

Moderator: Welcome everyone. We have just published our results for the first quarter of 2019. We have fully recognised the revenues and costs associated with Compo Expert for the first time. We are busy working on the Polimery Police project. So there is a lot to talk about. You can ask your questions now.

Igor: Does Anwil's project to build the third nitrogen fertilizer unit pose a threat to the company? You have mentioned a potential price war earlier.

Paweł Łapiński: Anwil's unit will clearly pose a commercial and logistics challenge to us. Both our company and Anwil, a PKN ORLEN Group company, compete with importers, and additional supply would undoubtedly have an adverse impact on fertilizer prices. There would not be sufficient demand to balance the available supply.

Radek: What investment projects the Grupa Azoty Group plans to implement this year?

Paweł Łapiński: We have approved 2019 CAPEX plans for the Group totalling over one billion złoty. In 2019, we focus on making preparations for the construction of the propylene and polypropylene plant in Police, which should not surprise anyone considering the project's budget. The Polimery Police will cost at least half a billion euros, including investment expenditure (construction, CAPEX) of more than a billion euros. The project will start to earn revenue to the order of two billion złoty per year and generate margins by the end of 2022. For a chemical company like ours, onsite power generation is essential. It gives independence as heat in the form of steam cannot be bought from third-party providers. Hence the capital project to build a new power generating unit in Puławy, with an electrical capacity of 100 MWe. Estimates put the cost of the project at over a billion złoty, but starting from 2023 it will provide for the development of Puławy-based units producing nitrogen fertilizers and polyamide- and melamine-based plastics. Thanks to this investment, Grupa Azoty Puławy will be able to manufacture and sell products worth PLN 3.5bn. Our third major project is also sited in Puławy and comprises a complex of units associated with nitric acid and nitrogen-based fertilizers, with a total value of over one billion złoty. The project will enable the company to increase fertilizer sales after 2023.

marek: Does the Management Board intend to uphold its recommendation not to pay a dividend for 2018 despite improved market conditions and stellar first-quarter results?

Paweł Łapiński: We are very satisfied with the improved market conditions and our first-quarter performance. The Management Board's no recommendation reflects our ambitious investment plans. In the Management Board's opinion, retaining profits is necessary to secure funds for our investment plans, and the equity contribution to the Polimery Police project in particular.

P9: The area of land under crops in Poland is forecast to shrink. Do you expect fertilizer sales to drop as a result of that?

Paweł Łapiński: When we analyse the area and structure of crops in Poland, no significant shifts are to be seen. If anything, the number of farms has been in decline. Indeed, the number of the smallest-sized farms is decreasing, but at the same time the number of medium-sized and large farms is on the rise. So, we are not worried about the level of fertilizer sales. Even with a changed farm structure, the estimated fertilizer consumption volumes will remain the same, and the Group will have customers for its products.

Wiciu: What effects do you expect from your largest project, Polimery Police?

Paweł Łapiński: Besides polyamides, in which we have extensive know-how gained over many years, we will produce a new type of plastic - polypropylene. Our product mix will expand, and we have reasons to believe that the production costs will give us a competitive advantage. We expect sales to rise by over PLN 2 billion per year and margins to widen, as we will not limit ourselves to making propylene or polypropylene, but we will also offer high-margin varieties of these plastics. This will take us to the next level of the plastics market in Europe.

Miau: Do you expect your results to improve in 2019? If so, why?

Paweł Łapiński: Yes. 2018 saw an unprecedented adverse impact of factors related to raw materials, including the prices of natural gas, a key feedstock in the manufacture of most of our products. Natural gas price forecasts for 2019 are optimistic, and they are borne out by the current price levels. Gas storage facilities in Europe are full, and the oversupply is pushing prices down. Another factor that came into play was the weather at the beginning of the season, which supported price drops and enabled fertilizer sales to start as planned. In the first quarter, we also raised the prices of our selected fertilizers as previously communicated to the market. Our first-quarter performance has already shown a significant year-on-year improvement. We can see this trend is set to continue in the following months.

Adam: Is the coal gasification project included in this year's CAPEX budget?

Paweł Łapiński: At the present stage (the project is in the hands of our power industry partner) there is no need to set aside funds exceeding the costs of documentation in 2019 (there are still seven months left). Without the partner, we would have focused on other investment directions.

marek: Why is it that while Puławy has declared a dividend payment, Tarnów and Police have failed to implement the dividend policy set in the strategy?

Paweł Łapiński: The Grupa Azoty Group's Strategy states that a company may pay a dividend of up to 60% of its net profit, but no floor on dividend payouts have been set, so the statement that the dividend policy is not implemented is unwarranted. It should also be noted that the Strategy provides that in justified cases, for instance when a complex investment programme is under way, the Management Board may recommend against dividend payment.

Weck: The Nitrates Directive came into force in Poland last year. What do you believe will be its impact on the company's business?

Paweł Łapiński: As part of implementation of the Nitrates Directive into national law, the Council of Ministers' Regulation on the adoption of the 'Programme to reduce the pollution of water with nitrates from agriculture and to prevent further pollution' came into force in Poland in July last year. These regulations have led to certain changes in fertilising practices, like reduced use of some fertilizers and development of new technologies (e.g. slow-release fertilizers, fertilizers with inhibitors). The regulations have also had an immediate impact on farmers, shortening fertilizer application periods. The regulatory changes have not been well received by farmers, since under the new fertilizing regime the application of fertilizers after the winter season may not start before the 1st of March, which farmers believe is far too late. The Grupa Azoty Group has not felt the effects of these regulatory changes in its operations, but experts working at the company share the farmers' opinions.

bartosz: When do you think will you start seeing a return on your investment in Compo Expert?

Paweł Łapiński: We are talking about an equity investment here, not a tangible investment. So a slightly different approach should be taken to measuring its effects and their timing, particularly considering that our main goal at the time of making the decision to acquire Compo Expert was to exploit the identified synergies whose timing in most cases could not be predicted. I am referring, for instance, to the transfer of production know-how from Compo Expert to other Group companies, or synergies in the area of research and development, which definitely require far longer time frames. However, there are certain areas that will see a return immediately. Compo Expert's EBITDA contributes to the Group's consolidated earnings, lifting our ratios used in bank covenants. We have also seen an immediate synergy effect as the inclusion of Compo Expert in the Group's cash pooling and joint financing arrangements has significantly lowered the cost of financing of the newly acquired entity.

bartosz: Having acquired Compo Expert, do you see any other potential acquisition targets in Europe? Do you plan any transactions this year?

Paweł Łapiński: Compo Expert was integrated into the Grupa Azoty Group at the end of 2018, with the consolidated data for the first quarter of 2019 already accounting for the specialty fertilizer business. As always, we closely monitor our competitors and external environment, seeking out new opportunities.

Marek: How will falling gas prices affect the Group's results?

Paweł Łapiński: The effects of falling gas prices will definitely be positive, as has already been seen in the first quarter of 2019. Natural gas is a key feedstock in the manufacture of the Group's core products, accounting for several dozen percent of their overall cost. We saw the downside of this market factor in 2018, when we witnessed a gas price anomaly. The Group lost several hundred million złoty in EBITDA due to gas price increases alone. This year the trend reversed. According to forecasts of almost all gas price monitors, gas prices are expected to remain stable, which should significantly improve our performance in 2019.

Drożdżyński: The Company significantly improved its net profit in the first quarter of 2019. If the strong performance continues into the year, can we expect Grupa Azoty to pay dividends next year?

Paweł Łapiński: We have only just published our results for the first quarter of 2019, so it is too early to comment on full-year figures. Let me refer you to our Strategy again. The dividend policy contains a provision that up to 60% of net profit may be distributed to shareholders, provided that the company's long-term financial security and full internal coherence of financing is ensured. We will certainly analyse the pros and cons very carefully, but we will only do so next year.

Quark: How much does Grupa Azoty intend to spend on investments in 2019?

Paweł Łapiński: We plan to spend PLN 1.3bn on capital projects within Grupa Azoty. We have also earmarked funds for the Polimery Police project.

Romek: Given the planned implementation of the Polimery Police project and the related large expenditures, should we assume that the company will not pay dividends until the new unit in Police is completed?

Paweł Łapiński: I cannot agree with this statement, because whether dividends are paid or not depends on the situation in a given year. Please note that the largest capital expenditures on the Polimery Police project are scheduled to be incurred until the end of 2020. Beyond 2020, there will be no significant outlays on this project.

Pati: In the first quarter of this year, costs of products, merchandise and materials sold rose 30 percent year on year. Why?

Paweł Łapiński: This increase was due to several factors, including consolidation of the Compo Expert Group, which accounts for approximately 20% of the increase, a net increase in costs of feedstocks due to higher production and sales volumes, accounting for about 4% of the increase, and higher costs of some feedstocks (potassium chloride, phosphate rock, coal, electricity and CO₂ emission allowances), with natural gas prices down.

Milka: Is the company satisfied with its investment in Compo Expert?

Paweł Łapiński: Definitely. The transaction has met our expectations so far. Of course, like any business decision, the Compo Expert acquisition carries risks, and we are well aware of them. In common with the other Group companies, Compo Expert is heavily exposed to market factors, including those related to raw materials. However, Compo Expert's product range differs from those offered by the four key Polish companies of the Group. Compo Expert's products are highly complementary to what we have offered so far, significantly contributing to diversification of our earnings. This represents high value added, and offsets some of the risks. We have also started to benefit from sales synergies, with Grupa Azoty and Compo Expert using each other's sales channels to place products on target markets. We can also see significant product and feedstock synergies. For instance, products manufactured by the Grupa Azoty Group can be used as feedstocks for further processing into specialty fertilizers by Compo Expert.

Kuba: Is the company planning vertical integration? I mean acquisitions of feedstock suppliers (phosphate rock, potassium, ilmenite, etc.)?

Paweł Łapiński: With Siarkopol as a member of our Group, we are backward integrated in one of our strategic raw materials. If reasonable, we will consider upstream vertical integration projects, however we maintain our belief it is not necessary to buy a brewery in order to reap the benefits. Anyway, as we all can see there are hardly any potential targets available for acquisition on civilised terms.

Romek: Will Grupa Azoty subscribe for all new shares in Police? How will you finance the subscription?

Paweł Łapiński: The Extraordinary General Meeting of Grupa Azoty Police held on April 26th 2019 approved a pre-emptive public offering of shares. This decision enabled Grupa Azoty Police to commence the prospectus approval procedure and to submit the prospectus together with the application for its approval with the Polish Financial Supervision Authority. Our decision on the potential participation in Grupa Azoty Police's pre-emptive public offering will be announced within the time frame prescribed by law. As far as the funding sources are concerned, let me remind you that Grupa Azoty has

strong fundamentals and good financial standing and that it generates positive operating cash flows. The Group has over PLN 3bn in available funds.

amator: What are the challenges facing Grupa Azoty in the second half of 2019 and in 2020?

Paweł Łapiński: We identify challenges, especially medium-term ones, when we embark on something new or where we depend on external factors. So, the main challenge is the extensive EU legislation that gravitates towards raising the costs of our energy infrastructure, including by regulating the carbon dioxide market. We also expect difficulties to arise from the Nitrates Directive, which will raise barriers to entry in fertilizer markets for us. Another challenge, albeit a much smaller one, is entry in the polyamide compounds market next year. Obviously, entry in the regional and global polymer markets with Police products will also present a challenge, but this is beyond the 2020 horizon to which your question referred.

Kot: Do you expect the following quarters of 2019 to be as successful for the company as the first one?

Paweł Łapiński: We are optimistic, and our optimism has a sound basis. We constantly monitor the markets for key raw materials as their prices strongly determine our performance. Gas price forecasts for 2019 are very comforting. Our sales teams have been working very hard to actively manage the prices of our key products, and have succeeded in reconciling often contradictory goals of maintaining high prices and protecting our market against fertilizer imports. Our first-quarter results have demonstrated that this is bringing very good results. We are aware of our sensitivity to market factors, of course, which is why we have taken some long-term strategic decisions that strongly diversify our business, including the Compo Expert acquisition and the Polimery Police project.

Simeon: Over the last three months, Grupa Azoty shares have shed over 15 percent of their market value. Do you expect the stock price to rise given the improvement in first-quarter results?

Paweł Łapiński: Green is the colour of optimism, also when we look at a stock market chart. But seriously, we are always keeping a close eye on the prices of our shares. Our first-quarter results were very well received by the market, which was already clear when we released the estimated figures. But as you all know, a stock price can be driven by a host of other factors, including investor sentiment towards a region or global events.

Ania: What do you think about the condition of the Polish chemical industry?

Paweł Łapiński: The industry is getting professional and global. In fact, we can no longer talk about national chemical industries in Poland or any other European country - we are part of an industry that encompasses at least the entire region, that is most of Europe, and the European chemical industry remains a global innovation leader. Finding a way to maintain this position is a challenge, especially in view of the self-imposed restrictions, to put it mildly, that we have taken on as a country in the heart of Europe and a EU member.

Ania: What research and development work is currently under way?

Paweł Łapiński: We are working to develop our core business, that is products supporting our fertilizer range. We have established partnerships with service startups, including those providing satellite services. Following the integration with Compo Expert, we also have strong R&D prospects in the field of specialty fertilizers, including slow-release fertilizers and tailor-made fertilizers meeting the specific needs of customers. We research and develop plastics, not only polyamide- or melamine-based ones, but also plasticizers and plastics biotechnology. We have also stepped out of our comfort zone of traditional commodity chemicals, developing catalysts and 3D printing materials.

Amator: Who is your main competitor in Poland?

Paweł Łapiński: We are not afraid of competition. Grupa Azoty has a solid market position and strong fundamentals.

Edi: What real benefits will Tarnów derive from the Polimery Police project?

Paweł Łapiński: The benefits can be analysed from different perspectives. But the common denominator is the Group's value growth. The direct benefit for us as a shareholder is participation in the returns delivered by the project in the form of dividends. Implementation of the Polimery Police project will strengthen our efforts to expand our non-fertilizer business lines through entry into the promising plastics markets, the polypropylene market in particular. This will help to diversify our revenue sources and reduce seasonal fluctuations in demand. Let me stress that the aim of the Polimery Police project, carried out by PDH Polska S.A., a subsidiary of Grupa Azoty Police and Grupa Azoty S.A., is to build an integrated chemical complex comprising a propylene unit, polypropylene unit, handling and storage terminal, logistics infrastructure and auxiliary units.

amator: What differentiates the Grupa Azoty Group from its competitors?

Paweł Łapiński: We are a large chemical group, created through combination of chemical companies that have similar but not identical business profiles. All Group companies have their own identity and area of specialisation, making up the broad spectrum of the Group business and helping them to build a presence in various product markets and geographies. The obvious differentiators include our long-term market presence, with Poland's entire agriculture built on our fertilizer products, and a product mix that is well suited to the needs of Polish farmers and farming, with the effectiveness of our products verified on the field. The Group's other differentiator is its approach to Polish agriculture, focusing on education in sustainable and responsible farming. We have developed and run educational initiatives for many years now, knowing that this helps to build trust in our company and our products among farmers. A diverse product range is another factor. Having acquired Compo Expert, the Group offers the broadest possible range of fertilizers, covering almost all nutrients, including primary nutrients, secondary nutrients, and microelements, both in solid form and as solutions. Only a market leader can boast a broad and diverse product mix like that. Other important aspects are access and proximity to one of the best European markets. We operate in many geographies, but our strategy is centred on the home market, where our production plants are located. Poland is a very good market, located in a moderate climate, with vast areas of cultivated land. In addition to fertilizers, the Group also offers a broad range of chemical products, including plastics, melamine, oxo products, and titanium white.

Marcin: What is the reason behind the upcoming changes on the Management Board? The company announced a recruitment procedure to select a Management Board member in mid-May.

Paweł Łapiński: The Management Board member recruitment process was announced on May 17th 2019 by the Supervisory Board. Any decisions in this regard rest within the remit of the Supervisory Board as the company's governing body.

Marcin: How much does the Group's spend on additional CO₂ emission allowances annually?

Paweł Łapiński: The total annual costs of purchasing additional CO₂ emission allowances (i.e. net of allowances obtained free of charge for the production of chemical products and heat generation and as a result of the implementation of projects covered by the National Investment Plan) were PLN 134m in 2018.

Moderator: Ladies and gentlemen, we are running out of time. Thank you very much for taking part in this chat and for your questions. We will meet again at the 23rd Wall Street Conference of the Polish Association of Retail Investors that begins on the 31st of May in Karpacz. I strongly encourage you to come. As in previous years, Grupa Azoty will be present at the event.