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Estimates of financial results of the Grupa Azoty Group for the three and six months ended June 30th 2023

In the three months ended June 30th 2023, the Grupa Azoty Group generated consolidated revenue of PLN 3,491m, EBITDA of PLN -608m, and an EBITDA margin of -17.4%. During the period, the Grupa Azoty Group and other European producers faced macroeconomic headwinds due to Russia's aggression against Ukraine, leading to reduced demand in the markets for the Group companies' products and their downstream markets. Based on the production volume estimates published by the Grupa Azoty Group since the beginning of this year, we have observed an upward trend in fertilizer demand since the third quarter. If the trend continues, it is expected to have a positive impact on the Group's financial results in 2023.

"The second quarter of 2023, as well as the first half of the year, saw an unprecedented accumulation of market challenges for all fertilizer and chemical producers in Europe. The industry at large grappled with a demand-supply imbalance, attributed in part to the surge in duty-free imports from outside the EU and the market impacts of Russia's ongoing war with Ukraine. Consequently, numerous production cuts were implemented by European fertilizer and chemical producers. In the third quarter, we are witnessing a rise in demand for our fertilizer products and anticipate the trend to continue in the coming months. In the Chemicals and Plastics segments, we are starting to see the first signs of improvement in the negative trends that have been ongoing since early 2023. The fertilizer and chemical industry continues to face a substantial, unregulated influx of cheaper products from outside the EU, mainly Asia, which are manufactured using lower-cost raw materials and which do not incur the significant expenses and implications associated with European climate policies," **said Marek Wadowski, Vice President of the Management Board of Grupa Azoty S.A.**

In the three months to June 30th 2023, the Grupa Azoty Group experienced subdued demand for its products and a significant downward pricing pressure (contrary to the prevailing inflationary trends). Reduced sales volumes, alongside weak demand, forced the Group companies to flexibly adjust their production to align with market requirements in critical business segments. Furthermore, the reported quarter witnessed turmoil in the raw materials markets, with consistently elevated prices in Europe, resulting in margin erosion. The Group's performance was also adversely affected by the deteriorating economic conditions in Europe, particularly in Germany, a market of key importance for the Grupa Azoty Group.

The results for the second quarter of 2023 were bolstered by the sale of CO2 emission allowances purchased on the market in previous periods by subsidiaries Grupa Azoty Zakłady Azotowe Puławy S.A., Grupa Azoty Zakłady Chemiczne Police S.A. and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., contributing a total of PLN 289m to the Group's results for the period under review.

In the six months ended June 30th 2023, the Grupa Azoty Group generated consolidated revenue of PLN 7,386m, EBITDA of PLN -1,009m, and an EBITDA margin of -13.7%.

Agro

In the three months to June 30th 2023, there was a 24% year-on-year decrease in total fertilizer sales by volume due to a relatively low demand, with compound fertilizers experiencing an even steeper sales decline of 49%. Unfavourable conditions prevailed in Polish agriculture, with grain prices following a downward trend in the domestic market. The European Union's suspension of tariffs on urea and ammonia remained in effect until June 17th 2023. There was an increase in imports of fertilizers into the European and domestic markets. Prices of natural gas, a key feedstock for fertilizer production, were in a downtrend. During the second quarter, TTF spot prices were EUR 35/MWh, marking a 63% year-on-year decrease. This, coupled with factors in the agricultural market and the supply-demand dynamics within the fertilizer market, led to diminished demand and exerted downward pressure on fertilizer prices.

Due to weak demand, the Grupa Azoty Group aligned production levels at its own facilities with the prevailing supply and demand conditions in the European market during the quarter under review. Total fertilizer production in the three months to June 30th 2023 was 43% lower year on year. Production of compound fertilizers fell 49% year on year, and the quarterly results were adversely affected by a year-on-year rise in prices of energy carriers.

The Agro Segment posted an EBITDA margin of -28.8% for the second quarter of 2023.

Chemicals

In the Chemicals Segment, the second quarter of 2023 saw reduced purchasing activity in the segment's key economic sectors, namely construction and furniture manufacturing.

During the period, all product prices experienced year-on-year declines, with the largest decreases recorded for sulfur, melamine, and technical grade urea. Also the sales volumes of the segment's products declined across the board, except for sulfur. Prices of key raw materials for OXO alcohols and plasticizers production (propylene and terephthalic acid) dropped year on year, whereas the unit cost of ilmenite, which is used in the production of titanium white, saw an increase.

The segment posted an EBITDA margin of -43.3% for the three months ended June 30th 2023.

Plastics

The Plastics Segment saw a decline in polyamide 6 sales volumes in the second quarter of 2023, which were down by one-third year on year as a result of reduced internal demand in Europe and limited export opportunities. Prices of polyamide 6 produced by the Grupa Azoty Group were under continuous downward pressure. Prices of raw materials (benzene and phenol) were lower year on year.

European producers faced competitive imports of cheaper products in the PA6 chain, particularly from Asia. Increased production in the automotive sector and rising new car sales in the EU did not translate into higher orders, let alone an overall surge in demand for polyamide 6.

The segment posted an EBITDA margin of -47.7% for the second quarter of 2023.

The amounts presented above are estimates and may be subject to change. The final figures will be presented in the consolidated report for the six months ended June 30th 2023, scheduled for issue on September 27th 2023.