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Grupa Azoty Group's H1 2018 results under external pressure

In the first half of 2018, the Grupa Azoty Group recorded EBITDA of PLN 529m, with revenue of PLN 4.88bn. Noteworthy, EBITDA decreased by PLN 185m (or 26%) year on year, while sales revenue grew, by nearly PLN 8m relative to the first half of 2017. This clearly shows that the results for the first half of 2018 were strongly affected by fluctuations on the cost side.

Three key factors which influenced the Grupa Azoty Group's results in the first half of 2018 were unfavourable weather conditions in the first quarter, high stocks in the second quarter, and unfavourable price trends for gas, coal and CO2 emission allowances.

"It was a period of unprecedented volatility in Grupa Azoty's market environment, which significantly affected the stability of the fertiliser segment's results. The first half of 2018 clearly showed that only full implementation of the key objectives defined in Grupa Azoty's strategy until 2020 will be an appropriate response to the major challenges faced by the Company on the Polish and international fertilizer and chemical market. We can already see that diversification of our business is and will be of great significance. Therefore, a continued effort to diversify is one of the four pillars of our strategy until 2020," said Wojciech Wardacki, President of the Management Board of Grupa Azoty.

The external conditions did not allow much leeway to achieve favourable margins relative to the first half of the previous year. However, thanks to diversification, at the time of economic downturn in one segment we could achieve solid margins in others.

This was certainly the case in the Plastics and Chemicals segments, which reported EBITDA margins of more than 14% in the period. Business complementarity in such situations shows the true value of the Group, which in our opinion is not fully reflected in the current stock price.

"The weaker share performance is attributable to temporary market turmoil. It does not, however, affect the solid foundations based on which the Company should be valued in the long term. An analysis of the key business segments' financial performance shows a significant margin adjustment in the fertilizers segment. The changeable weather led to a significant reduction in the amount of nitrogen fertilizers applied (the first round of application), which in turn translated into increased supply. In addition, higher imports of products from

manufacturers with a lower cost base triggered the need to protect the domestic fertilizers market. To this end, *we pursued a flexible pricing policy and stepped up production of nitrogen for the chemical business. In the transitional period, such measures had an adverse effect on our performance. Nevertheless, we managed to maintain positive stable cash flows and build room for margin growth in the new fertilizer season. At the end of June, the segment's EBITDA came in at nearly PLN 100m, with revenue of PLN 2.3bn,*' said Paweł Łapiński, Vice President of the Management Board, responsible for finance.

With regard to other key segments, it is worth to notice the improved performance of Siarkopol, which, thanks to the policy of nitrogen reallocation to urea-based products (AdBlue, Noxy) and supported by better results of the OXO segment, generated a PLN 47m increase in the Chemicals segment's EBITDA. The segment's margin also improved (14.4% vs 12.6%). Ultimately, the Chemicals segment closed H1 2018 with revenue of PLN 1.5bn (up by PLN 163m year on year) and EBITDA of PLN 218m.

In the Plastics segment, Grupa Azoty S.A. continues to increase polyamide output from the new polyamide plant, which is reflected in the margins. Despite the unfavourable situation in the power generation segment, thanks to the economies of scale, the Group generated EBITDA on a par with that in H1 2017. The Energy segment's EBITDA reached PLN 120m, similar as in the first half of 2017, with revenue of PLN 831m (up 12% year on year).

The Grupa Azoty Group is the undisputed leader of the Polish fertilizer and chemical market and one of the key players in Europe. It is the second largest EU-based manufacturer of nitrogen and compound fertilizers, and its other products, including melamine, caprolactam, polyamide, oxo alcohols and titanium white, enjoy an equally strong standing in the chemical sector, with a wide range of applications in various industries. In May 2017, the Group unveiled its updated strategy until 2020. The key development areas cover completion of the Group's consolidation, reinforcing its leadership in agricultural solutions on the European market, strengthening the second operating pillar through expansion of the non-fertilizer business, as well as generating and implementing innovations to accelerate growth in the chemical sector. The Grupa Azoty Group is the integrator of Poland's chemical industry. By consolidating the plants in Tarnów, Puławy, Police and Kędzierzyn-Koźle, it has ensured that the key chemical companies have remained in Polish hands, while creating a number of cost synergies. By 2017, the consolidation of strategic procurement, production, maintenance, logistics and IT generated savings estimated at no less than PLN 710m. The integration has brought multiple benefits to the Polish economy, the Group as a whole, and its individual plants.

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