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Grupa Azoty Group's 2022 earnings driven by conditions in European commodity markets

The Grupa Azoty Group recorded negative fourth-quarter 2022 EBITDA, with the earnings dragged down chiefly by the Agro Segment. The Group posted full-year 2022 consolidated revenue of PLN 24,658m, EBITDA of PLN 2,545m and EBITDA margin of 10.3%.

determined by the consequences of Russia's military invasion of Ukraine and high prices of raw materials and energy carriers, leading to production cuts by European manufacturers.

As a consequence of the macroeconomic climate, each business segment recorded a significant rise in product prices and a simultaneous decrease in sales volumes, and experienced demand-supply imbalances. Major factors affecting earnings were inflation in Europe and rising fixed and variable operating costs. Consistent business diversification efforts had a positive effect on the Grupa Azoty Group's results.

Consolidated operating profit and net profit of the Grupa Azoty Group were negatively affected by impairment losses on non-financial non-current assets and inventories of finished goods, semi-finished products and raw materials. The write-downs of inventories in 2022 lowered the consolidated EBIT and EBITDA by PLN 428m. The recognition of the impairment losses on non-financial non-current assets resulted in a decrease of PLN 924m in the Group's consolidated EBIT for 2022. In accordance with the Group's Accounting Policy, the impairment losses are non-recurring, non-cash items.

Our performance last year was determined primarily by conditions prevailing in the European commodity markets. The demand-supply imbalance seen across all segments since the fourth quarter causes the Group companies to adjust their production volumes to current market situation, with consolidated production volume estimates communicated on a regular basis. Importantly, our stable financial position built over past years allows the Group to cope with the current headwinds experienced by the fertilizer and chemical industry throughout Europe. We are making progress on the projects included in the Grupa Azoty Group's 2030 strategy. The shifts we have seen in the macroeconomic landscape and business conditions since the strategy was first published have further strengthened the rationale for its implementation – particularly in the part relating to energy transition and decarbonisation. We attach priority to our key project, Green Azoty, which will directly contribute to sharpening our competitive edge in an increasingly challenging market environment. Slated to come onstream this year, our flagship Polimery Police project will bolster our business and our ongoing diversification strategy. We strive to maintain a strong market position in each segment, hence our agility in responding to changes in the business environment and adjusting our activities to current conditions. We consider Green Azoty and Polimery Police as key to the achievement of our stated goals,' said Tomasz Hinc, President of the

Management Board of Grupa Azoty S.A.

2022 was a time of high volatility in commodity prices, energy prices, product prices, demand and supply that affected all our business segments. The key factor determining our performance was the economic impact of Russia's invasion of Ukraine. During the period of the sharpest spikes in commodity prices, the management boards of our companies had to make the tough decision to temporarily curtail fertilizer, plastics and melamine production. The fourth quarter was particularly challenging in terms of profitability, with negative EBITDA reported by all our three key segments, the Agro Segment in particular. Demand for products weakened year on year. This combined with increased supply compounded by large imports of products from outside the European Union, dragged down sales volumes. It is important to note that products originating outside the EU are much cheaper to manufacture given no climate policy costs, almost no carbon emission costs, lower raw material costs, and lower labour costs. The situation was particularly complicated for the Agro Segment. Unprecedented increases in natural gas prices in 2022 sent fertilizer prices soaring, with production curtailed or shut down at most plants in Europe. Subsequent sharp declines in gas prices resulted in significant reductions in fertilizer prices, but many agricultural producers cut back on purchases in anticipation of a further correction in prices reflecting rapidly falling crop prices. Despite the complicated market situation, our capital expenditure exceeded PLN 2.5bn for a third consecutive year, driven largely by the Polimery Police project, which was progressing on schedule,' explained Marek Wadowski, Vice President of Grupa Azoty S.A.

Agro

In the Fertilizers Segment, revenue reached PLN 15,104m and EBITDA margin was 9.0%. The Agro Segment's performance was mainly determined by strong volatility of commodity prices, including natural gas, demand-supply imbalances and falling prices of agricultural crops. The average prices of feedstocks used and products manufactured by the segment were significantly higher than the year before, while sales volumes were markedly lower.

Natural gas prices in the period under review changed rapidly, and the TTF spot price ranged from EUR 22 to EUR 345 per MWh. In response to an uptrend in gas prices in the third quarter followed by a downtrend in the fourth quarter, three key Grupa Azoty Group companies suspended or curtailed production between August and October 2022. Demand-supply imbalances were seen throughout the year, caused chiefly by the economic situation in Europe resulting from Russia's aggression against Ukraine. The fertilizer market was stagnant in the fourth quarter. Producers looked forward to market activity and an increase in sales in view of the upcoming fertilizer season, while customers were holding off on purchases in anticipation of a drop in fertilizer prices as gas prices fell quarter on quarter. The consequence of these divergent expectations was low demand and growing fertilizer stocks at manufacturers and distributors. Another reason for the reduction of purchases by customers was the worrisome signals from the agricultural market, especially the observed downward trend in prices of agricultural crops, which was driven by high grain imports from Ukraine.

The Agro Segment's EBITDA margin generated in the fourth quarter of 2022 was significantly lower year on year and fell to -5.3%. The segment's results were reduced by the impairment losses and write-downs.

Chemicals

The Chemicals Segment reported 2022 revenue of PLN 6,413m (up 38.5% year on year) and an EBITDA margin of 12.1% (down 2.5pp year on year).

Chemicals saw an increase in the prices of all products and almost all production inputs, with the largest price increases in excess of 100% year on year reported for ammonia water, NOx, PULNOx, and technical grade urea. Sales volumes fell year on year in almost all product categories save for sulfur and ammonia water, with the largest declines reported for melamine and OXO alcohols. Key determinants of the segment's performance were the growing feedstock prices and relatively weak demand, as European manufacturers were under heavy competitive pressure from entities importing products from outside the EU. The melamine market was affected by high commodity prices and the expiry of anti-dumping duties on imports of melamine from China to the European Union. Melamine production at Grupa Azoty Zakłady Azotowe Puławy S.A., shut down in July 2022, was partially resumed at the end of October 2022. In the fourth quarter, the market also kept a close eye on the possible impact of an increase in China's export capacity due to production recovery following the lifting of the preventive measures introduced under the zero COVID policy.

The Chemicals Segment's EBITDA margin delivered in the fourth quarter of 2022 was negative at -3.9%. The

segment's results were reduced by the impairment losses and write-downs.

Plastics

The Plastics Segment's revenue amounted to PLN 2,083m (up 13.9% year on year) and EBITDA margin stood at negative 2.2% (down 13.1pp year on year) in 2022.

Prices of benzene and phenol, the segment's key raw materials, but also prices of its products were significantly higher than in the previous year. The plastics market was hit by weak demand from almost all industries, including automotive, construction, packaging, electronics and electrical equipment, while European manufacturers struggled with an influx of imports. Caprolactam and polyamide 6 production was halted at Grupa Azoty S.A. and Grupa Azoty Zakłady Azotowe Puławy S.A. between August and October due to soaring feedstock prices. These factors led to a major year-on-year drop in the segment's sales.

The segment's EBITDA margin delivered in the fourth quarter of 2022 was negative at -43.4%. The segment's results were reduced by the impairment losses and write-downs.