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Grupa Azoty Group reports higher demand in the Agro segment in Q3 2023

The third-quarter financial results of the Grupa Azoty Group are in line with estimates presented on October 26th. The Group generated consolidated revenue of PLN 3,075 million, EBITDA of PLN -348 million, and EBITDA margin of -11.3%.

As highlighted in the estimate announcement, the reporting period saw an uptick in demand in the Agro segment and partially in the Chemicals segment, resulting in a rise in production volumes and a reduction of fertilizer stocks. Prices for most Grupa Azoty Group products were, on average, 52% lower than in the previous year.

"The past quarter brought a marked improvement in demand for fertilizer products and the first positive signs in the Chemicals segment. Meanwhile, European plastics manufacturers faced significant downward pressure on prices due to declining demand. In the fourth quarter, we continue measures to maintain cost discipline across all our companies and take steps to cut costs, securing the Group's liquidity at a safe level. The challenges we have been facing since the beginning of the year confirm the need to intensify our efforts towards energy transition at the Grupa Azoty Group. Our priority project is Solarfarm Brzezinka. Subject to approval from the upcoming General Meeting, Grupa Azoty S.A. plans to sign, by mid-December, a preliminary conditional agreement to purchase all shares in the company. Its solar PV power plant, once launched, will be the largest project of this type operating in Poland. We are also exploring opportunities for collaborative decarbonisation projects with U.S. partners and the import of clean ammonia from the United States," says **Marek Wadowski, Vice President of the Grupa Azoty S.A. Management Board.**

The costs of energy utilities, such as electricity and coal, rose year on year. While considerably higher than in other markets, natural gas prices in Europe remained stable for most of the period. This stabilisation, which contrasted the volatility witnessed in the previous year, was primarily attributable to a record surge in renewable energy production, abundant gas stocks in European storage facilities, and above-average temperatures. The decline in product prices in the third quarter was not fully correlated with an offsetting drop in feedstock prices, resulting in shrinking margins.

Agro

The third quarter is traditionally a period of intense fieldwork in Poland, leading to a seasonal drop in demand for fertilizer products. However, the three months to September 30th 2023 saw a rise in demand for Grupa Azoty products, mainly attributable to farmers restocking their supplies and purchasing fertilizers for the upcoming autumn application season. The total sales volume of fertilizers was up 8% year on year, resulting in a 6% output

increase. The segment's revenue was primarily driven by improved demand for nitrogen and compound fertilizers and the market reverting to its usual seasonal demand-price dynamics.

The tariff suspension in the first half of 2023 (from December 2022) was a major factor supporting the expansion in Europe of imports from regions with significant energy, environmental and labour cost advantages. The prices of natural gas, which is vital for fertilizer production, were at their lowest for the year during the third quarter, increasing only towards the period's end. It is noteworthy that gas prices in Europe remain even several times higher than in other markets, as indicated by benchmarks such as Henry Hub in the US.

In the third quarter of 2023, the Agro segment's EBITDA margin stood at -7.6%.

Chemicals

For the Chemicals segment, the three months to September 30th 2023 were marked by subdued demand due to adverse global macroeconomic conditions, high stock levels, and an influx of cheaper imports to Europe. However, the segment recorded a 14% quarter-on-quarter increase in sales volume. Notably, the volume of technical-grade sulfur and urea sales rose by almost 50% relative to the previous quarter. The segment's revenue declined 18% on the same period of the previous year. The third quarter of 2023 saw a year-on-year fall in all product prices across the Group's geographies, with the largest decreases (over 60%) observed for NO_x, melamine, and technical grade urea. Prices for the segment's key feedstocks, including gas, propylene and ilmenite, also declined year on year, reflecting the prevailing market trends.

The segment's EBITDA margin for the third quarter of 2023 was negative at -28.6%.

Plastics

In the three months to September 30th 2023, the Plastics segment posted a 20% year-on-year decline in polyamide 6 sales volume, largely attributable to reduced demand from all major consumers, including engineering plastics, carpet fibres, and packaging film producers. This drop in demand placed strong downward pressure on the prices of European plastics, which, to a certain extent, helped curtail imports from highly cost-competitive markets, especially in Asia. Benzene prices were 33% lower than a year earlier.

The segment's EBITDA margin for the third quarter of 2023 was negative at -34.0%.