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Grupa Azoty Announces Preliminary Financial Results

In the first half of 2024, Grupa Azoty generated consolidated sales revenues of PLN 6,743 million, with an EBITDA result of minus PLN 179 million and an EBITDA margin of minus 2.7%. This represents an improvement of nearly PLN 830 million compared to the same period last year. The net loss for the first half of this year amounted to PLN 748 million, compared to a loss of PLN 1,098 billion in the first half of 2023.

In the second quarter of this year, Grupa Azoty achieved consolidated sales revenues of PLN 3,344 million and an EBITDA result of minus PLN 128 million, with an EBITDA margin of minus 3.8%. This compares to an EBITDA result of minus PLN 608 million and an EBITDA margin of minus 17.4% in the second quarter of 2023.

The challenging market conditions in the European fertilizer and chemical industries are reflected in the financial results for both the second quarter and the first half of 2024. The results have also been impacted by the lack of effective corrective and adaptive measures in 2023 and earlier years.

“Despite reducing losses by several hundred million zlotys compared to the first half of last year, the results are still unsatisfactory. For fertilizer producers, the first quarter is crucial for the full-year results, and the loss incurred during this period has weighed heavily on the half-year results. As part of our ongoing recovery efforts, we are placing a strong emphasis on cost optimization in key areas and seeking new business opportunities, despite the challenging environment and significant imports of cheaper products from outside the EU. One such project involves expanding the use of our port infrastructure for ammonia imports. We also have plans to strengthen the Group’s position in the Agro sector in the Ukrainian market, where our revenue share is steadily increasing. Alongside our recovery initiatives, we are continuing our dialogue with financial institutions, supported by the implementation of a Strategic Business Review project, which will ultimately help us define a business model for the Capital Group. Finding a partner for the Polimery Police project remains a priority,” **said Andrzej Skolmowski, Vice President of the Management Board of Grupa Azoty S.A.**

The second quarter of 2024 did not reverse the ongoing adverse macroeconomic situation in Europe and worldwide. However, there are some signs globally that economies may be slowly recovering and gaining the potential to emerge from the economic crisis. Despite some periodic increases, demand for Grupa Azoty’s products remained unsatisfactory, especially given the decline in prices for Agro Segment products.

Prices for almost all production raw materials saw year-on-year decreases in the reported quarter, with natural gas prices down by 10% (according to TTF quotations). The unit costs of energy media, such as electricity and coal, were also significantly lower, by up to 50%. Despite the positive impact of lower unit costs on Grupa Azoty’s results, EBITDA margins for key segments remained negative.

Agro Segment

In the Agro Segment, during the second quarter of 2024 compared to the same period last year, the main factors affecting results were increased production and sales volumes, along with a decline in product prices and most raw materials.

The downward trend in agricultural commodity prices slowed, and there was a slight improvement in the agricultural market. However, increased activity in the fertilizer market was limited due to the overall economic environment. Seasonal demand for fertilizers in retail outlets led to a 36% year-on-year increase in fertilizer sales, including a 35% rise in nitrogen fertilizers and a 40% increase in multi-component fertilizers. At the same time, the ongoing global economic crisis and the availability of competitively priced import volumes, especially urea, resulted in further price reductions for fertilizers in the European market. For Grupa Azoty, average product prices in this segment were 23% lower year-on-year.

Lower year-on-year prices for natural gas and most other production raw materials in the Agro Segment were insufficient to achieve positive EBITDA profitability, partly due to the more significant price declines in finished products.

The EBITDA margin for the Agro Segment in the second quarter of 2024 was minus 5.4%, representing an improvement of nearly PLN 418 million compared to the same quarter last year.

Chemicals Segment

In the Chemicals Segment, the second quarter of 2024 saw a year-on-year increase in total sales volume, accompanied by lower prices for most products and raw materials.

The segment's results were negatively affected by the weak global economic conditions, high customer inventory levels, and the import of cheaper products into the European market, leading to price reductions across most of Grupa Azoty's product range and production curtailments (e.g., in the second quarter of 2024, melamine production at Grupa Azoty Puławy was carried out on only one of three installations). On the positive side, year-on-year price decreases for all basic production raw materials and logistical difficulties in importing through the Red Sea, which extended delivery times and increased transport costs to the European market, helped slow down imports from Asia. Prices for sulfur and plasticizers also increased.

The EBITDA margin for the Chemicals Segment in the second quarter of 2024 was minus 9.4%, representing an improvement of PLN 189 million compared to the same quarter last year.

Plastics Segment

In the Plastics Segment, the second quarter of 2024 saw year-on-year increases in production and sales volumes, as well as higher prices for raw materials (phenol) and the main product, natural polyamide.

The economic crisis had a negative impact on the segment's volume performance. The PA6 product chain market is closely linked to economic conditions, which remained very weak in Europe. Logistical constraints, caused by attacks in the Red Sea and changes in shipping routes, led to increased demand for products from the Old Continent. However, real demand from end-use sectors remained at historically low levels, varying by application.

Due to the ongoing difficult demand-supply situation in the second quarter of 2024, caprolactam production at Grupa Azoty Puławy was not resumed.

The EBITDA margin for the Plastics Segment in the second quarter of 2024 was minus 6.6%, representing an improvement of PLN 93 million compared to the same quarter last year (the segment's results also include the production and sales of Grupa Azoty Polyolefins S.A., which is in the process of commissioning and testing its installations).

The figures presented are preliminary and may be subject to change. The final results will be presented in the consolidated report for the second quarter and first half of 2024, scheduled for publication on 11 September 2024.