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LOTOS and Grupa Azoty in PLN 12bn joint Polish petrochemical project

On December 3rd 2013, Grupa LOTOS S.A. and Grupa Azoty S.A. signed an agreement on the future formation of a special purpose vehicle to conduct a comprehensive feasibility study on the construction of a new petrochemical complex, in the vicinity of both LOTOS and Grupa Azoty's existing installations.

The two companies have also signed a preliminary agreement with Polskie Inwestycje Rozwojowe, as a potential financial investor in the project.

The project's value is estimated at approximately PLN 12bn, making it the largest investment in the Polish industrial sector in recent years. The complex will help reduce Poland's chemical trade deficit, and will create between 5,000 and 7,000 jobs during the construction stage, and approximately 2,000 new jobs following commencement of its commercial operation.

Under the agreement, Grupa LOTOS and Grupa Azoty will use a special purpose vehicle to run the project, with project costs (preparation of the feasibility study and financing of the SPV's operations) shared equally between both parties. The separate agreement with Polskie Inwestycje Rozwojowe is for provision of expert support in the financial and contractual structuring of the project.

Upon completion of the feasibility study, an investment decision is expected to be made, in 2014. If the project is given the green light and the financing structure agreed, construction of the complex will occur throughout 2016-2018, with operations commencing in 2019.

Włodzimierz Karpiński, Minister of the State Treasury, commented that "This is a large-scale project that may contribute to economic growth and create thousands of new jobs. Although the project is still at a nascent stage, it is by no means just a disposable media factoid. The companies involved have already prepared the preliminary feasibility study and are now at the point of undertaking the study proper, and I'm looking forward to meeting in a year to discuss the results. The project also fits with the action plan adopted by the Ministry of the State Treasury, which is a strong proponent of exploring the potential synergies between the largest Polish companies and creating national champions."

"The agreement we signed today is another step on LOTOS's growth path – a path that we have been consistently following under the 2013-2015 Efficiency and Growth Programme," emphasised Paweł Olechnowicz, President of the Grupa LOTOS Management Board. "Together with Grupa Azoty and Polskie Inwestycje Rozwojowe, we want to forge a link between the refining and chemical industries in Poland, creating a force that will drive the country's future economic growth. As an investment project, the planned petrochemical complex is on a level with the construction of a new refinery. Related capital expenditure will be twice the amount spent by Grupa LOTOS in 2007-2011 on their 10+ Programme. It will also help improve Poland's trade balance, increase its

export opportunities for high-margin chemical products, and provide the domestic industrial sector with access to state-of-the-art technologies from around the world.

"Having carried out the necessary analyses, we have set a direction for our petrochemical project. The plan of action we have chosen, together with our partners, offers attractive market opportunities and a broad range of versatile final products. Additionally, the proposed raw material base has immense intellectual potential, and could provide for the growth of many segments of the industrial sector in our part of Europe," commented Paweł Jarczewski, President of the Grupy Azoty S.A. Management Board. "The LOTOS and Grupa Azoty joint project, which falls within the purview of PIR, has been assessed as being highly interesting at its current stage. If the undertaken feasibility study yields favourable results in terms of profit and risk, PIR will engage in talks with LOTOS and Grupa Azoty on the detailed terms of the planned transaction. PIR may then allocate up to PLN 750m to the project," said Mariusz Grendowicz, President of the Polskie Inwestycje Rozwojowe Management Board. "PIR was founded with the specific aim of providing support to such projects, and I am glad that we have been given the opportunity to verify the potential of this ambitious venture as a finance provider.

Currently, Poland imports large volumes of chemical products, with the country's balance of trade at a negative PLN -16.7bn in 2012 (organic chemicals and plastics in primary form). Meanwhile, Polish refineries are holding a surplus of light fractions from crude oil processing, including raw gasoline and LPG, which are the perfect feedstock for petrochemical production. Furthermore, integration of Grupa LOTOS and Grupa Azoty's raw materials bases will benefit the entire economy, while the companies themselves will be able to diversify their production and revenue streams by introducing a range of new high-margin products.

"Together with our technical and market advisers, and with the Grupa LOTOS/Grupa Azoty joint project team, we analysed a number of alternatives and arrived at an option with a strong rationale for undertaking a comprehensive feasibility study. One of the focal points of the next stage of work will be to optimise the technical, market, economic, and business aspects of the project. In parallel with the feasibility study, we will be conducting negotiations with other potential partners willing to join in this landmark venture, who could be particularly interested in specific products or process units. At that point, a preliminary analysis of the financing structure will also be conducted," said Jacek Socha, Vice-President of PwC Polska Sp. z o.o., the leader of the advisory consortium working on the preliminary feasibility study for the project.

[LOTOS and Grupa Azoty joint project PDF \(785.25 KB\)](#)