

<p><b>moderator:</b> Welcome to our live Q&amp;A chat session with Paweł Łapiński, Vice President for Finance at Grupa Azoty. The subject of our today's meeting is Grupa Azoty's financial results for the first half of 2017.</p>
<p><b>moderator:</b> Let me remind you 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.</p>
<p><b>moderator:</b> 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: <a href="mailto:biuro@stockwatch.pl">biuro@stockwatch.pl</a></p>
<p><b>moderator:</b> You may now ask your questions. Our Guest will start answering them at 12:00 noon. In case you don't see the answer, please use the F5 key to refresh the page.</p>
<p><b>Paweł Łapiński:</b> Welcome everyone. The first half of 2017 is over, so it is time for a recap. I am ready to take your questions now.</p>
<p><b>Guest:</b> Good afternoon. How much savings did the company achieve in the first half of the year with the common procurement platform?</p>
<p><b>Paweł Łapiński:</b> Savings are generated through numerous transactions and we do not keep a detailed record of this particular stream. Looking at large transactions, however, we expect that savings will reach more than ten million zlotys at the end of 2017.</p>
<p><b>investor <i>unconfirmed</i>:</b> When will decisions be made regarding the power plant in Puławy and, specifically, what is the planned budget for the coal-fired plant?</p>
<p><b>Paweł Łapiński:</b> Decisions should be made in this quarter. The plan is to build a 400 MWt power generating unit. The technology has not been selected yet, especially due to the requirement to comply with the BAT Conclusions, which will affect the CAPEX.</p>
<p><b>Guest:</b> What is the reason for the relatively low level of cash generated by the Group over the last six months?</p>
<p><b>Paweł Łapiński:</b> In terms of net cash flows, we posted a year-on-year increase. But from the perspective of cash flows from operating activities, the key reasons behind the decline include the level of working capital, affected mainly by higher inventories of fertilizers held for distribution in the coming fertilizer application season and higher receivables resulting primarily from a significant sales growth in the Plastics segment.</p>
<p><b>investor <i>unconfirmed</i>:</b> Should we expect to see further impairment losses on the fat processing plant in Chorzów in subsequent reports?</p>

**Paweł Łapiński:** The fat processing plant at ZA Chorzów is under analysis and efforts are being made to streamline its operations. Meeting the assumed technological parameters will probably prevent further impairment losses. The streamlining process is aimed to both achieve the target capacity and shift the product mix towards higher margins.

**guest *unconfirmed*:** What is the outlook for alcohols in the second half of 2017 and in the next year?

**Paweł Łapiński:** The prospects for alcohols in the second half of the year largely depend on the prices of propylene. For sure, no maintenance shutdowns are planned in the second half of the year, which will boost production and thus improve our market position. We expect that in the second half of 2017 the market will continue to follow the positive trends prevailing in the industry, which should have a positive effect on sales volumes and improved deltas for raw materials.

**Guest *unconfirmed*:** Will the planned propylene production unit have a large impact on the supply of the product in Europe? Is oversupply a real concern?

**Paweł Łapiński:** Currently, we are considering further processing into polypropylene. Therefore, the project will have little bearing on the propylene market. According to market analyses, the polypropylene market will be on the rise in the long term.

**af trader:** Where does Grupa Azoty buy gas from? Is PGNiG still the sole supplier?

**Paweł Łapiński:** For several years now, we have not been buying 100% of gas from PGNiG. We are diversifying the sources of this feedstock. Last year, we purchased about 60% of our gas from PGNiG. This year, the share of gas from PGNiG will be slightly higher.

**AF:** Has the investment in Senegal been fully written-off yet? What are your plans for these assets?

**Paweł Łapiński:** A full impairment loss has not been recognised yet. As we have announced in our current reports, Grupa Azoty keeps the public informed of the measures taken in this respect.

**mankoz *unconfirmed*:** Grupa Azoty is the only WSE-listed company with a significant interest held by the State Treasury, whose market price has not increased compared with other such companies, e.g. KGHM, PZU, and PKN. How does the Management Board plan to improve the valuation? Regards!

**Paweł Łapiński:** Share price depends on a number of factors. We must remember that a little more than a year ago Azoty share price climbed to an all-time high. Recently, our stock price was affected by both external factors and analyst valuations. Today, we are seeing a more favourable environment,

with positive recommendations prevailing. Additionally, our presence in the RESPECT Index, bringing together the most transparent companies listed on the WSE, increases the demand for Azoty shares. The company has also undertaken numerous initiatives designed to boost its value in a longer term. We have also declared that in the updated Strategy.

**Guest *unconfirmed*:** Have you started talks with potential customers for the polypropylene to be produced in Police?

**Paweł Łapiński:** It would be strange if we did not hold such talks. It is one of the essential elements of work on such projects.

**Marian:** Good afternoon. Which production segment generated the highest revenue over the last six months?

**Paweł Łapiński:** For many years, the Fertilizers segment has been the largest contributor to our performance in terms of value (over 60%). We would like to note, however, a solid margin growth achieved in the other segments, with Plastics gaining the lead in terms of margin performance (EBITDA margin of 16.3%).

**Agrofan:** Good afternoon, what about fertilizers? What is the outlook for this market in the near future? What are the capacity utilisation rates in Europe?

**Paweł Łapiński:** Fertilizer consumption must be considered from two perspectives: consumption in Poland and in the EU. We are present on both markets. Certainly, the largest share of products is sold in Poland (about 70%), but the remaining part is successfully allocated mostly across EU markets. Fertilizer consumption prospects in Poland are promising - an upward trend is expected especially in the consumption of nitrogen fertilizers. Let's remember that Poland is the third largest fertilizers market in the European Union, after France and Germany. As regards capacity utilization, I think it is relatively high. A decline is observed in countries that are unable to reduce production costs and are therefore losing in terms of costs. China, for instance, has closed down a number of urea production units.

**Agrofan:** How much do you plan to spend on coal gasification research?

**Paweł Łapiński:** Not a single złoty as we intend to buy an existing and proven technology. After that, we will cooperate in terms of the BAT requirements, waste stream management, process optimization, etc. The expenditure may reach several dozen million złotys.

**Guest *unconfirmed*:** Hello Mr Łapiński! What are the EBIT and EBITDA figures expected to be generated by the planned propylene unit?

**Paweł Łapiński:** Unfortunately, we cannot announce such information yet. Please remember that we are considering an extension of the investment project so any information provided at this moment could be unreliable.

**SW-fan:** Hello. What about Acron and Kantor? He has recently bought additional shares and is said to hold a stake of almost 20%. Has the share price been trapped in order to discourage this shareholder? What if he makes further purchases?

**Paweł Łapiński:** This is news to us. Since June 2017, this shareholder has not notified the company of any change in his shareholding. According to the latest official data we received, Mr. Kantor's interest held through the subsidiary Norica Holding S.a.r.l. is over 19.47%. We do not know anything of the shareholder's plans to acquire further shares in the company.

**AF:** What is the current price situation in the fertilizer market and what trends do you forecast for the rest of 2017 and the beginning of 2018?

**Paweł Łapiński:** Fertilizer prices on the European markets have been growing steadily, but not significantly. If we make a comparison between August 2016 and August 2017, we see that prices of ammonium nitrate in France went up 9%, prices of calcium ammonium nitrate in Germany are also up 9%, and prices of nitrogen fertilizers in Poland increased 4%-10% year on year. As regards the situation at the end of the year and in the first quarter, we project upward trends, but they will depend on the prices of agricultural produce and urea.

**SW-fan:** The company has announced the Strategy for 2013–2020. Has it been changed, cancelled or is it going to be fully implemented?

**Paweł Łapiński:** The updated strategy was presented to shareholders on May 11th 2017 and covers the years 2017–2020. Currently, work on its operationalisation is underway.

**Guest *unconfirmed*:** The company performed well considering the unfavourable, in my opinion, conditions in the fertilizers market, but slightly poorer than predicted by analysts. In which segments and areas did you fail to meet the market expectations?

**Paweł Łapiński:** Analysts can't have predicted the one-off impairment losses of more than PLN 24m, the costs of the industrial accident in Kędzierzyn or the maintenance shutdowns in Kędzierzyn and Puławy that we performed earlier than scheduled.

**realista:** Would you be more interested in acquiring Ciech or Synthos?

**Paweł Łapiński:** We believe that healthy competition is essential in doing business. Of course, we are closely monitoring the activities taken both by

Ciech and Synthos as independent and dynamically operating companies. I think it may stay that way.

**Agrofan:** Is it possible that the European Commission may impose antidumping duties on fertilizer imports from the East?

**Paweł Łapiński:** Antidumping duties for ammonium nitrate imports from Russia are already in force. After a fifteen-month review, the European Commission resolved to uphold the anti-dumping duties on ammonium nitrate imports from Russia: Commission Implementing Regulation (EU) No 999/2014 of 23 September 2014 imposing a definitive anti-dumping duty on imports of ammonium nitrate originating in Russia following an expiry review pursuant to Article 11(2) of Council Regulation (EC) No 1225/2009. As a result, import duties on ammonium nitrate will amount to EUR 47/tonne over the next five years. The situation is different in the case of other fertilizers. There is some risk related to phosphate and NPK fertilizers. It all depends here on the solidarity of EU producers and loss calculation. EU legislation is very cautious about this issue. Fertilizers Europe, an association of Europe's major fertilizer manufacturers, monitors imports and if there arise circumstances justifying introduction of anti-dumping duties, it will file a relevant application. Let me remind you that as the second largest member of Fertilizers Europe we have a significant influence on its activities.

**Skryty analityk *unconfirmed*:** What do you think about margins delivered by the Plastics business in August/September? Could higher benzene prices and Hurricane Harvey bolster segment margins?

**Paweł Łapiński:** You always have to factor in market developments that impact producers' costs as these influence prices in Plastics. A more expensive benzene always adds to pricing pressure, but looking at our sales markets we are optimistic about the future for the time being.

**Guest:** When do you expect Poland's fertilizers market to pick up?

**Paweł Łapiński:** As with all other businesses that matter, fertilizers are subject to business cycles.

Fertilizer prices are driven by a number of factors, including

- natural gas prices
- crop prices
- size and timing of subsidies
- weather anomalies
- other economic and political developments
- EUR/PLN and USD/PLN exchange rates

For the short term, farmers will soon start to stock up on fertilizers ahead of the spring season.

For the long term, we are considering options to diversify our gas supply sources, because this is where we can deliver most gains.

In other words, we are not interested solely in higher fertilizer prices but in lowering production costs, and this is what we are working on.

**Guest:** Is funding your capital investments from share issues an option?

**Paweł Łapiński:** There is plenty of other financing instruments way more interesting than equity issues, which have their downside for shareholders. Of course, we will inform the market if any such decision is made, but I believe this would not be the best option right now.

**Guest *unconfirmed*:** Hello. Your stock price has remained more or less stable for the last two years. What is devouring most of your revenue and when do you expect growth in earnings?

**Paweł Łapiński:** The company's stock is trading broadly in line with the average annual EBITDA multiple of chemical companies ranging between x6 and x7.  
In the last two years we have invested heavily to improve our market position and financial performance. But the effects of the investment programme will not be seen overnight.

**Guest *unconfirmed*:** Why are higher coal prices in Asia failing to push fertilizer prices up?

**Paweł Łapiński:** The nitrogen fertilizer market is in balance, which means that the global supply is sufficient to meet demand from the individual markets.  
Consequently, costs can be passed on to prices to a limited extent. High-cost producers are bound to face problems with profitability. Cuts to urea production in Asia, or China to be precise, are a case in point.

**SW-fan:** Could Grupa Azoty issue retail bonds? They would be a substitute for mandatory dividends and a low-cost source of capital for you.

**Paweł Łapiński:** It's one of the instruments taken into consideration in our financial strategy until 2026.

**Ramzes II:** How big a problem for the company are American players with access to cheap shale gas and surface-mined coal?

**Paweł Łapiński:** We don't see increased activity from US players, but they could pose a major threat in the long term. In the first place, they could offer UAN, a liquid nitrogen fertilizer they could bring by ship, like liquefied gas.

**Agrofan:** Do you think Plastics can deliver recurring margins or will the margins fall as new capacities come onstream?

**Paweł Łapiński:** What you should ask is how long the uptrend will last. Let's hope it lasts long. We continue to see positive signals from the market, which

creates optimistic prospects for the Plastics segment considering the new polyamide capacities in Tarnów.

**Don Dominik:** Will the planned investment programme significantly reduce the company's dividend potential? What will be the proportion of own funds, bank loans, bonds, government grants and loans from the Polish Agency for Enterprise Development or other government agencies in financing the programme?

**Paweł Łapiński:** An ambitious capital investment programme requires funding - we have to spend money before we can reap benefits once it's completed. The rule is clear enough, but not for everyone. In the updated Strategy, we decided not to set a lower limit for the dividend payout ratio, and to maintain the upper limit at 60%. We also reserved the right not to pay dividend at all if this is justified. We must keep in mind that the overriding goal underpinning our financing structure is to ensure long-term financial security and internal coherence between all funding sources. We take a realistic approach in measuring the relative proportion of internal and external sources of financing. Just to remind you, Grupa Azoty has long-term credit agreements in place, which at June 30th 2017 gave us access to PLN 923m under corporate credit facilities and PLN 489m under overdraft and multi-purpose facilities. We may also use other funding sources.

**Agrofan:** During the earnings conference you mentioned maintenance shutdowns. If it had not been for the shutdowns, would your performance have been significantly better, and which units were affected?

**Paweł Łapiński:** Surely I should mention the ammonia plant in Kędzierzyn and the caprolactam plant in Puławy. As for the financial performance, I would suggest you look at our business from a different angle. Maintenance is vital to ensure sustained performance of our plant in each year of operation. Maintenance shutdowns will always have an impact on financial results, it's their timing that changes. Maintenance is scheduled to reflect the seasonality of sales and realized margins (ammonia unit in Kędzierzyn after the fertilizer application season) and product availability (the caprolactam plant was shut down for maintenance in May in order to have a supply of feedstock for Tarnów's new polyamide unit in the second half of the year).

**Guest:** In the first half of the year we saw a strong depreciation of the US dollar and the company reduced fertilizer exports to South America. Was it an effect of the currency depreciation?

**Paweł Łapiński:** It was one of the reasons. The main one was internal consumption. Ammonium sulfate, which is our key fertilizer sold to that market in terms of volume, is also used for the production of Saletrosan, our flagship product made in Tarnów. We are about to launch a second mechanical granulation line and will need increased volumes of ammonium sulfate to cover our own needs related to the manufacture of sulfur fertilizers.

<b>Guest:</b> Does Grupa Azoty hedge against currency risk and, if so, do you use hedge accounting?
<b>Paweł Łapiński:</b> Yes, we do hedge against currency risk and use hedge accounting.
<b>inwestor Andrzej:</b> What about the presence of Akron as the company's shareholder, which has long been a cause of concern.
<b>Paweł Łapiński:</b> In line with best capital market practices we treat all our shareholders on an equal footing and with respect.
<b>Guest:</b> Will you publish the feasibility study for the PDH project?
<b>Paweł Łapiński:</b> We have already said that the PDH project, a major corporate project, is now being reviewed to include the polypropylene option. We can't disclose the full feasibility study, if only due to trade secrets it contains, but we will try to show you the key metrics after relevant corporate decisions are made.
<b>Ramzes II:</b> Was shifting part of maintenance work from the third to the second quarter a business decision or a necessity? Did you want to take advantage of maintenance shutdowns of your competitors and exploit the strong market conditions? Who is responsible for maintenance planning at the company?
<b>Paweł Łapiński:</b> In each company we take into account market demand, inventory levels and process needs. Our plant maintenance team coordinates with the sales team to ensure continuity of supply to the market. In the case of Group-wide products like urea, ammonia and caprolactam, we coordinate capacity utilisation across the Group. The oxoplast plant was taken offline for maintenance according to schedule. Our maintenance team also takes into account the execution capabilities of our contractors.
<b>dywersyfikacja:</b> The złoty has strengthened considerably, how is this affecting your performance now, what's your prediction for the future, and, first and foremost, do you hedge against further appreciation of the złoty and what's the maximum level at which you can still earn a profit?
<b>Paweł Łapiński:</b> The strong złoty is a problem considering our net exposures to the euro and dollar. In particular, we are dealing with high volatility of the dollar and have to properly select the size of hedge. As for the euro, we are introducing an option to index our commodity position to the euro to raise natural hedging levels.
<b>Samotnik:</b> In addition to enhancing your corporate image, what are the benefits of your participation in the Respect Index?

**Paweł Łapiński:** Being a constituent of the Respect Index from its inception has been a great honour for Grupa Azoty as a company that meets the highest standards of investor relations and corporate social responsibility. But it's not only about the image. One tangible effect is our membership in global indices of companies meeting the highest reporting standards, like FTSE4Good, which we have been a part of since 2016. This has a direct effect of attracting money from investment funds, which make their investment contingent on the quality of reporting and transparency, and ESG indices are a meaningful gauge of reporting quality. An index membership attracts a larger pool of investors, which may ultimately lead to increased demand for our stock.

**Wojtek:** Hello. Once you move on with the PDH, coal gasification and other capital-intensive projects, will there be any funds left to pay out a dividend to shareholders?

**Paweł Łapiński:** Our strategy and plans allow for dividend payments. But, as I mentioned before, the Group's financial security is a priority.

**Guest:** Are you considering any foreign acquisitions?

**Paweł Łapiński:** We constantly scan the market and the M&A activity of our competitors and seek out market opportunities regardless of their location, which we also highlighted in the updated Strategy.

**Guest:** Urea and ammonia sales volumes increased considerably in the second quarter. Have urea and ammonia capacities been increased recently? When are the ongoing major projects due to start commercial operation? Are any of them delayed?

**Paweł Łapiński:** The volumes increased due to full utilisation of the ammonia and urea lines and additional sales of inventories. We raised ammonia production capacities. Sales of ammonia are marginal compared with internal consumption, but they could have a material impact on performance in Grupa Azoty Police, which sells most ammonia to external customers of any Group company. We are looking into the possibility of raising urea and UAN output as the market is undersupplied.

**Guest *unconfirmed*:** Hello. I have three questions: 1. What are the prospects for fertilizer prices in 2018? 2. We've seen two consecutive quarters of excellent performance in Plastics. Is the current market trend sustainable? 3. How will the mechanical granulation and PDH units benefit your financial performance?

**Paweł Łapiński:**

1. Fertilizer prices will largely depend on the situation in the crop market and farmers' liquidity position (looking at it from a consumer's perspective, we will monitor inflation basket food price movements impacting farmers' financial standing) and, on the cost side, on natural gas prices that are likely to be driven by increased supply of LNG.

2. We are part of a global market and its condition has major implications for us. Of course, we wish the market would stay strong forever, but we know from the experience of the past decade or so that the correction will come eventually, the question is when.

3. The mechanical granulation project will improve our position among large agriculture industry players with a high degree of mechanisation who are switching towards regular use of fertilizer granules, which will also support our margins. The PDH project is still in the options analysis phase, so it is impossible to assess its impact on the Group's performance. We will inform the public once the corporate decisions are made.

**Guest:** Do you think it is possible to make reliable performance forecasts several years ahead? If yes, then why does the company not publish any, even for the coming year? And if not, could provide the reason?

**Paweł Łapiński:**

We make efforts to ensure that the information we publish is always correct and reliable, prepared in compliance with the law and best market practice. Grupa Azoty has for many years been present on the broadly defined fertilizer and chemical market, the outlook for which is, as we think, widely discussed in, for instance, our periodic reports, which allows evaluation of future results.

**Guest:** How did Azoty perform in the first half of the year compared with its European peers?

**Paweł Łapiński:** Many companies benefited from the favourable market conditions and delivered sound financial performance. Grupa Azoty can also boast strong results. We are optimistic about the future and hope to close 2017 with success. Our competitors' results have a motivating effect, they are one of the driving forces behind our efforts. More information is available online. I will only mention our largest competitor, Yara, the world's leading fertilizer producer with a product portfolio including fertilizers and some ammonia- and urea-based products. Its results deteriorated relative to the first half of 2016: Revenue - down 7%, net profit - down 58%, profit margin shrank from 11.53% to 5.19%, EBIT - 57% down year on year. This deterioration was mainly attributable to falling fertilizer prices, lower sales volumes and significantly higher production costs. Sales decreased primarily due to weaker demand for nitrogen and NPK fertilizers in Europe and lower urea consumption in North America.

**Guest *unconfirmed*:** Do the attempts to introduce more stringent gas emission standards pose a problem for the company? How many of your units meet the BAT requirements?

**Paweł Łapiński:** As regards the BAT Conclusions under the IED, most of the units comply with the new regulations. Further upgrades will be necessary, but it is not a serious problem. Part of the boilers are planned for shutdown anyway, due to derogation, while new units are planned for construction, at

ZAK and ZAP. ZAT is in the process of commissioning and GA Police in the process of constructing new flue gas desulfurization and denitrification units, which should satisfy the requirements after 2021.

**Guest *unconfirmed*:** How does the company settle supplies from PGNiG? Are the prices set on a case-by-case basis for a specific period? Are the tariffs approved by the URE? What are the components of the pricing formula?

**Paweł Łapiński:** We cannot disclose the terms of our contracts. As of October 1st, tariffs for industrial customers will be removed so this issue will be over. When it comes to prices, they surely reflect market trends so we can say that in this respect we are positioned similarly to our European competitors.

**SW-fan:** I found the information on Viatcheslav Kantor's shareholding from the Stooq website. Last change was entered on June 9th 2017: additional 335,000 shares.

**Paweł Łapiński:** We will have a look on that. After the last official notification received by the company, Current Report No. 19/2017 was published, on June 9th 2017. The report is also available on our website.

**Paweł Łapiński:** Ladies and Gentlemen, we are running out of time. Thank you for your questions and taking part in the webchat. I am always glad to see Grupa Azoty attracts so much interest. All your questions are thoroughly analysed and give us a valuable insight into your expectations. See you next time.

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