

Paweł Łapiński: Welcome everyone. We have just published our performance figures for the third quarter of 2018. On Monday, we closed the acquisition of 100% of shares in Goat TopCo GmbH (Compo Expert). As usual, there are plenty of topics to talk about, so I encourage you to ask questions.

Andrzej: What are the prospects for the fertilizers segment? Which segments are to make up for the losses the Company incurred in previous quarters?

Paweł Łapiński: In the short-term, that is during the next 6–12 months, we expect an improvement in the fertilizers segment, reflecting a global upward trend in the prices of urea and nitrate fertilizers. Growing prices of agricultural produce, translating into higher purchasing power of farmers, are also a positive factor. Therefore, we expect that, as prices of raw materials stabilise, product margin will increase, rebuilding low margins recorded in the first three quarters of 2018. With regard to our consolidated results, the difficult situation in the fertilizers segment caused by turbulences on the commodities market is mitigated by performance of the B2B segments, i.e. Plastics, Pigments, and OXO, where the final price accounts for the volatility of raw material prices. We are also capitalising on the feedstock cycles, raising margins on sales of sulfur, which helps us to mitigate unfavourable trends in the Agro segment.

Adam: Won't the considerable capex amount you spent to acquire Compo delay the launch of the Police Polymers project?

Paweł Łapiński: The preparatory work related to the implementation of the POLICE POLYMERS project is proceeding as planned and scheduled. We have finished the costly preparation of documentation. We have also just received proposals for delivery of this project, worth several billion złoty. The contractor is planned to be selected within the next six months.

darek: Does ATT support start-ups in growing business which would generate synergies for your current operations?

Paweł Łapiński: Yes, of course! We work especially with start-ups that offer services and tools which are complementary to our fertilizer offering for the agro business. We also encourage start-ups operating in the plastics segment to enter the physical market. In fact, we have established contractual contacts with several dozen start-ups, both from the academic and non-academic backgrounds.

Ontersky: How can you explain Grupa Azoty's poor performance in the first three quarters?

Paweł Łapiński: Generally speaking, the times are rough for the entire European fertilizer industry. High prices of energy carriers, coupled with unfavourable weather conditions in the first quarter, translated into margin erosion, which we have been gradually making up for since the third quarter. These efforts are expected to achieve their highest effectiveness at the end of the fourth quarter and beginning of the first quarter of 2019, if the other B2B segments' performance figures remain stable.

gromee: Hello. I have two questions. Do the representatives of the Company's Management Board hold any shares in the Company? If so, how many shares are held and who is their owner? The other question is: what is, in the Management Board's opinion, the fair value of the Company shares now?

Paweł Łapiński: Information on the number of shares held by members of the Company's Management Board is published in each periodic report. At present, none of the Management Board members holds any shares in the Company. If the situation changes, the relevant information will be immediately announced in compliance with the applicable capital market regulations. As far as the fair value of the Company shares is concerned, I can only say that I believe them to be undervalued at the moment, especially in comparison with the valuation of our competitors' shares.

eryk: What increases in revenue can be expected from the consolidation of Compo Expert's results?

Paweł Łapiński: In the last audited financial year ended September 30th 2017, the Compo Expert Group earned a revenue of EUR 333m. It is estimated that following the consolidation of the Compo Expert Group, in 2019 Grupa Azoty's consolidated full-year revenue will increase by approximately PLN 1.5bn.

sentreyu: Are you conducting research on developing a new production line or improving your existing products? How can this affect your business?

Paweł Łapiński: Surely, we are engaged in research and development of our existing products (products from the Fertilizers and Plastics segments, melamine, OXO-plasticizers, titanium white - pigments) as well as new products, low-tonnage ones for the time being, which helps us diversify Grupa Azoty's existing product mix. We make these efforts to improve margins on the existing products, develop our capabilities and market products which are similar to our existing products as well as the brand new ones, making sure they are all related to the chemical industry, which we know thoroughly.

akcjonariusz: Congratulations! To start with: what are the key assumptions underlying the acquisition?

Paweł Łapiński: Compo Expert's specialist product portfolio will complement Grupa Azoty's current product offering which is based on large volume fertilizers, the basic type of products used all over the world. The transaction will open up new opportunities to diversify our business while acquiring innovative technologies and a well-developed distribution network. The Compo Expert Group's sales structure, diversified geographically and in terms of product offering, will reduce the dependence of Grupa Azoty's financial performance on adverse local weather phenomena. Due to the lower price sensitivity of demand for specialty products, the acquisition will reduce Grupa Azoty's exposure to global business cycles. In addition, as prices of specialty fertilizers are less strongly co-related with the cost of feedstock and materials used in their production, the new products will reduce the sensitivity of Grupa Azoty's performance to fluctuations in natural gas prices. The acquisition of Compo Expert is expected to bring the following synergies: 1. Manufacturing know-how synergies. 2. Sales synergies. 3. R&D synergies. 4. Raw material and product synergies. 5. Financing synergies. These synergies were not included in the calculation of the purchase price of the Goat TopCo shares; they represent an added value that may affect the performance and value of Grupa Azoty in subsequent years.

remek: What was the main factor behind the drop in EBITDA margin? Is it possible to improve EBITDA margin by increasing output and sales on new markets? What is the current capacity utilisation at the individual segments?

Paweł Łapiński: EBITDA margin fell mainly due to materialisation of risks on the cost side, particularly the cost of energy commodities. To offset margin erosion, we will focus on the pricing policy. When talking about the output and capacity utilisation in the first three quarters of the year we should take into account the lower year-on-year base, an effect of the need to adapt nitrogen output in H1 to its oversupply on the market. As for the other segments, we leverage good economic conditions in the entire B2B segment to maximise output and sales.

investor: Does the Company mitigate the risk of gas price movements by entering into contracts? How do exchange differences, and especially the recent depreciation of the złoty, affect Grupa Azoty's performance?

Paweł Łapiński: The prices of gas purchased by Grupa Azoty under the contract with its main supplier are based on market prices in Europe, which allows us to maintain a competitive edge over the key fertilizer manufacturers. However, Grupa Azoty does not enter into any futures or forward contracts to secure gas prices. As for the exchange differences, considering that Grupa Azoty has a USD and EUR exposure, it hedges part of this exposure over a year's horizon by increasing the hedge factor when the likelihood of realising the planned exposure grows. This effectively mitigates the risk of exchange rate fluctuations. However, given the continued depreciation of the Polish złoty against the US dollar and the euro in the recent period, the Group has reported foreign exchange gains on the open unhedged exposure, partially offsetting the poorer operating performance.

michał: What are your administrative expenses? Are they in line with the standard administrative expenses of state-owned companies?

Paweł Łapiński: There is no such thing as standard administrative expenses of state-owned companies. We strive to optimise all costs, taking care that this does not negatively affect our day-to-day operations. Efficient cost management is a standard practice at large organisations now.

Gucio: What is your current headcount?

Paweł Łapiński: The Group has over 14,000 staff.

derik: What do you think about the current stock price? Are you taking any steps to stabilise the falling price? What is the foreign investors' perception of the current price of your stock?

Paweł Łapiński: As I said earlier, I think Grupa Azoty shares are undervalued. As we all know, of course, the market has its dynamics and may sometimes behave irrationally. We communicate with our shareholders as best as we can, sharing our strategic and investment plans with them. We can be relied on to also communicate bad news that may impact our stock price. The stock's liquidity is supported by two market makers. We are in contact with institutional investors in Poland and abroad. It is foreign investors that have been showing increased interest over the past few months. For foreign institutions looking at the Company from a long-term perspective, the current price seems like an attractive investment opportunity.

blaze: Which product line generates the widest margins and which one is most in demand?

Paweł Łapiński: In terms of margins, our leading lines are titanium white and polyamides, including compounds (i.e. modified polyamides). It is also important to note the constructive trends in the sulfur market, supported by a relatively strong US dollar. In terms of demand, the second half of the year saw significant improvement in fertilizer demand, with demand for chemicals (i.e. plastics, pigments and oxo) remaining stable year on year.

marcin: Will you start to consolidate Compo Expert's financial statements before the end of 2018?

Paweł Łapiński: Yes, we will.

Krezus: Is the price you negotiated for Compo Expert optimal?

Paweł Łapiński: The purchase price of the shares was determined based on, among other things, long-term projections of prices and margins of fertilizer products for each of Compo Expert's sales markets. The price is within the range determined by the transaction advisor and has been additionally verified by an independent expert.

kalimos: When will you start to consolidate the acquired company? Will the Group's results be presented in PLN or EUR?

Paweł Łapiński: Compo Expert's financial statements will start to be consolidated before the end of 2018. The Group's financial statements are presented in PLN.

GFy: Hello, last month saw nice share price gains and strong turnover. Do you know who is behind them? Mr Łapiński spoke about meetings with foreign funds. Have they joined the company as shareholders?

Paweł Łapiński: Let me remind you that recently both Poland and the Company's stock have been reclassified in foreign indices, which has had its impact on portfolio exchange transactions. Shareholders are required to disclose holdings of over 5%, but we have no information that any new investors have exceeded that threshold.

anders: Can you give us the names of start-ups ATT plans to invest in?

Paweł Łapiński: As our investors, you would certainly not want us to publicly disclose the names of our acquisition targets before a final decision is made, as this could adversely affect our negotiating position in future transactions. Besides, equity investments are not necessarily a prerequisite for a mutually beneficial business relationship – often a commercial, research or marketing partnership initially suffices.

andrzej: The condition of which industries has an immediate impact on Grupa Azoty sales?

Paweł Łapiński: Grupa Azoty is a chemical company specialising in the production of mineral fertilizers, so the condition of the agricultural sector is vital for us. We also manufacture products that serve as feedstocks in many branches of industry, including construction, automotive, electronic, textile, and household appliances industries. So, the condition of each of these industries certainly has an impact on Grupa Azoty's sales.

marco: What is the Company's net debt to EBITDA ratio after the acquisition of Compo Expert?

Paweł Łapiński: Net debt to EBITDA is calculated for 12-month periods, as at each reporting date, when our financial statements are assessed by the independent auditor in an audit opinion or a half-year review report. Currently, the ratio is far below the limit, but we remain vigilant and respond to risks. We seek to improve our cash position and actively manage capex.

pewer: Aren't you afraid that as a result of the recent acquisition you may not be able to meet bank covenants? If your financial results fail to meet the expectations, you may face problems with keeping lines of credit.

Paweł Łapiński: We proactively manage our corporate credit agreements, fully engaging with our strategic financing banks. In 2018 we concluded a complete package of agreements and annexes to agreements with commercial banks as well as the EIB and the EBRD. We negotiated and harmonised the financial covenants in those agreements so that they would account for the effects of the planned acquisition of the Compo Group and the Group's EBITDA development, among other factors. What is important, our consolidated net debt indeed rose considerably when we acquired the Compo Group, but as soon as from the beginning of 2019 the Compo Group's EBITDA will lift the consolidated EBITDA of the Grupa Azoty Group, leading to an improved net debt ratio next year.

Aga: Will the Company stick to its plan to reduce capex from PLN 1.6bn to PLN 1.1bn?

Paweł Łapiński: Our forecasts assume a reduction in capex to ca. PLN 1.1bn. This will be done by optimising project budgets or postponing execution until the coming quarters. Generally, we are not changing our development directions but simply aligning the schedules with the Group's current financial standing.

komiko: Mr Vice President, what do you think is the reason for declines at ATT?

Paweł Łapiński: The drop in the company stock price over the last six months may have been caused by a number of coinciding factors adverse to the company, including tough conditions in the European fertilizer markets caused by adverse weather conditions, and rising prices of natural gas and carbon allowances. The market sentiment may have also been shaped by some investors' opinions on the company's investment programme, which were connected with the fact that returns on the company's investment projects were not yet reflected in its performance. This may have adversely affected the perceived value of those projects. Another contributing factor is the current situation on the capital market – loss of the market's confidence in investment funds and related sell-off of mid caps, including Grupa Azoty, the company's low free float, the FTSE's decision to promote Poland from Emerging Markets to Developed Markets, and the resulting stock sales by Emerging Markets funds, not offset by acquisitions made by Developed Markets funds.

logos: Do you own Grupa Azoty shares?

Paweł Łapiński: No, I don't.

janek: What is the number one manufacturer of nitrogen fertilizers in the EU?

Paweł Łapiński: Yara

marek: Did you manage to renegotiate the contract with PGNIG, as you mentioned during the earnings conference?

Paweł Łapiński: Negotiations are under way.

saxo: What does Poland's trade deficit in chemicals mean exactly? How could ATT benefit from planned investments in this sector?

Paweł Łapiński: 'Trade deficit in chemicals in Poland' means that the country exports less of what we generally classify as chemicals than it imports. This may mean an opportunity for Grupa Azoty to benefit by meeting some of the foreign demand for fertilizers and polyamide plastics, in particular highly processed compounds, that we have recently invested in. By building a large production complex POLICE POLYMERS, we want to benefit from a reduction in Poland's trade deficit in chemicals. We expect and plan to export several dozen percent of our polypropylene production, mainly to customers in Central and Western Europe. Other Polish companies smaller than Grupa Azoty may also benefit as they will be given access to basic propylene and polypropylene, which they may further process or, possibly, sell some of their final products with a high added value abroad. The entire Polish economy will benefit, then.

Hubert: Who is your biggest competitor in Poland and the wider Europe?

Paweł Łapiński: It depends on the market segment. Given our market position in Poland and Europe, we compete against the top players. In the fertilizer segment, our biggest rivals are Yara, Agrofert, Eurochem, and Phosagro. In plastics – BASF and Lanxess. In plasticisers – Evonik, BASF, and Ineos, and in melamine – OCI and Borealis.

Krezus: What is going to change at the Company after the acquisition of Compo Expert?

Paweł Łapiński: Grupa Azoty has been joined by an organisation with a broad international presence and an established reputation among professional customers and market competitors. Compo Expert's specialist product portfolio will complement Grupa Azoty's current product offering, which is based on large volume fertilizers. Among other things, the transaction is an opportunity to access Compo Expert's innovative technology for the manufacture of specialist fertilizers and to achieve further synergies in R&D and manufacturing know-how. We expect to leverage sales synergies as well, for instance by adding Compo Expert specialty products to our domestic product range. There are also economic benefits that we hope to obtain, considering the feedstock and product links between Compo Expert and Grupa Azoty.

sergio: Which business segments do you think have the largest capex needs? Which company stands out the most in this respect?

Paweł Łapiński: Our capex plans provide for strengthening of the Fertilizers segment. For example, we plan to have a new nitric acid unit and to upgrade the nitrogen fertilizer unit. In Plastics, we invest in highly processed and high-margin polyamide compounds, and in the OXO segment – in a state-of-the-art plasticizer unit. We are investing heavily in modernising our onsite energy generation assets and bringing them closer to the ultimate goal of reducing environmental impacts. We are also proud to invest in a new plastic – polypropylene. Capex is and will continue to be distributed more or less evenly between the Group companies. Of course, our special purpose vehicle Polimery Police will stand out over the next three years due to the scale of the propylene/polypropylene project.

korfanty: Hello. Will the Company pay a dividend despite poor results?

Paweł Łapiński: The dividend policy adopted in Grupa Azoty's strategy sets the upper dividend limit at 60% of the Company's net profit, and this has not changed. Having said that, we must always consider Grupa Azoty's investment plans and its long-term financial security when preparing dividend recommendations. The final dividend decision always rests with the General Meeting.

mati: What impact will the European Parliament's decision to set a 60 mg/kg limit on cadmium content in fertilizers have on your business?

Paweł Łapiński: The legislative process is still ongoing. A compromise deal is being negotiated in a trialogue between the European Parliament, Council of the European Union and the European Commission. The negotiating team will present the document at the beginning of December this year at the earliest. Then there will be Council and European Parliament votes. So, what I can say is that the process is nearer its end than its beginning, but still ongoing.

Albert: How is the Grupa Azoty consolidation process going? How much longer will it take?

Paweł Łapiński: Internal consolidation of the Group – which consists of four large (by Polish standards) industrial complexes plus four medium-sized and thirty small companies, where multiple core business segments intersect, with internal and market interdependencies and synergies – is worth millions of zlotys, so we are not giving up. A consolidation process normally takes three years per company – and we have four leading companies.

marek: Was Compo Expert's 2018 performance on the 2017 level?

Paweł Łapiński: The preliminary adjusted FY 2018 results we have obtained are on a par with adjusted results for 2017.

marcin: What about the coal gasification project which was to be carried out with Tauron? Has it been suspended or is the work in progress?

Paweł Łapiński: We continue the coal gasification project in partnership with Tauron. We are preparing a special purpose vehicle to make arrangements for the project. We rely on cooperation with our partner, which has a stable access to the feedstock – hard coal of appropriate quality, without which we won't be able to take a next step.

Adam: Don't you think that you paid too much for Compo Expert? 10–12x EBITDA is well above the average for recent acquisitions in the chemical industry.

Paweł Łapiński: The purchase price of the shares was determined based on, among other things, long-term projections of prices and margins of fertilizer products for each of Compo Expert's sales markets. The price was also linked to share prices or transaction prices of our competitors. The price is within the range determined by the transaction advisor and has been additionally verified by an independent expert.

malon: I would like to congratulate you on the quality of your investor relations. Despite poor results your standards of communication are high. At the company, can you see any impact of your communication efforts on the price of your shares?

Paweł Łapiński: Thank you. We make every effort to communicate reliably any information that may be of interest to shareholders, including information which may have a negative impact on how Grupa Azoty is perceived.

elegant: Hello, how long will the chat be?

Paweł Łapiński: Ladies and gentlemen, I'm being told that our time is up today. I'm afraid I haven't been able to answer all your questions. The number of questions you ask and your curiosity clearly demonstrate that meeting with you again in the future makes sense. So, let me invite you to our 2018 end-of-year chat.

Moderator: Thank you for taking part in the chat session. We encourage you to join us again next time.

