



P O L I C E

11.05.2019

## **EPC contract signed with contractor for Polimery Police project. Polypropylene unit to enter commercial operation in three years' time.**

**On May 11th 2019, PDH Polska S.A., a company owned by Grupa Azoty and Grupa Azoty Police, signed a contract for turnkey execution of the Polimery Police project with Hyundai Engineering Co., Ltd, marking a milestone in what is the largest chemical project in years.**

The contract provides for comprehensive implementation of the Polimery Police project, a new petrochemical complex in Police comprising five sub-projects: (1) a propane dehydrogenation unit (PDH Unit), (2) a polypropylene unit (PP Unit), (3) a system for packaging, storage, logistics and dispatch of polypropylene, (4) auxiliary units and inter-unit connections, and (5) a handling and storage terminal comprising port facilities for the unloading and storage of propane and ethylene from seagoing vessels.

The target capacity of the PDH Unit is 400,000 tonnes of propylene with a purity of 99.6% by volume (polymer grade) per 8,000 hours, and that of the PP Unit – 400,000 tonnes of polypropylene per 8,000 hours.

"The implementation of this strategic project is a landmark event for the Grupa Azoty Group and the Polish chemical industry. Once brought on stream, Polimery Police will help us significantly and strategically diversify our business into the promising and fast-growing plastics market, particularly the polypropylene market segment. We expect the share of the plastics business in consolidated revenue will expand from around 16% in 2018 to over 30% in a few years' time. Stepping up our efforts to expand non-fertilizer business lines will allow us to diversify revenue sources and mitigate seasonal fluctuations in demand. The project will markedly improve Poland's position among European plastics manufacturers, placing the country among the leading polypropylene producers in Europe and making it the largest manufacturer in the CEE region, with an output of around 700,000 tonnes. Polimery Police will also give Poland greater independence in terms of energy and raw material supplies once the new liquid fuels terminal is launched," said Wojciech Wardacki, President of the Management Board of Grupa Azoty Police and Grupa Azoty S.A. "I am glad to have acquired Hyundai, a reliable partner and a leading construction company with extensive experience in implementing large-scale projects, as the general contractor for the project. I would also like to thank the government, provincial authorities and business partners for their trust and support for the project so far. This is an additional incentive for us to keep working hard towards project completion. I have no doubt that with our team of top specialists with experience in industrial projects gained in Poland and internationally, and with Hyundai as a partner, the project will progress smoothly and we will meet again in three years' time to officially open the Polimery Police complex," added Mr Wardacki.

Under the contract the contractor is to design and construct the new Polimery Police petrochemical complex and ensure that the guaranteed parameters defined in licence agreements for the PDH and PP Units are

achieved and maintained.

The two key units, that is the PDH Unit (propylene) and the PP Unit (polypropylene), will be designed using the state-of-the-art technology (Honeywell UOP's Oleflex for the PDH Unit and Grace Technologies' Unipol for the PP Unit), which will ensure high production flexibility and deliver a broad range of polypropylene types.

The total budget of the Polimery Police project is estimated at EUR 1.5bn, including approximately EUR 1.2bn in capital expenditure (contractor's remuneration, licence purchases, preparatory work, capitalised salaries, etc.). The balance will comprise non-capitalised costs of PDH operation, finance costs during the construction phase, and planned provisions for debt servicing and cost overruns, which result from applying the project finance model to finance the Polimery Police project.

The location of the expanded chemical complex in Police is convenient both in terms of feedstock supplies, with propane and ethylene deliveries by sea offering the Group the flexibility to source the feedstocks from various regions around the world, and marketing the finished products. Customers in Central Europe will gain a new leading supplier much closer to home than their existing suppliers in Western Europe and other regions. Also, the project's location on the coast of the Baltic Sea offers the opportunity to sell polypropylene on a short sea shipping basis to customers not served by the Group before.

With a major progress achieved in recent weeks, the Grupa Azoty Group is very close to developing the final funding structure for the Polimery Police project. In April 2019, the shareholders of Grupa Azoty Police approved a public offering of shares with pre-emptive rights in favour of existing shareholders, with a value of approximately PLN 1bn. Hyundai and Korea Overseas Infrastructure & Urban Development Corporation submitted preliminary equity investment declarations. The companies expressed their interest in entering into negotiations on potential participation in the financing of the Polimery Police project through acquisition of new shares in PDH and contribution of USD 80m and USD 50m, respectively, to PDH's share capital. To that end, the two companies and PDH have entered into an investment cooperation agreement that remains valid until December 1st 2019. Also, a letter of intent has been signed between Grupa Azoty S.A., Grupa Azoty Police and Grupa LOTOS on potential participation of Grupa LOTOS in the financing of the Polimery Police project, acquisition of new shares in PDH Polska S.A. by the company and contribution of up to PLN 500m in cash to PDH Polska S.A.'s share capital.

In addition to the EPC contract signed today, credit facility agreements enabling the commencement of earthworks and construction works in the first quarter of 2020 are planned to be signed in late August. The start of commercial operation of the Polimery Police units is scheduled for 2022.

Polypropylene is the second-most widely produced plastic (after polyethylene) and the most economically viable propylene derivative, representing over 60% of propylene consumption in Central Europe. Poland is among the largest polypropylene consumers in the region, with imports on the rise (ca. 250,000 tonnes in 2015).

Polypropylene finished and semi-finished products find applications in the chemicals and pharmaceutical industries (water and aggressive liquids flexes, tanks, carpets, laboratory ware, filter cloths, medical equipment, utensils used in medical care, disposable syringes, and pharmaceutical packagings). Polypropylene is also used in the textile, electrical engineering, and electronic industries (textile coatings, mats, ropes, casings and insulations, handles and cable fixtures) and automotive industry (bumpers, bodywork components, car cab interiors). It is used by the construction and furniture industries to make insulation, pipes, carpets, bathroom accessories, and certain types of furniture. It is also used to manufacture packagings, cans, jars, and bottles for the food industry and to make household appliances and toys.