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Year of record high revenue and key capex projects

In 2019, the Grupa Azoty Group posted consolidated revenue of PLN 11.3bn (up PLN 1.3bn year on year), EBITDA of PLN 1.4bn, and EBITDA margin of 12.6% (up 4.9pp year on year). It was a record-breaking year for the Group in terms of its top-line performance and ongoing key capex projects.

The financial results delivered by the Grupa Azoty Group in 2019 were much better than the year before. Consolidated revenue increased 13%, EBITDA went up 86%, and net profit soared to PLN 407.7m, up over fifty-fold on 2018.

Fertilizers remained the Group's largest segment, with Compo Expert included in its performance for the first time. The financial condition of the segment and the entire Group was supported by low feedstock prices, mainly of natural gas. The Plastics business was heavily affected by stagnation in the automotive industry, while Chemicals faced falling revenue and extremely challenging conditions in the sulfur market last year. As short-term forecasts do not predict any improvement in sulfur prices, an impairment test revealed the need to recognise an impairment loss reducing the book value of assets in Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol in the fourth quarter of 2019. This one-off item reduced consolidated EBITDA for 2019 by PLN 28.8m and consolidated net profit by PLN 23.4m. It was also the main factor behind consolidated net loss reported for the fourth quarter of 2019, of PLN 48.2m. The financial result was also affected by a temporary shutdown of the Ammonia Synthesis and Urea Synthesis units in Police.

"The Agro segment, where both revenue and margins went up markedly year on year, was the major driver of our overall performance. 2019 was a landmark year for Polimery Police, a capex project of key importance to the Group and the entire chemical industry. Last year, we contracted with Hyundai of South Korea as a general contractor and we obtained equity funding for the project, having partnered with Hyundai, KIND (a South Korean government agency) and Grupa Lotos. This enabled us to start the construction work in early 2020. Also in 2020, we completed the process of raising debt finance," said dr Wojciech Wardacki, President of the Grupa Azoty Management Board.

Fertilizers

In 2019, Fertilizers generated revenue of PLN 6,716m (including PLN 1,493m delivered by Compo Expert), compared with PLN 4,904m the year before. The segment delivered EBITDA margin of 14.4% (Compo Expert 8.2%), relative to a mere 1.7% in 2018. The wide increase in margins was caused by a confluence of cost and revenue factors, chiefly an over 30% drop in gas prices and higher product prices. The second part of the year was marked by a growing price pressure from the Group's largest competitors, both in eastern and western Europe, which led to a decline in fertilizer prices.

Plastics

The segment's total revenue in 2019 was PLN 1,456m, down by approximately 7% year on year (from PLN 1,562m). Earnings figures deteriorated on the lower revenue, with EBITDA margin down from 12.3% in 2018 to 4.6% in 2019. The average price of the segment's key product (natural polyamide) decreased by 11% year on year, with sales volumes up by 9.4 thousand tonnes, or 7%, year on year. 2019 was a period of soft demand from the automotive industry (accounting for some 60% of the segment's revenue), almost equally challenging conditions in other industries (packaging, etc.), and a market imbalance (oversupply).

Chemicals

Year on year, the segment's revenue fell 15.3% to PLN 2,639m in 2019, with EBITDA margin slightly down (by 1.2pp), to 7.9%. The largest decline in revenue was seen in OXO alcohols (of 30% year on year), with sales of other key products also down (by 14% year on year in the case of melamine and by 10% in the case of technical grade urea). Particularly strong deterioration in performance was reported for sulfur extraction.

Capex

The Group's capital expenditure has reached approximately PLN 1bn in recent years. Capital spending will increase significantly in the coming years (2020–2022), driven by the ongoing key capex projects:

- Grupa Azoty Polyolefins – construction of propane dehydrogenation (PDH) and polymerisation units with auxiliary systems. The project with a budget of USD 1.8bn is scheduled for commercial launch in 2022.
- Grupa Azoty Puławy – construction of a new power generating unit. The project is to ensure continuous supply of heat to chemical units and to increase electricity production to meet the plant's growing needs. The project with the contract sum of PLN 1.2bn is scheduled for completion in the third quarter of 2022.

In addition to those projects, the Group aims to incur capital expenditure on other major projects, including:

- Grupa Azoty Puławy – upgrade of the existing and construction of new nitric acid units, neutralisation and production of new fertilizers based on nitric acid. The project with a budget of PLN 695m is scheduled to be completed in 2024/2025.
- Grupa Azoty Kędzierzyn – capex projects: adaptation of the continuous FDO unit for periodic Oxoviflex production, upgrade of the ammonia condensation unit, replacement of process gas pipelines, upgrade of the partial combustion unit at the ammonia department. The project with a total budget of PLN 360m is to be completed in 2020/2021.
- Grupa Azoty S.A. – mainly an upgrade of in-house power generation to improve its efficiency and ensure compliance with BAT conclusions, upgrade of process units and technical infrastructure, and IT projects (total capex of approximately PLN 200m).

After 2022, capex is expected to return to the level of approximately PLN 1bn.

*"Currently, the greatest threat to the economy is the coronavirus epidemic, which is why we are closely monitoring the situation and analysing its impact on our operations. So far, there has been no significant decline in our sales and no major disruptions in the supply chain of feedstocks, materials or services. We have not experienced any material increase in staff absences that would disrupt our production or cause other problems. We are well aware that the spreading pandemic is bound to have an impact on our business, but at present it is impossible to predict its scale or effects,"*said Wojciech Wardacki.

As a result of the epidemic unfolding in Poland and legislation passed in an attempt to counter its impacts, the Grupa Azoty Group has taken measures to ensure that its operations can be carried on without major disruption. These include in particular:

- implementing procedures to ensure immediate response by the relevant services;
- issuing instructions to reduce the risk of infection to employees. These include detailed orders and guidelines on monitoring the health of Company staff and contractor employees, cutting face-to-face meetings and business travel in Poland and abroad, using telephone and video conferencing solutions whenever possible, allowing remote work, and securing additional protective equipment and cleaning supplies for Company employees;
- monitoring market conditions in terms of product sales and key feedstock supplies, and monitoring financial markets in terms of currency and interest rate risks.

The Company has identified risk areas related to the COVID-19 pandemic, which may have bearing on the

Company's future financial performance. The impact of the pandemic on each segment of the Grupa Azoty Group's operations has also been identified.

*"We are working hard to develop proactive solutions. We are revising our budgets to reduce expenses to the necessary minimum enabling our business operations to be continued and project schedules to be met, while discharging our obligations and keeping our bank debt at a safe level,"*noted Paweł Łapiński, Vice President of the Grupa Azoty Management Board for Finance.

No major impact of the pandemic on the progress of any running capex project has been reported to date.

*"We are not abandoning our flagship capex projects – Polimery Police and Puławy CHP plant, and we are continuing work on the Grupa Azoty Strategy for 2020–2030. In the past year, we delivered a solid cash surplus, which can be used to mitigate the effects of the upcoming economic slowdown. We are benefitting from conditions currently prevailing in commodity markets, which have seen major declines in the prices of crude oil, natural gas and, what is particularly important to us, CO₂ emission allowances,"*said dr Wojciech Wardacki, President of the Grupa Azoty Management Board.