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## **Strategic diversification protects Grupa Azoty's results in the first quarter of 2018**

**High gas prices and volatility of the weather as well as growing urea imports affected Grupa Azoty's results in the first quarter. Very good results in Plastics and Pigments, efficient management of nitrogen, coordination of renovation policy allowed to minimize the impact of negative market trends.**

The Group generated revenues amounting to nearly PLN 2.5 billion, generating EBITDA at the level of PLN 403 million.

Although both revenues (by PLN 190 million) and EBITDA (by nearly PLN 50 million) showed downward trends, Grupa Azoty maintained the comparability of the operating profit margin. This amounted to 16.1% at 16.9% in IQ2017.

The key factor influencing the performance of financial results in the first quarter of 2018 were gas prices. Two waves of strong frosts that struck Europe at the end of February and in the second decade of March ended with record-breaking gas prices in the history of exchanges and a large drop in inventories. In the horizon of 3 months of 2018, prices of this raw material were between EUR 17 / MWh and EUR 59 / MWh. The breakdown of the weather at the turn of February and March also translated into a deterioration of the economic situation in agriculture. The prolonged winter and frosts shifted the deadlines for field works at the end of March and the beginning of April. This influenced the delay of fertilizer application and increased stock levels at distributors. Together with the growing import (mainly urea), this was a key factor influencing the sales of fertilizers in the first three months of 2018.

- The results of the first quarter clearly show what the diversification of our business is. Therefore, its continuation is one of the four pillars of our strategy until 2020. It will be strengthened by further investments, including the flagship investment of Polymer Police. In contrast to other entities operating on the chemical market, often based on one pillar (eg fertilizer), we are able to resist unfavorable trends and use the opportunities and strength of our other segments. In the first quarter, the entire Azoty Group did a huge job to show the best possible result in the face of unfavorable macroeconomic conditions - said Dr Wojciech Wardacki, the president of Grupa Azoty's management board.

- Continuation of very good results in Plastics and Pigments, improvement in the OXO segment and increases in sulfur prices with a result on the result of Siarkopol are the main carriers of our EBITDA result in Q1 2018. In the Fertilizers segment, active production and sales activities in a difficult situation at the raw materials market, which was the unchanged gas price volatility so far has proven that we are able to react quickly to market challenges and the EBITDA margin generated in the fertilizer segment reached 14%. The revenue generated by Grupa Azoty in the first quarter of 2018 is lower than in the first quarter of 2017 by almost 8%, however, it may be

welcomed that with lower revenues we have achieved a comparable EBITDA margin of 16.1%; in the first quarter of 2017, the EBITDA margin amounted to 16.9% - said Paweł Łapiński, vice-president of Grupa Azoty's management board responsible for finances.

#### Fertilizers

From the perspective of key businesses, reliable assessment of the situation in the fertilizer business is important. This high stocking at the distributors and the unprecedented volatility of gas prices have become the catalyst for an active production and sales policy. Production limitations in periods of high gas prices and the implementation of maintenance shutdowns started already in the period of Q2018 allowed for generating lower revenues by approx. PLN 270 million (mainly due to volume). EBITDA still has a very good trend, close to 14%. The fact of skillful nitrogen management deserves attention here, which was reflected in the growing sales volumes of industrial urea and its derivatives (AdBlue and NOx) contributing to the Chemistry segment result, as well as gas sales, which at high prices and limited fertilizer production contributed to increase in the result of the Power industry segment.

#### Chemistry

The aforementioned Chemistry records in the discussed period PLN 126 million EBITDA (increase by nearly 19%) with revenues of PLN 767 million (with the dynamics of 12%). Despite the difficult situation on the commodity market (gas and energy, including a surge in emission rights), growing production and sales in the OXO segment, maintaining favorable price trends in the White segment, improved sentiment on the sulfur market and stabilization of Melamine's business results contributed to the such significant increments.

#### Plastics

Increasing competition in Asian markets, compounded by a downward trend in the USD / PLN exchange rate (down 16% y / y) "support" the GK's efforts to redirect caprolactam for further processing using faster-than-planned production capacities of the newly opened Polyamide Factory II in Tarnów. This direction will be continued, which will allow Azoty Group's exposure to Asia to be reduced, while achieving higher margins on Polyamide. Ultimately, Plastics ends the quarter with revenues comparable to the quarter 2017, ie at PLN 411 million and EBITDA of PLN 60 million, with a profitability of 14.6%.

Grupa Azoty is a definite leader in Poland and one of the key capital groups of the fertilizer and chemical industry in Europe. The group occupies the second position in the European Union in the production of nitrogen and compound fertilizers, and such products as melamine, caprolactam, polyamide, OXO alcohols or titanium white have an equally strong position in the chemical sector, finding its application in many industries. In May 2017, the Group presented an updated strategy until 2020. Among the key development directions are: completing the consolidation process of the Capital Group, strengthening the position of leaders in solutions for agriculture in Europe, strengthening the second operational pillar by developing non-fertilizer activities and generating and implementing leveraging innovations development of the chemical sector. Grupa Azoty integrates Polish chemistry. The combination of plant potentials from Tarnów, Puławy, Police and Kędzierzyn-Koźle allowed not only for leaving key chemical industry companies in Polish hands, but also for numerous cost synergies. By 2017, consolidation in the area of strategic purchases, production, renovation, logistics and IT resulted in savings estimated at at least PLN 710 million. Cooperation within Grupa Azoty gives multifaceted benefits to the Polish economy, the entire Group as well as individual plants.