

## MARKET OVERVIEW

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In 2014, the global economy continued the slow pace of its recovery from recession, and demand for chemicals in sectors which typically sensitive to GDP growth, such as construction, automotive industry, household appliances and electronics, remained subdued. Prices of goods along the supply chain showed slow growth, following weak demand and good availability of products on the market.

In August 2014, crude oil prices began their continuous and steep slide, pulling down prices of petroleum products such as benzene or propylene. Consequently, the prices further along the supply chain started to decline, with the decrease finally manifesting itself in prices of the Group's final products, such plastics and oxo chemicals.

Even though in the context of poor performance of EU economies Poland maintained a relatively good pace of GDP growth, certain indicators deteriorated, including export growth, which was however compensated by domestic sales.

Agro Fertilizers

Plastics

Chemicals

Energy Segment

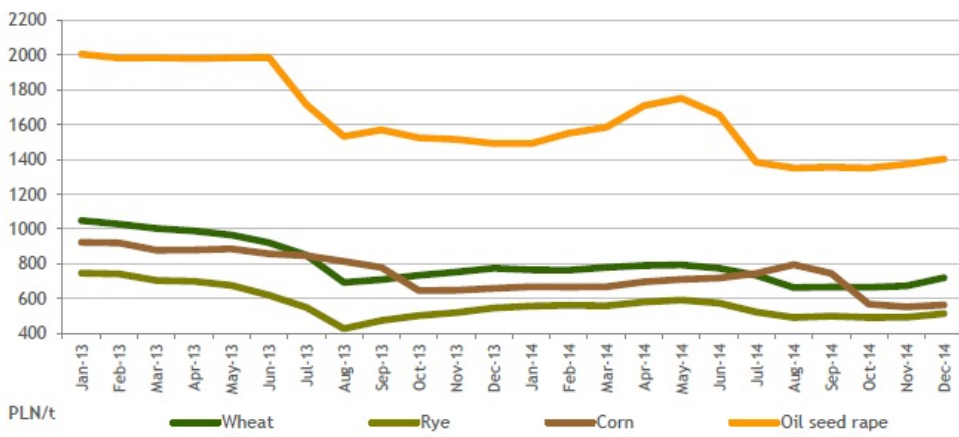
## ECONOMIC CONDITIONS IN AGRICULTURE



Exceptionally good weather conditions resulted in another season of high grain yields, contributing to higher grain stocks around the globe, in Europe and in Poland. That, combined with a strong dollar which limited exports to the US and caused prices to slump in the US market, contributed to a decline in prices of agricultural produce.

In Poland, this was mitigated by exports and the system of direct subsidies, which in are distributed by the Agency for Restructuring and Modernisation of Agriculture (subsidy payments by the Agency began in December 2014). The 2014 subsidies, which are to be distributed to 1,350 thousand Polish farmers, totalled PLN 14.2bn (2013: PLN 14.91bn). Apart from the direct subsidies, there are other sources of subsidising the sector available under a number agriculture support programmes operated as part of the EU Common Agricultural Policy.

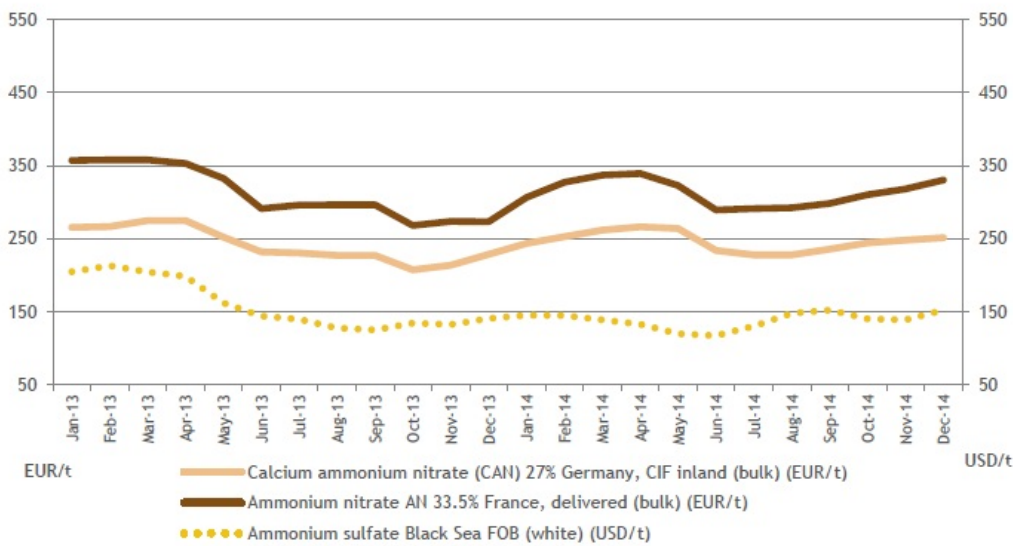
## OIL SEED RAPE, WHEAT, RYE AND CORN PRICES



Source: Ministry of Agriculture and Rural Development

## Fertilizer market

### CAN, AN and AS prices



Source: Argus FMB

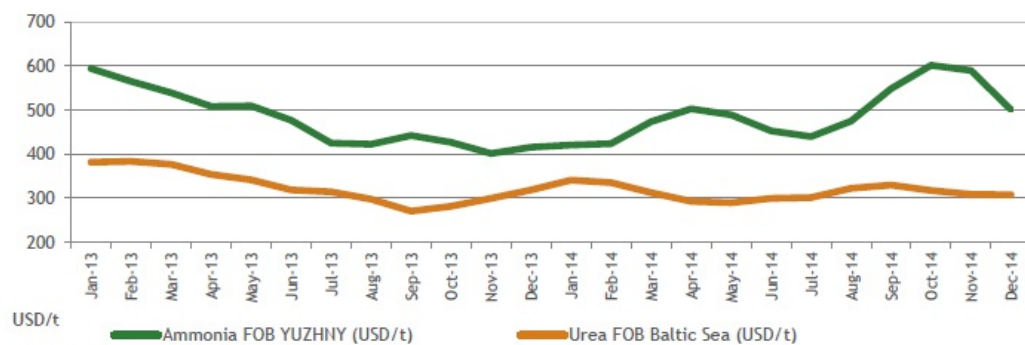
## AMMONIUM NITRATE/CALCIUM AMMONIUM NITRATE (CAN) >

In 2014, the average annual CAN prices increased marginally relative to 2013, whereas a slight decrease was seen in ammonium nitrate prices. The average annual price of CAN was up from EUR 242/tonne in 2013 to EUR 247/tonne in 2014, while ammonium nitrate prices fell from EUR 319/tonne in 2013 to EUR 314/tonne a year later.

## AMMONIUM SULFATE >

Prices of ammonium sulfate went down year on year in 2014; the average annual price decreased from USD 161/t in 2013 to USD 133/t in 2014. In 2014, the ammonium sulfate market continued to see oversupply driven chiefly by the increase in Chinese production capacities.

## Ammonia and urea prices



Source: ICIS, Argus FMB

## AMMONIA

In 2014, both supply and demand on the ammonia market remained low. The greater demand for ammonia first in the spring and then in late October and early November 2014 was supported mainly by the US market, but it was not strong enough to weather unexpected snowfalls. It is estimated that US farmers applied only ca. 50% of the usual volume.

2014 saw significant and rapid changes in ammonia prices, but ultimately the average annual ammonia price (FOB) rose year on year, from USD 477/tonne in 2013 to USD 493/tonne.

The ammonia market in 2014 was chiefly affected by factory shut-downs and reduced output in Egypt, Trinidad, Russia, Algeria, Indonesia, Australia, Libya, Turkey, Saudi Arabia, Ukraine and Latvia, which were mainly caused by unit failures and reduced gas supply. The military conflict in Ukraine also had an impact on the market conditions, as the Yuzhny terminal (Black Sea, Ukraine) is an important world ammonia trade hub.

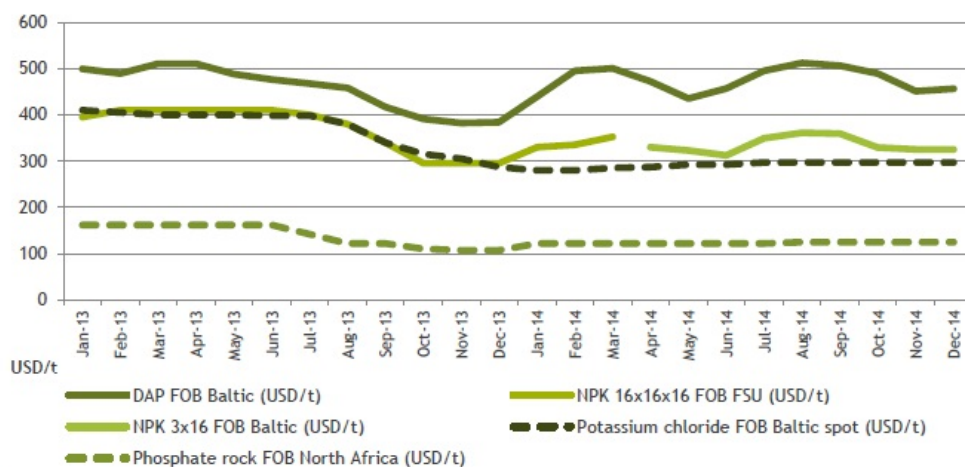
## UREA

In 2014, the global urea market was tight in terms of supply and demand. Production cuts (due to overhaul shut-downs), political situation (e.g. the Ukraine crisis) and a temporary surge in demand for urea in India had an impact on the prices. Eventually the prices slid on continued slowdown in this market segment in 2014 (attributable to, among other things, weaker demand for urea in the US in Q1 2014), and speculative behaviour of market players withholding their urea purchases in anticipation of price decline. Prices of urea went down year on year in 2014; the average annual price decreased from USD 329/tonne in 2013 to USD 314/tonne in 2014.

## UAN

The average UAN price was EUR 185/t in 2014, down approximately 5% on 2013. UAN prices were on a downward trend practically throughout the year, and the price per unit of nitrogen contained in the fertilizer continued as one of the most attractive to buyers among all the nitrogen fertilizers. Other important developments included increasing interest in the European markets among US and Russian producers, but also higher UAN exports from China (mainly to the USA, Australia and South America).

## Prices of NPK, DAP, potassium chloride and phosphate rock



Sources: Argus FMB, WFM, FERTECON

## NPK FERTILIZERS

In the domestic NPK market, the beginning of 2014 was marked by limited demand as farmers held considerable fertilizer stocks and the weather conditions were unfavourable. A slight improvement in demand was seen as time came for spring farming. In the second half of August and the first half of September, there was a significant seasonal increase in the volume of NPK fertilizers purchased in connection with the anticipated autumn fertilizer applications. Given low prices of agricultural produce and lower farming incomes, farmers were forced to look for savings, so they opted for cheaper imported substitutes or lower concentration fertilizers from other Polish manufacturers (Luvena, Siarkopol, Fosfan), which are cheaper per tonne of fertilizer although have a lower content of pure nutritional elements.

After the autumn season, low prices of agricultural crops kept farmers from purchasing NPK fertilizers. The leading NPK fertilizer manufacturers in Western Europe maintained the prices of their standard products. The only and minor price reductions were seen in October, and were intended to encourage customers to buy and store fertilizers.

## DAP FERTILIZERS

Prices of DAP fertilizers remained high throughout 2014. Compared with the previous year, prices rose, from the average annual level of USD 456/t in 2013 to USD 476/t (FOB Baltic). The growing trend in demand for DAP, which set in late in 2013, continued into the first quarter of 2014. In the following quarter, many manufacturers reduced their output due to feedstock-related factors, for technical reasons or due to adverse weather conditions, as a result of which prices fell. Trends in DAP demand and prices varied on the global markets, depending on the region. Continuing strong demand in the Asian markets (India, Pakistan, Bangladesh, Vietnam) and in the internal market in China, was driving DAP prices up in those markets. Chinese manufacturers implemented the government programme to build up stocks of DAP for autumn. In South America, in the US and in Europe demand for DAP remained feeble mainly on the back of decreasing agricultural produce prices in the global markets. In Brazil, low prices of crops (soya, corn) and severe drought resulted in a dramatic decline of purchases of phosphate fertilizers, including DAP. Limited DAP supply in the fourth quarter of the year and the slight increase in prices of agricultural produce stabilised the DAP prices on the global markets and set them on a slow upward trend.

## POTASSIUM CHLORIDE (KCL)

Prices of potassium chloride went sharply down year on year in 2014; the average annual price decreased from USD 370/tonne in 2013 to USD 292/tonne in 2014 (FOB Baltic spot).

At the beginning of 2014, large contracts for supplies of potassium chloride to China were negotiated, and the prices agreed under those contracts marked a benchmark for customers from markets such as India, Malaysia, the Philippines, Indonesia or Brazil. Low prices of agricultural produce caused demand for

potassium chloride in the European markets to remain flat.

The potassium chloride market continues to be oversupplied. The estimated global excess of KCl production capacity over demand for the product is currently about 8m tonnes, and even suspension of KCl extraction by Uralkali in November hardly changed the situation (the capacity excess contracted by 2m tonnes).

## PHOSPHATE ROCK



Following the price modifications at the beginning of 2014, the global market for phosphate rock saw practically no major changes until the end of the year. The only exception were minor increases in prices of Moroccan phosphate rock in August, when OCP Morocco raised the price of its phosphate rock from USD 115-130/tonne to USD 120-130/tonne (FOB Morocco). In November there was a decrease in quoted prices of Togolese phosphate rock, which fell from USD 130-135/tonne to USD 120-125/tonne (FOB Togo).

Generally, prices of phosphate rock in 2014 were lower than a year earlier; the average annual price fell from USD 140/tonne in 2013 to USD 123/tonne in 2014 (FOB North Africa).