

Our history is our strength

– an interview with Jerzy MARCINIAK, President of the Azoty Tarnów

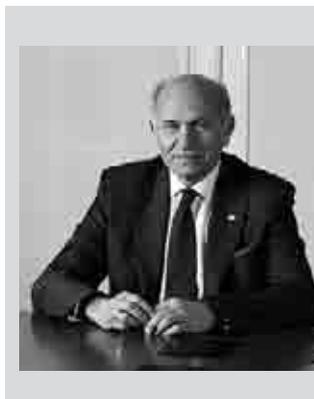
This year sees the 85th anniversary of Azoty Tarnów. Today, the Works are Poland's largest chemical company. The company is a capital group that over the past three years has successfully acquired other plants from the industry, thus taking the position of Polish and European leader in chemicals. Recently Azoty Tarnów have announced the subscription for shares of Zakłady Azotowe „Puławy”. Also, the process of consolidation with Poland's leading edge chemical plant is in progress. Does the State Treasury have to decide once again on the direction and perspectives for Azoty Tarnów, just like it did in 1927?

The decisions have already been made. We are developing Polish chemical industry and the perspectives are very promising. Just as in 1927 when Państwowa Fabryka Związków Azotowych (State Works of Nitrogen Compounds) was first established in Mościce, we are now faced with a unique opportunity to create the cutting edge capital and production structure in Poland. A structure that, keeping things in proportion, has every chance to successfully compete on the global market with its state-of-the-art products, not being dependent on or constrained by capital considerations. Today, similarly to the times of Eugeniusz Kwiatkowski, it is of paramount importance that the state, being the owner of the plant, finds the best formula of positive contribution into the natural growth of revenues from production and the following increase of value for the shareholders, as well as multiplication of profits and their distribution to the citizens. Fortunately, the Minister of Treasury understands this and actively supports our efforts towards implementing an efficient strategy for the future.

Before we move to discussing plans for the future, I have one question: are the Azoty Tarnów the right plant to consolidate Polish chemical industry?

Well, it's already happening. Azoty Tarnów have already taken up the role of consolidator of Polish chemical industry by taking over Zakłady Azotowe „Kędzierzyn” (ZAK S.A.) and Zakłady Chemiczne „Police” (ZCh „Police” S.A.). We have designed and successfully implemented a consolidation model that is continuously improved and its efficiency has been confirmed during both those takeovers. We ensure good working conditions to employees in all of our companies. We provide jobs and income to over 9 thousand employees in Poland and Europe. Having such broad and highly qualified personnel, we have very specific and ambitious plans for future growth. The recently published 2012 ÷ 2020 strategy was met with acclaim by our shareholders. The strategy assumes taking a strong market position as one of the leading manufacturers of mineral fertilizers in the European Union. We are also planning to achieve the position of notable European manufacturer of plastics and caprolactam, as well as Oxo alcohols, plasticizers and titanium white. And further consolidation of the industry will be performed together with Zakłady Azotowe „Puławy” (ZA „Puławy”).

Azoty Tarnów have witnessed a string of success over the past three years. But are those successful years a sufficient reason to take over another Polish company from the branch of great chemical synthesis?



Jerzy MARCINIAK, President of the Managing Board – Director General in Azoty Tarnów. Chairman of the Supervisory Board of Z.Ch. „Police”. Graduate of the Faculty of Mathematics, Physics and Chemistry at the Jagiellonian University in Cracow and Postgraduate Management Studies of the Faculty of Management at the University of Warsaw.

As I have already mentioned, from now on the consolidation will be performed with the Zakłady Azotowe „Puławy”. It is my opinion that the perspectives for consolidation of Azoty Tarnów with ZA „Puławy” are very good. The Extraordinary General Meeting of Shareholders has approved the increase in the target capital. The actions proposed by the Management Board have been accepted by 85% of the shareholders. Therefore, it is clear to me that the owners of Azoty Tarnów expect the transaction to be beneficial in many respects. In the long term the transaction will be very profitable for both our shareholders and the shareholders of ZA „Puławy”, since the resulting chemical group will have a turnover significantly exceeding the level of PLN 8 billion. Larger companies can do more, therefore our combined product portfolios, integrated production costs and joint logistics will create a synergy effect. Furthermore, this consolidation will reinforce the global position of Polish chemical industry. When Azoty Tarnów first floated on Warsaw Stock Exchange in June 2008, our goal was to reinforce our product portfolio and make it more attractive, based on our main business, i.e. the production of plastics and mineral fertilizers. We have successfully implemented the broad investment program planned at that time. When we decided on the second issue of our shares, our aim was to finance the acquisition of shares in ZAK S.A. and ZCh „Police” S.A. At the same time, we launched a leading edge mineral fertilizer granulation line and the second ammonia production plant in Police. The list could go on, but what I want to say is that our strategy involves not only acquisitions, but also comprehensive development to gain a competitive position for Polish chemical industry on the global market. In the revised strategy we proposed to our shareholders to expand our operations within Azoty Tarnów Capital Group by internal growth, alliances, mergers and acquisitions both in Poland and abroad. By further integration we aim to maximise the synergy effect, but we will also make sure to follow the sustainable development principles.

This might not be easy...

Managing a large company today is the art of finding innovative solutions and being able to get off the beaten track. Azoty Tarnów have a long history of success but the decisive points shaping the further direction for the Mościce plant always required imagination. Especially the kind of imagination that helps you make the final decision. Our

history is our strength. Państwowa Fabryka Związków Azotowych was the embodiment of a great industrial project and major civilisational development in Poland. Today, as we return to our history on our 85th anniversary, we recall the words of President Ignacy Mościcki, who wrote that the construction of this plant saw “a truly American haste, reminding of the great gold rush”. I would not dare to draw comparisons between our current objectives with that enormous success. History, though, has a strange way of repeating itself. To me, what Azoty Tarnów take part in today, is in fact a kind of “gold rush”. In the times of Eugeniusz Kwiatkowski it was the state who decided on major civilisational developments. What has been happening in Polish chemical plants since the beginning of the 1990s also bears the mark of a civilisational development. Overcoming numerous obstacles and never losing our determination, we are all, in our own ways, struggling to bridge the civilisational gap left to us by previous generations. We reach back to our roots to build a capitalist, smart, competitive national economy that would also be compatible with the rest of the world. Over the last 20 years the Polish state has built a true capital market and there are companies that have seen considerable success on this market. I would like not only for Azoty Tarnów, but for the entire Polish chemical industry to take its rightful place and compete on global markets because we can afford it.

But you already are a significant capital group with global reach. You are selling your products to 60 countries, which makes you an important player on the global market.

Indeed, we are trading with the whole world. 50% of our fertilizer production is exported abroad, but our exports include more than that. Since the 1970s we are also offering our proprietary chemical technologies. Many foreign chemical companies have expressed their interest in those technologies. We are exporting technical know-how against payment, including technologies such as: production of acetylene from natural gas, production of polycrystalline silicon, polytetrafluoroethylene (PTFE), production of cyclohexanone from benzene and phenol, caprolactam from benzene, and production of plastics from polyoxymethylene (POM). The revenues from the sales of technology thus far have exceeded \$100 million. Furthermore, we have now adopted a rule of thumb that we will make our technologies available to interested parties by entering into joint business or investment projects with them. However, maintaining high business position requires not only high production capacities, but also an appropriate financial potential. The global economy of today, struck by financial crisis, forces companies to implement more and more safety measures, while advanced technologies require copious financial investments. The fact that State Treasury is involved in the consolidation process of Azoty Tarnów and ZA “Puławy” is a major boost for Polish chemical industry, just like in 1920s when the plant was first constructed. This is how I see it, but at the same time I am aware that we have taken up a major project and I am certain that the final effect and the resulting range of operations of the new Azoty Group will be determined not only by courage, but most of all by precision and consequence in consolidating the chemical industry, so that it may take its rightful place on the global market.

The Mission, set forth in the 2012÷2020 strategy and implemented by the Management Board, involves increasing the value of the Capital Group by effective use of any synergies and innovations available, while the Vision assumes that before the decade is out, Azoty Tarnów Capital Group will be quoted on the basic index of Warsaw Stock Exchange. Given your plans, how would you comment the actions taken by Acron Group in July this year, who called for subscription of shares of Azoty Tarnów?

We are an attractive target for the industry and the capital market. Acron called the shareholders to sell their shares to them, first at PLN 36 per share and finally at PLN 45. However, most of our shareholders decided not to answer the call. They have placed their trust with us and decided that Azoty Tarnów Group’s strategy, which is definitely one of the largest investment and development projects in Polish chemical industry in the last years, deserves their acceptance and commitment. They are already profiting from the fact that they have kept our shares. Furthermore, the shareholders’ trust certainly did not come from nowhere. The market knows very well that in our consolidation efforts thus far we have taken the opportunities available, but we have always strictly followed the principles of corporate governance and business ethics.

And yet you too have adopted the method of multiplying your assets. Azoty Tarnów called for subscription for shares of ZA “Puławy”...

I beg to differ. You cannot compare those two calls. Acron’s call for subscription for our shares and our call for subscription for ZA “Puławy”’s shares, despite the similarity of capital acquisition instrument, differ greatly in terms of goals. We have made the decision to issue the call with the approval of our shareholders and the majority of shareholders of “Puławy”. I would also go as far as to claim that we and Acron represent two decidedly different philosophies of creating company value. Not referring to Acron’s true intentions, I would like to emphasise that Azoty Tarnów is simply a company that keeps its word.

So Azoty Tarnów is a good investment opportunity?

Of that I am certain. Our mutual goal with ZA “Puławy” is to work consistently towards taking a leading position on European chemical market and achieving the best financial results, at the same time creating partnership relations with other market players and performing obligations arising from the principles of sustainable development.

This sounds great but what future lies ahead for Polish chemical plants?

A bright one. We only have to believe and appreciate progress and commitment. Our chemical environment is determined to take its rightful position. We also have the courage to challenge the world. We are appreciated not only by the market, but also by state authorities. The Prime Minister, who visited our plant last year, wrote in visitors’ book: “Congratulations on the strength and courage with which you have entered the 21st Century. Poland is proud of you!”. We also remember the words of Eugeniusz Kwiatkowski from 1930 which to this day are the motto of Azoty Tarnów Capital Group: “Never before has Poland seen a task so challenging, so complicated, so modern, so large in scale and to be performed over such a short period of time.” The revised strategy defined the Group’s goals up to 2020. After 85 years, which have seen periods of failure and the threat of shutdown was very real for a number of times, at the outset of the 21st Century Azoty Tarnów are facing the future with optimism. It is our job to make use of those exceptionally favourable market circumstances. The Group sets only ambitious goals. And history has a way of repeating itself. Although we constantly hear the crisis buzz today, Azoty Tarnów Group has every reason to consider itself a successful company. We have a unique opportunity to gather the achievements of several generations of engineers and make full use of the potential offered by capital market, to the benefit of the entire chemical industry. I believe the history will help us achieve this end.

Thank you very much for the interview and please accept congratulations on the anniversary and best wishes to all people of the Mościce plant.

(an interview on 12th September 2012)