up to the formulation of our long-term Strategy, covering at least ten years. Then, we will draw conclusions for the long term.

Geographical proximity to consumers and their confidence in Grupa Azoty are, undoubtedly, some of our key strengths. As for the threats, we will try to stave them off by pursuing our innovation strategy.

The U.S. has taken advantage of its access to cheap gas. For several years, it has been building gas processing facilities, including for production of fertilizers (mainly ammonia, urea, and UAN). UAN, in particular, is gaining popularity on the American market, gradually replacing ammonia. Every year, new fertilizer units are opened in the U.S., making imports decline. We estimate that in a few years' time the U.S. may not only become self-sufficient, but – given the wide difference in the prices of gas and electricity (another cost component in the chemical industry) – it may pose a real threat to EU manufacturers. Even European producers are building their plants in the U.S. For example, Yara and BASF have just launched an ammonia plant with complete transmission and loading infrastructure on the Atlantic coast. Both companies imported large amounts of ammonia to their EU plants.

In the U.S., there are two cost components which are far cheaper than in the EU: gas (as there are two types, including shale, with low extraction costs) and electricity (as the U.S. is not subject to instruments such as the EU ETS, which increase its cost). These are the two pillars the U.S.' competitive advantage is built on.

pinkmartini: Does the Company plan to enter any new markets? If so, which ones? What is the Company's current structure of export sales? What are the shares of the African and Russian markets? Is the Company selling to China currently?

Paweł Łapiński: The geographical structure of our sales depends on macroeconomic conditions and the margins that can be achieved. We are analysing the prospects offered by markets where we can operate if this makes economic sense. Data published in the financial statements shows that Poland remains our biggest market, while the second largest geographical area is the EU. Exports to Africa, China and Russia account for approximately 2% of total sales.

Guest: Hello. In 2013, Grupa Azoty bought Grupa Azoty Puławy for PLN 110 per share. The Puławy stock price is PLN 122 per share now. Will Grupa Azoty have to recognise an impairment loss if the price falls below PLN 110?

Paweł Łapiński: A decline in the stock price may affect the value of assets held by the Company.

Paweł Łapiński: Thank you very much for taking part in this chat session, which was clearly dominated by questions about dividend. We were again pleasantly surprised by the number of participants. I hope to meet you again next time.

moderator: On behalf of StockWatch.pl, I would like to thank you for a very interesting discussion and invite you to our future chat sessions.