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## Marked increase in Grupa Azoty revenue and profits in Q1 2019

**In Q1 2019, Grupa Azoty reported consolidated revenue of PLN 3,365m, i.e. PLN 868m more than in the corresponding period of 2018. Growth in the prices of most products and the continuing reversal of the price trend for the key feedstock (gas) pushed up EBITDA to PLN 608m (yoy increase of PLN 205m) and EBITDA margin to 18.1% (up 2.0 p.p. year on year).**

The published figures for the first time fully reflect the Compo Expert's revenue and costs, which had an impact on the results of Grupa Azoty as a whole and of the Fertilizers segment. The contribution from the specialty fertilizers market leader acquired last year in the first quarter of 2019 was PLN 499m at the revenue level, and PLN 45m at the EBITDA level. The revenue growth in the Fertilizers segment translated into its increased share in the structure of the Group's revenue: it reached 62% in the period under analysis, while a year earlier it was below 49%. No significant changes were reported in the other segments.

The price of gas has been in a downward trend for over six months (since September 2018), and in March was 30% lower year on year, which was mainly caused by record-high LNG supplies to Europe, large stock levels, as well as warmer weather in the autumn and winter season compared with the long-term average.

"We are leaving behind the difficult 2018 and entering 2019 with a lot of energy. Over the past 12 months – a difficult time for the chemical market for macroeconomic reasons – Grupa Azoty implemented a number of structural savings measures. These efforts are expected to bear fruit in the future. The first quarter of 2019 brought a significant improvement in our performance. At the same time, we continued strategic growth projects for the entire Group. This month, an agreement has been signed with the general contractor for the Polimery Police project, and we expect the polypropylene production unit to come on stream in three years. We are also diversifying the associated risk, successfully conducting talks with domestic and foreign partners who are ready to commit funds to this project," said Dr Wojciech Wardacki, President of the Grupa Azoty Management Board.

"In the first quarter of 2019, Grupa Azoty's EBITDA came only slightly short of the figure reported for the whole of 2018. This is also the first period in which the results of Compo Expert are recognised in full. The key factor driving up our financial performance and the increase in the prices of the majority of products in the Fertilizers and

Chemicals segments, which had been communicated to the market in advance. Coupled with higher sales volumes and lower gas prices, it led to a rise in the EBITDA margin – it was particularly impressive in the production of fertilizers. We assume that in subsequent quarters, we will be able to maintain year-on-year growth of our financial results. At the same time, we plan investment expenditure of PLN 1.3bn in 2019. A large part of this amount will be allocated to growth projects. These estimates do not include capital expenditure on Polimery Police, which is being implemented as planned on a project finance basis,' said Paweł Łapiński, Vice President of the Grupa Azoty Management Board responsible for finance.

## **Fertilizers**

The Fertilizers segment saw a nearly twofold increase in revenue (from PLN 1,212m to PLN 2,097m); net of Compo Expert, the increase was 31.8%. Average market prices of almost all products in this segment went up relative to the corresponding period of last year, translating into a much higher EBITDA margin (19.6% in Q1 2019 compared with 13.9% in Q1 2018). It is also worth noting that in the first quarter Grupa Azoty remained under pressure because of increased fertilizer imports, accompanied by a reduction in fertilizer prices on major European markets and a moderate demand for nitrogen and compound fertilizers, as significant purchases had been made at the end of 2018 with funds obtained from the year's largest stream of direct subsidies. The schedule (or, strictly speaking, the delay) of nitrogen fertilizer application was determined by the newly introduced Nitrate Directive. An additional obstacle was the first signs of drought.

## **Plastics**

The Plastics segment recorded a slight decrease in revenue (from PLN 411m to PLN 409m, i.e. 0.4% yoy) and a drop in EBITDA margin (down 1.4% p.p.). The supply of polyamide 6, which is the segment's key product and accounts for almost 90% of its revenue, remains high in Europe, while demand is still weak, due to the continuing low consumption in the automotive sector. Demand from this sector is expected to recover as a result of new laws on CO2 emissions, with the effects of this recovery to be felt by the end of this year (according to some market analysts), or in a longer term perspective (according to others). Also, demand from other industries is still low. Following a drop in the prices of raw materials (phenol and benzene), the average price of polyamide 6 produced by Grupa Azoty also fell in Q1 2019, by approximately 4% year on year.

## **Chemicals**

Revenue in the Chemicals segment decreased slightly (from PLN 769m to PLN 753m, i.e. 2.1% yoy) as did EBITDA margin (down 2.9 p.p.). Unlike other segments, Chemicals saw a year-on-year growth in prices of basic raw materials, except for gas. The prices of the majority of its products rose as well, with the largest increase seen in technical-grade urea (up 20%) and sulphur (up 15%). On the other hand, the market conditions, including in particular the oversupply and price competition from Asian producers, caused a decrease in prices of titanium white (down 11%) and melamine (down 5%).

Grupa Azoty is the undisputed leader of the fertilizer and chemical market in Poland and one of its 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, plasticisers 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 key companies in Poland are located in Tarnów, Puławy, Police, and Kędzierzyn-Koźle. The Group is also present on international markets. Its foreign assets include ATT Polymers of Guben, Germany, operating in the plastics segment, and the COMPO EXPERT Group with production plants located in Krefeld, Germany, and Vall d'Uixó, Spain, a leader of the global market of specialty fertilizers for professional customers, acquired by the Grupa Azoty Group in 2018.

## **Additional information:**

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