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## Grupa Azoty Group's results impacted by supply-demand imbalance in European market

**In the three months ended March 31st 2023, the Grupa Azoty Group generated consolidated revenue of PLN 3,895m, EBITDA of PLN -401m, and EBITDA margin of -10.3%. The financial results are in line with the estimates published by the Company on May 15th 2023.**

**In the three months to March 31st 2023, a demand-supply imbalance continued in the European market, reflecting Russia's invasion of Ukraine, soaring energy prices and duty-free imports of fertilizers and plastics manufactured outside the European Union from cheaper feedstocks. The macro environment led to lower demand for the Group's products, driving down sales volumes and product prices. The market turbulence also disrupted end-user buying behaviour typical of the first quarter of prior years.**

The first quarter results were bolstered by PLN 234m in funding granted to the Group companies by the National Fund for Environmental Protection and Water Management as part of the support provided to energy-intensive sectors in view of the sudden increases in natural gas and electricity prices in 2022.

The Grupa Azoty Group is actively responding to the market challenges by adjusting production volumes to current supply and demand in Europe, among other measures. Estimated monthly consolidated production volumes are regularly disclosed by the Group in ESPI current reports.

Although the Group is taking measures to boost its operating profitability, it does not rule out the possibility of exceeding the permitted level of the net debt/EBITDA ratio at the end of the first half of 2023. Should this scenario become likely, the Company will take appropriate pre-emptive steps to mitigate the risks.

*'In the first quarter of 2023, the Grupa Azoty Group reported deteriorating financial results and negative profit margins in all key business segments as a result of the perfect storm of adverse events. The most significant ones were the oversupply of products and the decline in competitiveness experienced by the entire chemical industry in Europe. This is largely an effect of bringing fertilizers and plastics from countries outside the EU, where manufacturers have access to cheaper feedstocks and bear lower costs of climate policy than EU producers. Obviously, this is reflected in product prices. Another challenge faced by the Agro Segment is the EU Council's decision to temporarily suspend urea and ammonia tariffs. The Company expects the market to improve from the third quarter of 2023. We are in talks with PKN Orlen on a new gas supply contract, as the existing contract expires at the end of September. As final works on the Polimery Police project are progressing on schedule despite a challenging market environment, we expect commercial operation to start in June this year, which would significantly contribute to strengthening our business. At the same time, we are continuing our efforts to further diversify our energy sources,' said Marek Wadowski, Vice President of the Management Board of*

## **Grupa Azoty S.A.**

### **Agro**

Fertilizer sales fell in the first quarter due to low purchasing activity of customers. In addition, the supply-demand situation was adversely affected by EU and non-EU imports (mainly of urea), which were driven, among others, by the decision of the Council of the European Union of December 16th 2022 to temporarily suspend urea and ammonia tariffs. In the case of compound fertilizers, a year-on-year increase in the prices of key raw materials (phosphate rock, potassium chloride) caused the prices of these fertilizers to grow. Coupled with a slump in demand, this led to a lower output and sales of compound fertilizers compared to the same period last year.

In the Agro Segment, a year-on-year decline in the prices of natural gas, being the key feedstock for the manufacture of nitrogen fertilizers, did not offset the drop in product prices and sales volumes.

The Group adjusted its fertilizer production to demand and supply conditions on an ongoing basis and, like most European fertilizer producers, significantly reduced their output.

The Agro Segment's EBITDA margin for the first quarter of 2023 stood at -5.9%.

### **Chemicals**

Due to low buyer activity, the Chemicals Segment reported a significant decline in sales volumes, mainly of melamine and OXO alcohols. Higher sales volumes were observed in the case of sulfur, which was mainly exported. In addition, demand in the Chemicals Segment was adversely impacted by high inventory levels at customers. Prices of most products were lower than in the same period last year. Price increases were reported for titanium white, urea solution (PULNOx) and ammonia water (LIKAM).

The Segment's result was boosted by a drop in the price of the main raw material, propylene. In the case of the other raw materials, their prices were close to or higher than those reported in the first quarter of 2022.

Due to the supply and demand situation, the production of melamine at Grupa Azoty Puławy was temporarily suspended in March. It is important to note the Management Board of Grupa Azoty Puławy resolved to resume melamine production (Agro Segment) and to commence work on May 17th 2023 to start up the Melamine III unit. The unit's production volumes will be adjusted according to current supply and demand. At 90 tonnes a day, the capacity of the Melamine III unit represents approximately one-third of the rated capacity of all the Company's melamine units.

The Chemicals Segment's EBITDA margin for the first quarter of 2023 stood at -7.2%.

### **Plastics**

In Europe, demand for the segment's products from all of the key sectors (automotive, construction, and packaging) remained low. Moreover, manufacturers were under strong pressures from non-EU imports. As a result of the adverse market conditions, the Plastics Segment reported a year-on-year decline in both sales volumes and prices of natural polyamide, its key product.

Prices of the main raw materials for caprolactam and polyamide production (benzene, phenol) fell year on year, but high inventory levels throughout the supply chain of the aforementioned sectors caused a postponement of purchasing decisions.

Due to the supply and demand situation, the production of caprolactam at Grupa Azoty Puławy was temporarily suspended in March.

The Plastics Segment's EBITDA margin for the first quarter of 2023 stood at -28.0%.