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Grupa Azoty Group begins to raise financing for a new flagship project

Grupa Azoty POLICE has commenced a structured finance process with regard to its PDH investment project worth almost PLN 1.7bn.

Polskie Inwestycje Rozwojowe S.A. (PIR) has expressed its willingness to co-finance the largest and most modern PDH (propane dehydrogenation) propylene unit in Western and Central Europe. The construction of this innovative unit is a key element of Grupa Azoty Group's strategy for 2015-2020.

"Arranging financing for this project of strategic importance to the entire Polish chemical industry is a good example of realising the objective of the Polish Investment Programme, namely facilitating investment projects that accelerate Poland's economic growth. Executing such a large project on a project finance basis requires long-term financing, which is, not only on the Polish market, much more difficult to obtain than credit facilities granted for just a couple of years. The Polish Investment Programme has been designed to fill this gap. PIR is a reliable and stable partner for investors planning multi-billion projects, assisting them in raising financing. The construction of the most advanced propylene unit in our part of Europe will enable Poland to strengthen its position as a major manufacturer of this key chemical material," said Mr Włodzimierz Karpiński, Minister of the State Treasury.

"Signing a cooperation agreement for PIR's co-financing of the PDH unit is a major step towards the launch of construction of this flagship project of the Grupa Azoty Group. In less than two months from corporate approval initiating the investment process, we signed a contract for the purchase of technology and acquired an important financing partner, and within the next several weeks we are going to establish a special purpose vehicle to carry out the project," said Mr Krzysztof Jałosiński, President of the Management Board of Grupa Azoty POLICE and Vice-President of the Management Board of Grupa Azoty. The work has been progressing smoothly and we will be able to commence this project of strategic importance to Grupa Azoty Group's growth as soon as in the first half of 2016," added Krzysztof Jałosiński.

The objective of the cooperation agreement signed on May 19th 2015 between Grupa Azoty POLICE, Grupa Azoty ZAK and Polskie Inwestycje Rozwojowe (PIR) is to define the rules based on which the Parties will work out the detailed financing conditions for the construction of the PDH unit. Under the agreement, Grupa Azoty POLICE agreed to prepare, within six months, the structure of the project and its financing, and to submit to the other Parties a proposal to participate in the financing of the PDH project in the form of equity financing or subordinated debt. Grupa Azoty POLICE will be the Project Sponsor, Grupa Azoty ZAK S.A. (a major consumer of propylene manufactured by POLICE) – the Trade Investor, and PIR will be the Preferred Financial Investor in the SPV established to execute the project. Pursuant to the agreement, PIR's share in the project will be at least 25%. Potential investors agreed that within the next two months they would make the final decision on the project's

financing model, including their contributions.

“PIR actively searches for the best investment projects to support the modernisation of the Polish economy and increase its competitiveness. The propylene unit to be built in Police using the best available technologies is an innovative project on European scale whose execution fits in very well with our mission, and a highly promising business guaranteeing efficient use of State Treasury assets in developing the entire Polish chemical sector,” says Mr Jerzy Góra, President of the Management Board of Polskie Inwestycje Rozwojowe S.A.

The new unit's target annual production capacity is approximately 400,000 tonnes of propylene, of which about 150,000 tonnes will be supplied to Grupa Azoty ZAK S.A. The balance will be mainly exported. The project also includes the expansion of the chemicals terminal to enable the Police Port to accommodate the largest LPG ships. Approximately 200 new jobs will be created in the process. The project will substantially enhance the innovativeness of the entire Polish chemical industry. It also follows the re-industrialisation strategy for the European economy.

“The success of the PDH project is crucial to Grupa Azoty ZAK. It will mark a significant step towards securing supplies of propylene, a key feedstock, to the Company. We will be fully involved in each stage of project execution, as this is to us a typical upstream project, also offering an opportunity to reduce production costs of oxo alcohols and plasticisers,” said Mr Adam Leszkiewicz, President of the Management Board of Grupa Azoty ZAK S.A.

Propylene is one of the two key substances (in addition to ethylene) used to manufacture further intermediate chemicals. It is a feedstock used to produce solvents, acrylic paints, acrylic acid, and polypropylene used by the textile, automotive and packaging industries.