



Consolidated interim report of the Grupa Azoty Group for Q1 2023



Contents

Interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2023, prepared in accordance with IAS 34 <i>Interim Financial Reporting</i> as endorsed by the European Union.....	4
Consolidated financial highlights.....	5
Interim condensed consolidated statement of comprehensive income.....	6
Interim condensed consolidated statement of financial position.....	7
Interim condensed consolidated statement of financial position (continued).....	8
Interim condensed consolidated statement of changes in equity.....	9
Interim condensed consolidated statement of cash flows.....	10
Supplementary information to the interim condensed consolidated financial statements.....	11
1. Description of the Group.....	11
1.1. The Group's organisational structure.....	11
1.2. Changes in the Group's structure.....	14
2. Basis of accounting used in preparing the interim condensed consolidated financial statements.....	14
2.1. Statement of compliance and basis of accounting.....	14
2.2. Accounting policies and data presentation.....	14
3. Selected notes and supplementary information.....	18
3.1. Business segment reporting.....	18
3.2. Impairment testing.....	22
3.3. Other material changes in the statement of financial position and statement of profit or loss 23.....	
3.4. Contingent liabilities, contingent assets, sureties and guarantees.....	24
3.5. Related-party transactions.....	25
3.6. Accounting estimates and assumptions.....	25
3.7. Dividend.....	26
3.8. Seasonality of operations.....	26
3.9. Impact of the COVID-19 pandemic.....	26
3.10. Impact of the war in Ukraine.....	26
3.11. Information on sanctions.....	27
3.12. Other information.....	28
3.13. Events after the reporting date.....	28
Interim condensed financial statements of Grupa Azoty Spółka Akcyjna for the three months ended March 31st 2023, prepared in accordance with IAS 34 <i>Interim Financial Reporting</i> as endorsed by the European Union.....	29
Financial highlights.....	30
Interim condensed statement of comprehensive income.....	31
Interim condensed statement of financial position.....	32
Interim condensed statement of changes in equity.....	33
Interim condensed statement of cash flows.....	34
Notes to the interim condensed financial statements.....	35
1. Basis of accounting used in preparing the interim condensed financial statements.....	35
1.1. Statement of compliance and basis of accounting.....	35
1.2. Accounting policies and data presentation.....	35
2. Supplementary information.....	38
2.1. Impairment testing.....	38
2.2. Impact of the COVID-19 pandemic.....	38
2.3. Impact of the war in Ukraine.....	38
2.4. Information on sanctions.....	39
2.5. Other information.....	39
Management's discussion and analysis of Grupa Azoty S.A.'s performance in the three months ended March 31st 2023.....	40
1. General information on the Grupa Azoty Group.....	41
1.1. Organisation and structure.....	41
1.2. Business segments.....	44
1.3. Overview of key products.....	45
2. Financial position of the Group.....	49
2.1. Assessment of factors and one-off events having a material impact on the Group's operations and financial performance.....	49

2.2. Market overview	51
2.3. Key financial and economic data	64
2.3.1. Consolidated financial information	64
2.3.2. Segment results	64
2.3.3. Assets, equity and liabilities	67
2.3.4. Financial ratios	67
2.4. Financial liquidity	69
2.5. Borrowings	69
2.6. Type and amounts of one-off items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows	69
2.7. Key investment projects	70
2.8. Factors which will affect the Group's performance over at least the next reporting period ..	73
3. Other information	78
3.1. Other significant events	78
3.2. Significant agreements	83
3.3. Sureties and guarantees	84
3.4. Shareholding structure	85
3.5. Parent shares held by management and supervisory personnel	86
3.6. Composition of the management and supervisory bodies	86
4. Additional information	90



Interim condensed consolidated financial statements of the
Grupa Azoty Group for the three months ended March 31st
2023, prepared in accordance with IAS 34 *Interim Financial
Reporting* as endorsed by the European Union

Consolidated financial highlights

	(PLN '000)		(EUR '000)	
	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>
Revenue	3,895,453	6,827,163	828,732	1,469,092
Operating (loss)/profit	(596,026)	1,155,145	(126,801)	248,568
(Loss)/profit before tax	(583,400)	1,090,782	(124,114)	234,718
Net (loss)/profit	(555,304)	882,370	(118,137)	189,871
Comprehensive income for the period	(580,068)	1,087,969	(123,406)	234,113
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings/(loss) per ordinary share (PLN)	(5.26)	8.61	(1.12)	1.85
Net cash from operating activities	17,532	177,789	3,730	38,257
Net cash from investing activities	(471,131)	(748,061)	(100,230)	(160,970)
Net cash from financing activities	(268,687)	(1,123,393)	(57,161)	(241,735)
Total net cash flows	(722,286)	(1,693,665)	(153,662)	(364,448)
Cash and cash equivalents at beginning of period	1,376,541	2,362,193	292,850	508,305
Cash and cash equivalents at end of period	656,110	672,092	139,583	144,623
	As at Mar 31 2023 <i>unaudited</i>	As at Dec 31 2022 <i>audited</i>	As at Mar 31 2023 <i>unaudited</i>	As at Dec 31 2022 <i>audited</i>
Non-current assets	17,122,614	16,948,753	3,662,200	3,613,884
Current assets	10,314,348	8,916,891	2,206,042	1,901,297
Non-current liabilities	7,984,824	7,294,419	1,707,801	1,555,346
Current liabilities	10,075,839	8,614,858	2,155,029	1,836,896
Equity	9,376,299	9,956,367	2,005,411	2,122,938
Share capital	495,977	495,977	106,080	105,754
Non-controlling interests	981,664	1,021,718	209,959	217,855

Selected items of the statement of comprehensive income, statement of financial position and statement of cash flows were translated into the euro using the generally applicable method described below:

- Items of assets and equity and liabilities in the statement of financial position were translated at the exchange rate effective for the last day of the reporting period:
the exchange rate as at March 31st 2023 was EUR 1 = PLN 4.6755 (table No. 64/A/NBP/2023);
the exchange rate as at December 30th 2022 was EUR 1 = PLN 4.6899 (table No. 252/A/NBP/2022);
- Items of the statement of comprehensive income and statement of cash flows were translated using the arithmetic average of the EUR/PLN rates quoted by the National Bank of Poland as effective for the last day of each month in the reporting period:
in the period January 1st-March 31st 2023, the average exchange rate was EUR 1 = PLN 4.7005;
in the period January 1st-March 31st 2022, the average exchange rate was EUR 1 = PLN 4.6472.

The translation was made using the exchange rates specified above by dividing amounts expressed in thousands of the złoty by the exchange rate.

Interim condensed consolidated statement of comprehensive income

	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>
Profits and losses		
Revenue	3,895,453	6,827,163
Cost of sales	(4,203,254)	(5,155,231)
Gross (loss)/profit	(307,801)	1,671,932
Selling and distribution expenses	(252,281)	(303,003)
Administrative expenses	(246,244)	(213,194)
Other income	251,331	14,428
Other expenses	(41,031)	(15,018)
Operating (loss)/profit	(596,026)	1,155,145
Finance income	90,939	4,587
Finance costs	(84,242)	(72,401)
Net finance income/(costs)	6,697	(67,814)
Share of profit of equity-accounted investees	5,929	3,451
(Loss)/profit before tax	(583,400)	1,090,782
Income tax	28,096	(208,412)
Net (loss)/profit	(555,304)	882,370
Other comprehensive income		
Items that are or will be reclassified to profit or loss		
Cash flow hedges - effective portion of fair-value change	(27,563)	175,782
Exchange differences on translation of foreign operations	3,806	28,295
Income tax relating to items that are or will be reclassified to profit or loss	(1,007)	1,522
	(24,764)	205,599
Total other comprehensive income	(24,764)	205,599
Comprehensive income for the period	(580,068)	1,087,969
Net (loss)/profit attributable to:		
Owners of the parent	(521,748)	853,593
Non-controlling interests	(33,556)	28,777
Comprehensive income for the period attributable to:		
Owners of the parent	(540,014)	1,023,072
Non-controlling interests	(40,054)	64,897
(Loss)/earnings per share:		
Basic (PLN)	(5.26)	8.61
Diluted (PLN)	(5.26)	8.61

The supplementary information is an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of financial position

	As at Mar 31 2023 <i>unaudited</i>	As at Dec 31 2022 <i>audited</i>
Assets		
Non-current assets		
Property, plant and equipment	13,508,310	13,392,162
Right-of-use assets	766,685	758,713
Investment property	66,211	66,613
Intangible assets	961,618	971,484
Goodwill	304,083	305,016
Shares	10,172	10,172
Equity-accounted investees	101,365	95,436
Other financial assets	4,068	3,961
Derivative financial instruments	352,051	383,800
Other receivables	686,429	629,999
Deferred tax assets	361,104	330,889
Other non-current assets	518	508
Total non-current assets	17,122,614	16,948,753
Current assets		
Inventories	3,442,348	3,444,385
Property rights	1,991,359	2,009,349
Derivative financial instruments	3,295	3,122
Other financial assets	2,007	1,998
Current tax assets	37,212	33,719
Trade and other receivables	4,160,731	2,026,024
Cash and cash equivalents	656,110	1,376,541
Other current assets	21,286	21,753
Total current assets	10,314,348	8,916,891
Total assets	27,436,962	25,865,644

The supplementary information is an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of financial position (continued)

	As at Mar 31 2023 <i>unaudited</i>	As at Dec 31 2022 <i>audited</i>
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	263,033	285,136
Translation reserve	91,258	87,421
Other capital reserves	(17,700)	(17,700)
Retained earnings	5,143,797	5,665,545
Equity attributable to owners of the parent	8,394,635	8,934,649
Non-controlling interests	981,664	1,021,718
Total equity	9,376,299	9,956,367
Liabilities		
Borrowings	5,669,585	4,971,706
Lease liabilities	362,300	360,957
Other financial liabilities	681,293	682,818
Employee benefit obligations	437,282	439,656
Trade and other payables	20,925	17,887
Provisions	237,589	241,007
Government grants	191,309	193,896
Deferred tax liabilities	384,541	386,492
Total non-current liabilities	7,984,824	7,294,419
Borrowings	1,043,864	689,738
Lease liabilities	69,576	71,629
Other financial liabilities	2,297,305	1,290,942
Employee benefit obligations	45,646	54,801
Current tax liabilities	217,961	243,545
Trade and other payables	4,747,783	6,141,011
Provisions	105,529	94,345
Government grants	1,548,175	28,847
Total current liabilities	10,075,839	8,614,858
Total liabilities	18,060,663	15,909,277
Total equity and liabilities	27,436,962	25,865,644

The supplementary information is an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity

	Share capital	Share premium	Hedging reserve	Translation reserve	Other capital reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2023	495,977	2,418,270	285,136	87,421	(17,700)	5,665,545	8,934,649	1,021,718	9,956,367
<i>Profit or loss and other comprehensive income</i>									
Net loss	-	-	-	-	-	(521,748)	(521,748)	(33,556)	(555,304)
Other comprehensive income	-	-	(22,103)	3,837	-	-	(18,266)	(6,498)	(24,764)
Comprehensive income for the period	-	-	(22,103)	3,837	-	(521,748)	(540,014)	(40,054)	(580,068)
As at Mar 31 2023 (unaudited)	495,977	2,418,270	263,033	91,258	(17,700)	5,143,797	8,394,635	981,664	9,376,299
As at Jan 1 2022	495,977	2,418,270	(58,403)	54,936	(17,700)	5,048,783	7,941,863	990,304	8,932,167
<i>Profit or loss and other comprehensive income</i>									
Net profit	-	-	-	-	-	853,593	853,593	28,777	882,370
Other comprehensive income	-	-	141,134	28,345	-	-	169,479	36,120	205,599
Comprehensive income for the period	-	-	141,134	28,345	-	853,593	1,023,072	64,897	1,087,969
Changes in the Group	-	-	-	-	-	116	116	(116)	-
Other	-	-	-	-	-	(40)	(40)	(1)	(41)
As at Mar 31 2022 (unaudited)	495,977	2,418,270	82,731	83,281	(17,700)	5,902,452	8,965,011	1,055,084	10,020,095

The supplementary information is an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows

	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>
Cash flows from operating activities		
(Loss)/profit before tax	(583,400)	1,090,782
Depreciation and amortisation	194,853	178,279
Impairment losses	39	1,259
Gain on investing activities	(471)	(1,132)
Share of profit of equity-accounted investees	(5,929)	(3,451)
Interest, foreign exchange gains or losses	64,726	29,926
Fair value loss on financial assets at fair value	8,105	8,084
Increase in trade and other receivables	(2,180,550)	(2,021,096)
Decrease/(increase) in inventories and property rights	30,023	(278,048)
Increase/(decrease) in trade and other payables	1,000,137	(79,582)
Increase/(decrease) in provisions	12,058	(1,084)
Decrease in employee benefit obligations	(499)	(7,331)
Increase in grants	1,516,739	1,310,654
Other adjustments	(3,229)	(5,476)
Income tax paid	(35,070)	(43,995)
Net cash from operating activities	17,532	177,789
Cash flows from investing activities		
Proceeds from sale of intangible assets, property, plant and equipment, and investment property	362	7,327
Acquisition of intangible assets, property, plant and equipment, and investment property	(470,524)	(754,305)
Other cash provided by (used in) investing activities	(969)	(1,083)
Net cash from investing activities	(471,131)	(748,061)
Cash flows from financing activities		
Proceeds from borrowings	1,194,317	663,508
Repayment of borrowings	(66,256)	(121,176)
Interest paid	(92,337)	(38,367)
Payment of finance lease liabilities	(26,192)	(19,300)
Payment of reverse factoring liabilities	(1,279,003)	(1,609,635)
Other cash provided by (used in) financing activities	784	1,577
Net cash from financing activities	(268,687)	(1,123,393)
Total net cash flows	(722,286)	(1,693,665)
Cash and cash equivalents at beginning of period	1,376,541	2,362,193
Effect of exchange rate fluctuations on cash held	1,855	3,564
Cash and cash equivalents at end of period	656,110	672,092

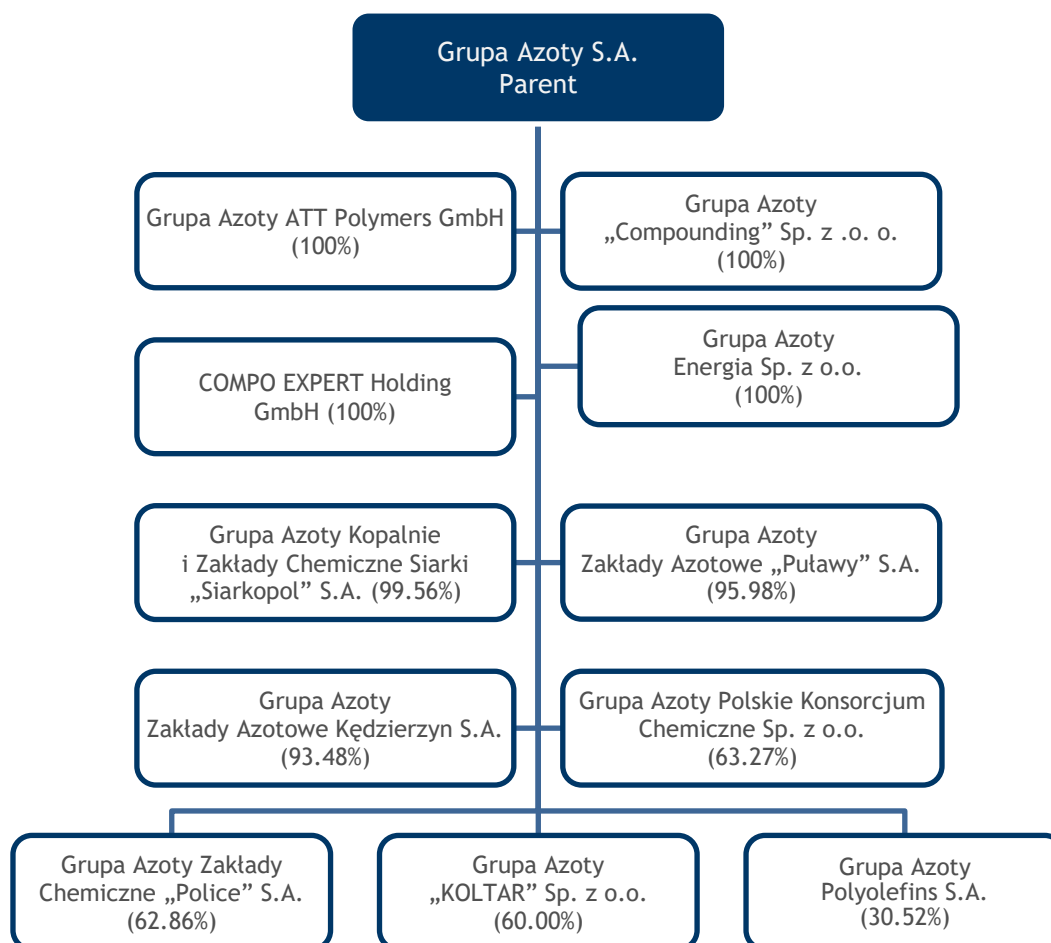
The supplementary information is an integral part of these interim condensed consolidated financial statements.

Supplementary information to the interim condensed consolidated financial statements

1. Description of the Group

1.1. The Group's organisational structure

As at March 31st 2023, the Grupa Azoty Group ("Grupa Azoty", the "Group") comprised: Grupa Azoty Spółka Akcyjna - the Parent (the "Parent", the "Company"), its direct subsidiaries and indirect subsidiaries. The direct subsidiaries are presented in the chart below.



The Group's principal business is in particular the processing of nitrogen products, manufacture and sale of fertilizers, manufacture and sale of plastics, manufacture and sale of oxo alcohols, manufacture and sale of titanium white, manufacture and sale of melamine, production of sulfur and processing of sulfur products.

The Parent was entered in the Register of Businesses in the National Court Register (entry No. KRS 0000075450) on December 28th 2001, pursuant to a decision of the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register, dated December 28th 2001. The Parent's REGON number for public statistics purposes is 850002268.

As of April 22nd 2013, the Parent trades under the name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).

The Parent and the Group companies were incorporated for an indefinite period.

	Name	Entity holding shares	Interest held	Share capital	Consolidation method
1.	Grupa Azoty S.A.	Parent		PLN 495,977 thousand	Parent
2.	COMPO EXPERT Holding GmbH ("COMPO EXPERT")	GASA	100%	EUR 25 thousand	Full
3.	Grupa Azoty ATT Polymers GmbH ("ATT Polymers")	GASA	100%	EUR 9,000 thousand	Full
4.	Grupa Azoty Compounding Sp. z o.o. ("Grupa Azoty COMPOUNDING")	GASA	100%	PLN 72,008 thousand	Full
5.	Grupa Azoty Energia Sp. z o.o. ("Grupa Azoty ENERGIA")	GASA	100%	PLN 1,000 thousand	Full
6.	Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. ("Grupa Azoty SIARKOPOL")	GASA	99.56%	PLN 60,620 thousand	Full
7.	Grupa Azoty Zakłady Azotowe Puławy S.A. ("Grupa Azoty PUŁAWY")	GASA	95.98%	PLN 191,150 thousand	Full
8.	Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. ("Grupa Azoty KĘDZIERZYN")	GASA	93.48%	PLN 285,064 thousand	Full
9.	Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. ("Grupa Azoty PKCh")	GASA Grupa Azoty KĘDZIERZYN	63.27% 36.73%	PLN 85,631 thousand	Full
10.	Grupa Azoty Zakłady Chemiczne Police S.A. ("Grupa Azoty POLICE")	GASA	62.86%	PLN 1,241,758 thousand	Full
11.	Grupa Azoty Koltar Sp. z o.o. ("Grupa Azoty KOLTAR")	GASA Grupa Azoty KĘDZIERZYN Grupa Azoty PUŁAWY	60.00% 20.00% 20.00%	PLN 54,600 thousand	Full
12.	Grupa Azoty Polyolefins Spółka Akcyjna ("Grupa Azoty POLYOLEFINS")	GASA Grupa Azoty POLICE	30.52% 34.41%	PLN 922,968 thousand	Full
13.	Agrochem Puławy Sp. z o.o.	Grupa Azoty PUŁAWY	100%	PLN 68,639 thousand	Full
14.	SCF Natural Sp. z o.o.	Grupa Azoty PUŁAWY	99.99%	PLN 15,001 thousand	Full
15.	Grupa Azoty Zakłady Fosforowe Gdańsk Sp. z o.o.	Grupa Azoty PUŁAWY	99.19%	PLN 59,003 thousand	Full
16.	Grupa Azoty Zakłady Azotowe Chorzów S.A.	Grupa Azoty PUŁAWY	96.48%	PLN 94,700 thousand	Full
17.	STO-ZAP Sp. z o.o.	Grupa Azoty PUŁAWY	96.15%	PLN 1,117 thousand	Not consolidated
18.	Remzap Sp. z o.o.	Grupa Azoty PUŁAWY	97.17%	PLN 3,528 thousand	Full
19.	Prozap Sp. z o.o.	Grupa Azoty PUŁAWY Grupa Azoty POLICE	78.86% 7.35%	PLN 892 thousand	Full
20.	Bałtycka Baza Masowa Sp. z o.o.	Grupa Azoty PUŁAWY	50.00%	PLN 19,500 thousand	Equity method
21.	Grupa Azoty Transtech Sp. z o.o.	Grupa Azoty POLICE	100%	PLN 9,783 thousand	Full
22.	Grupa Azoty Police Serwis Sp. z o.o.	Grupa Azoty POLICE	100%	PLN 9,618 thousand	Full
23.	Grupa Azoty Africa S.A. w likwidacji (in liquidation)	Grupa Azoty POLICE	99.99%	XOF 132,000 thousand	Full
24.	Zarząd Morskiego Portu Police Sp. z o.o.	Grupa Azoty POLICE	99.91%	PLN 32,642 thousand	Full
25.	Budchem Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy)	Grupa Azoty POLICE	48.96%	PLN 1,201 thousand	Not consolidated

	Name	Entity holding shares	Interest held	Share capital	Consolidation method
26.	Kemipol Sp. z o.o.	Grupa Azoty POLICE	33.99%	PLN 3,445 thousand	Equity method
27.	ZAKSA S.A.	Grupa Azoty KĘDZIERZYN	92.45%	PLN 6,000 thousand	Full
28.	Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. ("Grupa Azoty JRCH")	Grupa Azoty PKCH	100%	PLN 21,749 thousand	Full
29.	Grupa Azoty Prorem Sp. z o.o. ("Grupa Azoty PROREM")	Grupa Azoty PKCH	100%	PLN 11,567 thousand	Full
30.	Grupa Azoty Automatyka Sp. z o.o.	Grupa Azoty PKCH	77.86%	PLN 4,654 thousand	Full
31.	Ekotar Sp. z o.o.	Grupa Azoty JRCH	12.00%	PLN 500 thousand	Not consolidated
		Grupa Azoty PROREM	12.00%		
32.	COMPO EXPERT International GmbH ("COMPO EXPERT International")	COMPO EXPERT	100%	EUR 25 thousand	Full
33.	COMPO EXPERT GmbH	COMPO EXPERT International	100%	EUR 25 thousand	Full
34.	COMPO EXPERT Italia S.r.l.	COMPO EXPERT International	100%	EUR 10 thousand	Full
35.	COMPO EXPERT Spain S.L.	COMPO EXPERT International	100%	EUR 3 thousand	Full
36.	COMPO EXPERT Portugal, Unipessoal Lda.	COMPO EXPERT International	100%	EUR 2 thousand	Full
37.	COMPO EXPERT France SAS	COMPO EXPERT International	100%	EUR 524 thousand	Full
38.	COMPO EXPERT Polska Sp. z o.o.	COMPO EXPERT International	100%	PLN 6 thousand	Full
39.	COMPO EXPERT Hellas S.A.	COMPO EXPERT International	100%	EUR 60 thousand	Full
40.	COMPO EXPERT UK Ltd.	COMPO EXPERT International	100%	GBP 1	Full
41.	COMPO EXPERT Techn. (Shenzen) Co. Ltd.	COMPO EXPERT International	100%	CNY 2,810 thousand	Full
42.	COMPO EXPERT Asia Pacific Sdn. Bhd.	COMPO EXPERT International	100%	MYR 500 thousand	Full
43.	COMPO EXPERT USA&CANADA Inc.	COMPO EXPERT International	100%	USD 1	Full
44.	COMPO EXPERT Brasil Fertilizantes Ltda.	COMPO EXPERT International	99.99%	BRL 26,199 thousand	Full
		COMPO EXPERT GmbH	0.000003%		
45.	COMPO EXPERT Chile Fertilizantes Ltda.	COMPO EXPERT International	99.99%	CLP 1,528,560 thousand	Full
		COMPO EXPERT GmbH	0.01%		
46.	COMPO EXPERT India Private Limited	COMPO EXPERT International	99.99%	INR 2,500 thousand	Full
47.	COMPO EXPERT Benelux N.V.	COMPO EXPERT International	99.99%	EUR 7,965 thousand	Full
		COMPO EXPERT GmbH	0.0103%		
48.	COMPO EXPERT Mexico S.A. de C.V.	COMPO EXPERT International	99.99%	MXN 100 thousand	Full
		COMPO EXPERT GmbH	0.000311%		
49.	COMPO EXPERT Peru SRL	COMPO EXPERT International	99.99%	PLN 400 thousand	Full
		COMPO EXPERT GmbH	0.01%		
50.	COMPO EXPERT Egypt LLC	COMPO EXPERT International	99.90%	EGP 100 thousand	Full

	Name	Entity holding shares	Interest held	Share capital	Consolidation method
		COMPO EXPERT GmbH	0.1%		
51.	COMPO EXPERT Turkey Tarim Sanai ve Ticaret Ltd. Şirketi ⁶⁾	COMPO EXPERT International	96.17%	264,375 TRY	Full
		COMPO EXPERT GmbH	3.83%		
52.	COMPO EXPERT Argentina SRL	COMPO EXPERT International	90.00%	ARS 41,199 thousand	Full
		COMPO EXPERT GmbH	10.000024%		
53.	COMPO EXPERT South Africa (Pty) Ltd.	COMPO EXPERT GmbH	100%	ZAR 100	Full
54.	COMPO EXPERT Austria GmbH	COMPO EXPERT GmbH	100%	EUR 35 thousand	Full

1.2. Changes in the Group's structure

During the three months ended March 31st 2023, there were no significant changes in the Grupa Azoty Group's structure.

On April 4th 2023, Grupa Azoty PUŁAWY and the Łukasiewicz Research Network - New Chemical Syntheses Institute of Puławy signed an agreement on the acquisition of 10 shares in SCF Natural Sp. z o.o. for PLN 32 per share.

As a result, Grupa Azoty Zakłady Azotowe Puławy S.A. holds 100% of shares in SCF Natural Sp. z o.o.

2. Basis of accounting used in preparing the interim condensed consolidated financial statements

2.1. Statement of compliance and basis of accounting

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements of the Group cover the three months ended March 31st 2023 and contain comparative data for the three months ended March 31st 2022 and as at December 31st 2022.

The interim condensed consolidated financial statements do not include all the information and disclosures required to be included in full-year financial statements and should be read in conjunction with the consolidated full-year financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2022, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union. The consolidated financial statements for 2022 were authorised for issue on March 30th 2023.

The Company's interim financial results may not be indicative of its potential full-year financial results.

All amounts in these interim condensed consolidated financial statements are presented in thousands of złoty, unless indicated otherwise.

These interim condensed consolidated financial statements, drawn up in accordance with International Financial Reporting Standards ("IFRS"), as endorsed by the European Union ("EU IFRS"), were authorised for issue by the Parent's Management Board on May 22nd 2023.

These interim condensed consolidated financial statements were prepared under the assumption that the Group would continue as a going concern for the foreseeable future. For information on the market situation and steps taken by the Parent and other Grupa Azoty Group companies to maintain their market position and ensure the required level of sales and financial performance, see Section 3.12. Considering the circumstances described in this section, the Company's Management Board concluded that they did not represent a threat to its going concern assumption.

2.2. Accounting policies and data presentation

The accounting policies applied to prepare these interim condensed consolidated financial statements are consistent with those applied to draw up the Grupa Azoty Group's full-year consolidated financial statements for the year ended December 31st 2022.

a) Amendments to International Financial Reporting Standards

The following standards effective as of 2023 have no material impact on the Group's business or its financial reporting:

Standard	Description of amendments	Effect on financial statements
IFRS 17 Insurance Contracts	The new standard was issued on May 18th 2017 and subsequently amended on June 25th 2020, and is effective for annual periods beginning on or after January 1st 2023. Early application is permitted as long as IFRS 15 and IFRS 9 are also applied. The standard supersedes earlier regulations on insurance contracts (IFRS 4). On June 25th 2020, IFRS 4 was also amended to defer the effective date of IFRS 9 <i>Financial Instruments</i> for insurers until January 1st 2023.	The amendment has no material effect on the financial statements.
IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	Amendments to IAS 1 were issued on January 23rd 2020 with its effective date subsequently modified in July 2020, and are effective for annual periods beginning on or after January 1st 2023. The amendment redefines the criteria for classifying liabilities as current. The amendment may affect the presentation of liabilities and their reclassification between current and non-current.	The amendment has no material effect on the financial statements.
IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	The amendments were issued on February 12th 2021, and are effective for annual periods beginning on or after January 1st 2023. The purpose of these amendments is to place greater emphasis on the disclosure of material accounting policies and to clarify how companies should distinguish between changes in accounting policies and changes in accounting estimates.	The amendments have no material effect on the financial statements.
IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendment to IAS 12 was issued on May 7th 2021 and is effective for annual periods beginning on or after April 1st 2023. The amendments clarify that the exemption relating to initial recognition of deferred tax does not apply to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences and entities are required to recognise deferred tax on such transactions. The amendments thus address the emerging doubts as to whether the exemption applies to transactions such as leases and decommissioning obligations.	The amendment has no material effect on the financial statements.
IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Financial Instruments Comparative Information	The amendment to IFRS 17 was issued on December 9th 2021 and is effective for annual periods beginning on or after April 1st 2023. It provides a transition option for comparative information on financial assets presented on initial application of IFRS 17. The amendment is intended to help entities avoid temporary accounting mismatches between financial assets and insurance contract liabilities.	The amendments have no material effect on the financial statements.

b) New standards and interpretations

The standards and interpretations which have been issued but are not yet effective as they have not been endorsed by the EU or have been endorsed but the Group has not elected to apply them early:

Standard	Description of amendments	Effect on financial statements
IFRS 16 Leases: <i>Lease liability in a sale and leaseback</i>	The amendments to IFRS 16 was issued on September 22nd 2022 and are effective for annual periods beginning on or after January 1st 2024. The amendments require the seller-lessee to determine “lease payments” or “revised lease payments” in such a way that the seller-lessee does not recognise any amount of profit or loss that relates to the right of use retained by the seller-lessee.	The Group is analysing the effect of the amendment on its financial statements.

c) Presentation changes

Since January 1st 2023, the Group has applied hedge accounting in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"). Before that date, the Group applied hedge accounting in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

The transitional provisions of IFRS 9 allow entities to choose their accounting policies and continue to apply hedge accounting requirements of IAS 39 instead of IFRS 9 until the International Accounting Standards Board has completed work on the project concerning fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities (macro hedging).

As at the date of implementation of IFRS 9, the Group decided to continue applying the principles of hedge accounting set out in IAS 39. As of January 1st 2023, the Group designated IFRS 9 to be applied to hedge accounting in accordance with its requirements. The Group expects that the changes introduced by IFRS 9 with respect to hedge accounting will better align hedge accounting with the entity's risk management activities.

IFRS 9 for hedge accounting has been implemented prospectively. As at the date of transition to IFRS 9, the Group had updated documentation for all existing hedging relationships under IAS 39 that continue to qualify for hedge accounting under the new standard, in order to comply with the IFRS 9 documentation requirements. The update involved mainly the inclusion in the documentation of the hedge ratio and expected sources of ineffectiveness (not required by IAS 39) as well as the removal of the retrospective effectiveness test (no longer required under IFRS 9). The introduction of IFRS 9 had no significant effect on the classification of hedging instruments, hedged items and hedge relationships designated before January 1st 2023.

d) Accounting estimates and judgments

The preparation of these interim condensed consolidated financial statements requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are based on historical experience and other factors deemed reasonable under the circumstances, and their results provide a basis for judgements regarding the net carrying amounts of assets and liabilities, where they are not directly available from other sources. Actual results may differ from these estimates.

Estimates and the underlying assumptions are subject to ongoing verification. A change in accounting estimates is recognised in the period in which the change is made or in current and future periods if the change in estimates affects both the current period and the future periods.

The key judgements and estimates made by the Management Board in preparing these interim condensed consolidated financial statements were the same as those made in preparing the consolidated financial statements for the financial year ended December 31st 2022, subject to measurement revisions resulting from the passage of time or a change of market parameters.

CO₂ emission allowances

The Group companies participating in the EU emission trading system have received or expect to receive free CO₂ emission allowances covering part of their emissions from production processes and heat generation. CO₂ emission allowances expected to be obtained for emissions planned for 2023 have been recognised as other receivables in correspondence with grants.

For details, see Section 3.3 of these interim condensed consolidated financial statements. The amount of CO₂ emission allowances expected to be received for 2023 was determined at PLN 1,923,542 thousand based on the market prices of allowances as at March 31st 2023.






3. Selected notes and supplementary information

3.1. Business segment reporting

Operating segments

The Group identifies operating segments based on internal reports for each line of business. Operating results of each segment are reviewed on a regular basis by the Management Board, which decides about the allocation of resources to different segments and analyses their results. Separate information prepared for each segment is available.

The Group identifies the following operating segments:

Name	Scope
 Agro Fertilizers	Manufacture or sale of: <ul style="list-style-type: none"> • Speciality (fertilizing/fertilizer) products (liquid fertilizers for foliar feeding and fertigation, biostimulants, SRF and CRF fertilizers for precise fertilization, dedicated NPK fertilizers), • Compound fertilizers (NPK: Polifoska® and Amofoska®; NP: DAP; PK), • Nitrogen fertilizers with sulfur (solid: ammonium sulfate, ammonium sulfonitrite, urea-ammonium sulfate, calcium nitrate with sulfur; liquid: UAN- urea-ammonium nitrate solution, urea solution and ammonium sulfate solution), • Nitrogen fertilizers, • Ammonia, • Technical-grade and concentrated nitric acid, • Industrial gases.
 Plastics	Manufacture or sale of: <ul style="list-style-type: none"> • Caprolactam (an intermediate product used to manufacture polyamide 6 (PA6)), • natural engineering plastics (PA6). • Modified plastics based on PA6 and other engineering resins (PA66, PPC - polypropylene, PPH, PBT - polybutylene terephthalate), • Plastic products (PA pipes, PE pipes, polyamide casings), • Production of polypropylene by Grupa Azoty POLYOLEFINS.
 Chemicals	Manufacture or sale of: <ul style="list-style-type: none"> • Melamine, • OXO products (OXO alcohols, plasticizers), • Sulfur, • Titanium white, • Iron sulfate, • Solutions based on urea and ammonia.
 Energy	Production of energy carriers: <ul style="list-style-type: none"> • (electricity, heat, water, process and instrument air, nitrogen) for the purposes of chemical units and, to a lesser extent, for resale to external customers (mainly electricity). As part of its operations, the segment also purchases and distributes natural gas for process needs.
 Other Activities	<ul style="list-style-type: none"> • Research and Development Centre, • Laboratory services, • Catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts), • Rental of real estate, and • Other activities not allocated to any of the segments specified above.

Operating segments

Operating segments' income, expenses and financial results for the three months ended March 31st 2023 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	2,386,953	353,419	845,970	226,660	82,451	3,895,453
Intersegment revenue	1,602,366	199,567	598,656	2,046,940	231,095	4,678,624
Total revenue	3,989,319	552,986	1,444,626	2,273,600	313,546	8,574,077
Operating expenses, including: (-)	(4,371,704)	(677,817)	(1,604,904)	(2,384,234)	(341,744)	(9,380,403)
<i>selling and distribution expenses (-)</i>	<i>(197,725)</i>	<i>(12,368)</i>	<i>(41,862)</i>	<i>(152)</i>	<i>(174)</i>	<i>(252,281)</i>
<i>administrative expenses (-)</i>	<i>(102,189)</i>	<i>(25,599)</i>	<i>(77,038)</i>	<i>(22,900)</i>	<i>(18,518)</i>	<i>(246,244)</i>
Other income	147,766	10,341	79,859	1,621	11,744	251,331
Other expenses (-)	(1,751)	(487)	(1,341)	(25,494)	(11,958)	(41,031)
Segment's EBIT, including:	(236,370)	(114,977)	(81,760)	(134,507)	(28,412)	(596,026)
Finance income	-	-	-	-	-	90,939
Finance costs (-)	-	-	-	-	-	(84,242)
Share of profit of equity-accounted investees	-	-	-	-	-	5,929
Loss before tax	-	-	-	-	-	(583,400)
Income tax	-	-	-	-	-	28,096
Net loss	-	-	-	-	-	(555,304)
EBIT	(236,370)	(114,977)	(81,760)	(134,507)	(28,412)	(596,026)
Depreciation and amortisation	96,289	15,645	20,314	27,673	34,932	194,853
Impairment losses	-	186	-	-	66	252
EBITDA	(140,081)	(99,146)	(61,446)	(106,834)	6,586	(400,921)

Operating segments' income, expenses and financial results for the three months ended March 31st 2022 (*unaudited*)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	4,216,373	631,124	1,786,091	123,367	70,208	6,827,163
Intersegment revenue	2,205,259	201,579	664,480	2,295,121	239,210	5,605,649
Total revenue	6,421,632	832,703	2,450,571	2,418,488	309,418	12,432,812
Operating expenses, including: (-)	(5,692,173)	(779,884)	(2,096,523)	(2,405,656)	(302,841)	(11,277,077)
<i>selling and distribution expenses (-)</i>	<i>(232,407)</i>	<i>(18,623)</i>	<i>(51,719)</i>	<i>(36)</i>	<i>(218)</i>	<i>(303,003)</i>
<i>administrative expenses (-)</i>	<i>(116,180)</i>	<i>(24,669)</i>	<i>(52,847)</i>	<i>(2,957)</i>	<i>(16,541)</i>	<i>(213,194)</i>
Other income	2,934	716	1,416	1,184	8,178	14,428
Other expenses (-)	(314)	(806)	(1,912)	(4,418)	(7,568)	(15,018)
Segment's EBIT, including:	732,079	52,729	353,552	9,598	7,187	1,155,145
Finance income	-	-	-	-	-	4,587
Finance costs (-)	-	-	-	-	-	(72,401)
Share of profit of equity-accounted investees	-	-	-	-	-	3,451
Profit before tax	-	-	-	-	-	1,090,782
Income tax	-	-	-	-	-	(208,412)
Net profit	-	-	-	-	-	882,370
EBIT	732,079	52,729	353,552	9,598	7,187	1,155,145
Depreciation and amortisation	82,226	15,907	22,180	27,049	30,917	178,279
Impairment losses	34	-	712	10	588	1,344
EBITDA	814,339	68,636	376,444	36,657	38,692	1,334,768

Segments' assets and liabilities

as at March 31st 2023 (<i>unaudited</i>)	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	10,986,752	6,915,484	1,738,709	3,963,662	1,467,655	25,072,262
Unallocated assets	-	-	-	-	-	2,263,335
Investments in associates	-	-	-	-	-	101,365
Total assets	10,986,752	6,915,484	1,738,709	3,963,662	1,467,655	27,436,962
Segment's liabilities	5,242,166	4,555,672	317,621	3,379,858	473,203	13,968,520
Unallocated liabilities	-	-	-	-	-	4,092,143
Total liabilities	5,242,166	4,555,672	317,621	3,379,858	473,203	18,060,663

as at Dec 31 2022 (<i>audited</i>)	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	10,000,971	6,741,446	1,713,988	3,258,025	1,526,579	23,241,009
Unallocated assets	-	-	-	-	-	2,529,199
Investments in associates	-	-	-	-	-	95,436
Total assets	10,000,971	6,741,446	1,713,988	3,258,025	1,526,579	25,865,644
Segment's liabilities	5,291,913	4,350,844	370,195	2,892,483	468,711	13,374,146
Unallocated liabilities	-	-	-	-	-	2,535,131
Total liabilities	5,291,913	4,350,844	370,195	2,892,483	468,711	15,909,277

Geographical areas

Revenue split by geographical areas is determined based on the location of customers.

Revenue

	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>
Poland	2,088,671	3,831,859
Germany	298,307	598,467
Other EU countries	805,072	1,502,954
Asia	85,434	91,139
South America	88,358	138,955
Other countries	529,611	663,789
Total	3,895,453	6,827,163

No single customer accounted for more than 10% of revenue in the three months ended March 31st 2023 and March 31st 2022.

3.2. Impairment testing

As at March 31st 2023, one of the external impairment indicators listed in par. 12 d) of IAS 36 *Impairment of Assets* was identified, i.e. the carrying amount of the Parent's net assets was higher than its market capitalisation.

Therefore, the Parent and the key subsidiaries reviewed the validity of the assumptions adopted for previous impairment tests and the results of those tests.

The analysis showed that:

- the risk-free interest rate (yield on 10-year Treasury bonds) fell from 6.85% at the end of 2022 to 6.04% at the end of March 2023; this changed the weighted average cost of capital for the Grupa Azoty Group, increasing the recoverable amount of nearly all of the cash-generating units ("CGUs");
- the adopted strategy and key assumptions remained largely unchanged as at the reporting date;
- as at the reporting date, the definition of the CGUs within the Group companies and the value of assets of each CGU did not change materially relative to the respective amounts as at December 31st 2022;
- EBITDA delivered by the vast majority of the CGUs in the three months ended March 31st 2023 did not materially differ from EBITDA included in the tests prepared as at December 31st 2022;
- there were no more up-to-date annual financial plans available as at the reporting date for the vast majority of the CGUs than those included in the impairment tests prepared at the end of 2022.

Taking into account the above circumstances, as well as the wording of par. 16 b) of IAS 36 *Impairment of Assets*, a decision was made to not prepare a formal estimate of recoverable amounts as at March 31st 2023, considering that the estimates of recoverable amounts determined in previous tests remained valid as at March 31st 2023 and therefore no additional impairment losses were necessary; further, none of the circumstances provided any rationale for reversing impairment losses recognised in prior periods.

For detailed information on the impairment tests and their results, see Note 6 to the consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2022.

3.3. Other material changes in the statement of financial position and statement of profit or loss

CO₂ emission allowances held (number of units)

	As at Mar 31 2023 unaudited	As at Dec 31 2022 audited
Balance at beginning of period (units held)	5,685,103	5,277,013
Allocated	20,242	4,872,272
Purchased	1,541,619	2,799,553
Redeemed	(1,077,273)	(7,263,735)
Balance at end of period (units held)	6,169,691	5,685,103
Free allocation of CO ₂ emission allowances expected to be received for 2023 (recognised as receivables)	4,475,239	-
Emissions in the reporting period	1,360,520	6,026,437

In April 2023, 4,828,587 free CO₂ emission allowances were credited to the accounts of the Group companies' installations participating in the EU ETS, of which 360,456 allowances are to be returned. As at the date of issue of these interim consolidated financial statements, the Group had 1,481,654 surplus CO₂ emission allowances for 2023, which may potentially be sold.

The PLN 2,134,707 thousand increase in **short-term trade and other receivables** was attributable to the recognition of receivables for CO₂ emission allowances to be received for 2023 in a total amount of PLN 1,923,542 thousand.

The PLN 720,431 thousand decrease in **cash and cash equivalents** was mainly caused by payments for natural gas and lower demand for the Group's products.

The increase in **liabilities under borrowings** (by PLN 697,879 thousand under non-current liabilities and by PLN 354,126 thousand under current liabilities) resulted mainly from the disbursement of long-term revolving credit facilities and use of current account funds.

The PLN 1,393,228 thousand decrease in **short-term trade and other payables** was attributable, among other things, to the use of financing in the form of reverse factoring, as reflected in the increase in **other financial liabilities**.

The PLN 1,519,328 thousand increase in **short-term grants** was mainly attributable to the recognition of free CO₂ emission allowances expected to be received.

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%.

All the key business segments delivered negative EBITDA figures for the three months ended March 31st 2023.

The quarter saw continuing demand-supply imbalances in European markets caused, among others, by the consequences of Russia's military aggression against Ukraine, persistently high inflation, high prices of energy carriers, including electricity and coal, and duty-free non-EU imports of fertilizers and plastics produced with cheaper raw materials. These developments led to a drop in demand for the Group's products.

During the period under analysis, a decline was observed in the activities of the economic sectors buying the Group's products, such as the automotive, construction and furniture industries. The supply-demand imbalance resulted in pressures to reduce product prices and in output cuts, which the Group has been announcing in monthly current reports since the beginning of this year. The Group expects the market to improve from the third quarter of 2023.

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.

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 Group will take appropriate pre-emptive steps to mitigate the risks.

The key operational factors that impacted the results posted by the main segments were as follows:

Agro Fertilizers

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 Fertilizers Segment's EBITDA margin for the three months ended March 31st 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.

The Chemicals Segment's EBITDA margin for the three months ended March 31st 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 three months ended March 31st 2023 stood at -28.0%.

3.4. Contingent liabilities, contingent assets, sureties and guarantees

Contingent assets

	As at Mar 31 2023 <i>unaudited</i>	As at Dec 31 2022 <i>audited</i>
Contingent receivables	132,608	132,952

The amount of contingent receivables resulted mainly from the PLN 111,763 thousand advance payment guarantee provided by Grupa Azoty POLYOLEFINS to Hyundai Engineering Co., Ltd., and a claim for payment of PLN 18,864 thousand filed by Grupa Azoty PUŁAWY against Ciech S.A. for breach by Ciech S.A. of warranties under the share purchase agreement and from pending proceedings for property tax refund claimed by Grupa Azoty PUŁAWY for tax overpayment.

Contingent liabilities and guarantees/sureties

	As at Mar 31 2023 <i>unaudited</i>	As at Dec 31 2022 <i>audited</i>
Other contingent liabilities, including guarantees	40,295	28,072

Other contingent liabilities, including guarantees, mainly related to the lawsuit filed by Ciech S.A. on February 12th 2013 with the District Court in Gdańsk for an amount of PLN 18,864 thousand to be awarded against Grupa Azoty Zakłady Fosforowe Gdańsk Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY) as compensation for the damage caused to Ciech S.A. on account of false representations made by the respondent as to the legal status and financial condition of the respondent and its subsidiaries, plus statutory interest thereon from the date of filing the claim to the date of payment, and an award of the costs of proceedings, including the costs of legal representation. As at the reporting date, the amount of the claim was estimated at PLN 33,787 thousand. The case is pending. In the opinion of the Management Board, the claim is unjustified, but resolving the dispute through amicable settlement is a possible outcome.

The balance represented security for a grant awarded to Grupa Azoty ATT Polymers GmbH by Investitionsbank des Landes Brandenburg (ILB) to finance a part of expenditure on the 'Construction of a Logistics Centre' project in Guben (EUR 1,800 thousand), liabilities of PLN 7,195 thousand under security related to the operation of a tax warehouse (the Head of the Customs Office in Lublin released Grupa Azoty PUŁAWY from the obligation to provide an excise bond with respect to excise duty and fuel charge payables arising in connection with the manufacture of products subject to excise duty, by way of excise duty suspension for up to the amount specified above until April 30th 2024), and claims made by other companies in the course of their business relating to mutual settlements and guarantees under commercial contracts.

3.5. Related-party transactions

Significant related-party transactions

a) Material related-party transactions executed by the Group on non-arm's length terms

In the three months ended March 31st 2023, the Grupa Azoty Group did not execute any related-party transactions on non-arm's length terms.

b) Transactions with members of the Management Board and Supervisory Board of the Parent, their spouses, siblings, ascendants, descendants or other closely related persons

During the three months ended March 31st 2023, the Grupa Azoty Group did not grant any advances, loans, guarantees or sureties to members of its management or supervisory personnel or persons closely related to them, nor did it enter into any agreements whereby such persons would be required to provide benefits to the Group companies.

3.6. Accounting estimates and assumptions

Changes in impairment losses on property, plant and equipment

	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>
At beginning of period	1,433,562	620,956
Recognised	186	1,255
Used (-)	(1,895)	(1)
Presentation change	(1,177)	-
At end of period	1,430,676	622,210

Changes in inventory write-downs

	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>
At beginning of period	518,025	89,217
Recognised	364,643	12,325
Reversed (-)	(67,967)	(2,936)
Used (-)	(331,272)	(9,785)
Exchange differences	258	281
At end of period	483,687	89,102

Changes in impairment losses on receivables

	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>
At beginning of period	91,942	87,907
Recognised	1,785	2,026
Reversed (-)	(1,976)	(1,479)
Used (-)	(1,199)	(1,908)
Exchange differences	190	874
At end of period	90,742	87,420

3.7. Dividend

In the three months ended March 31st 2023 and as at the issue date of the financial statements for that period, the Parent did not pay any dividends.

3.8. Seasonality of operations

Seasonality of operations is seen mainly in the markets for mineral fertilizers.

Mineral fertilizers

Demand for fertilizers from the agricultural market is the highest in spring and slightly lower in autumn, reflecting the seasonal nature of agricultural activity. Weather patterns are the key factor in this respect as they have a significant effect on demand for fertilizer products considering the nature of agricultural production.

After the COVID-19 pandemic, the market was hit by an energy crisis sparked off by Russia's military invasion of Ukraine. The standard cycles in the market were disrupted by instability and unpredictability of energy commodity markets. High prices of production inputs, including fertilizers, forced buyers to reconsider their purchases, leading to either reduced or postponed orders.

The Grupa Azoty Group seeks to mitigate seasonality through optimum volume allocation:

- As part of all-year supplies to the distribution network, and
- By selling some of the products in geographical markets with different seasonality patterns.

Titanium white

Titanium white is a seasonal product, linked closely to structural construction. The chief application of titanium white is the manufacture of paints and varnishes. Demand for titanium white depends on the situation on its application markets, especially the construction market. It usually starts to rise at the end of the first quarter and falls as the construction season ends in autumn. The first quarter is typically classified as a low season, a run-up to the slow beginning of a high season. The fourth quarter is usually a low season for the main sector of paints and coatings. However, in 2022 the buying patterns were disrupted by Russia's aggression against Ukraine, triggering the energy crisis and increasing the cost of living, which affected consumer sentiment.

In the case of other Grupa Azoty Group's products, seasonality does not have a material effect on results as they represent a small proportion of total output.

3.9. Impact of the COVID-19 pandemic

The Group is constantly monitoring the epidemic situation in Poland and analysing various scenarios relating to the current and projected consequences of the public health emergency which may affect its operations. The analyses and forecasts cover the introduced legislative changes and developments in the market environment.

In order to enable the Group companies to operate in a possibly smooth manner, procedures have been put in place to mitigate the risk of employees being infected and to ensure appropriate response in case of infection.

In the opinion of the Parent's Management Board, the preventive measures in place help minimise the economic consequences of the COVID-19 pandemic, mitigate the risk of business disruption, and allow the Group to maintain its market position, financial liquidity and ability to implement strategic investment projects.

3.10. Impact of the war in Ukraine

For information on the impact of the war in Ukraine on the Parent's and the Group's operations, see Note 34, presented both in Grupa Azoty Spółka Akcyjna's financial statements for the 12 months ended December 31st 2022 and in the Grupa Azoty Group's consolidated financial statements for the 12 months ended December 31st 2022, published on March 30th 2023.

In the first three months of 2023, there were no new factors, risks or events with material bearing on the Parent's or the Group's operations.

The key identified risks arising from the war in Ukraine that may materially affect future financial results, together with an assessment of their potential impact on the situation of the Parent and its subsidiaries, are presented below.

1. Risk of disruption in natural gas supply to Grupa Azoty Group companies

Despite concerns about the continuity of natural gas supplies to Europe following the outbreak of the war in Ukraine, until the date of authorisation of these interim consolidated financial statements for issue, gas supplies to the Parent and the other Group companies continued without any disruptions. Therefore, the Group assesses the risk of disruption of natural gas supplies in 2023 as low.

2. Risk associated with the prices and availability of strategic raw materials supplied from the territory of Ukraine, as well as from the Russian Federation and the Republic of Belarus

This risk relates in particular to the availability of key raw materials (such as potassium carbonate, potassium chloride, propylene and hard coal) and to the prices of energy carriers (natural gas and electricity).

The Parent and its subsidiaries keep monitoring the prices and availability of strategic raw materials.

3. Risk of delayed completion of investment projects carried out at the Parent and the Grupa Azoty Group due to possible issues related to unavailability of contractor staff following the general mobilisation order in Ukraine

In the three months ended March 31st 2023 and until the date of authorisation of these interim consolidated financial statements for issue, the Parent and the other Group companies did not observe any significant impact of this risk on their capital investment and maintenance projects.

4. Increased risk of higher financing costs, interest rate hikes and depreciation of the Polish currency against the euro and the US dollar sparked by the current economic turbulence

An important direct consequence of the war in Ukraine is higher volatility and uncertainty in the financial markets, resulting in a significant appreciation of the US dollar and euro exchange rates against the currencies of developing markets, including Poland. At the same time, the growing inflation led to a major increase in interest rates. Those factors increase the currency risk and the cost of debt service in the zloty. The Grupa Azoty Group has in place a policy for the management of the currency and interest rate risks. A decrease in debt following repayment of working capital and term facilities and repayment of reverse factoring was accompanied by the utilisation by Grupa Azoty POLYOLEFINS of special-purpose credit facilities to finance the Polimery Police project and financing costs rose significantly compared with 2021 in the wake of material interest rate hikes.

The special-purpose credit facilities of Grupa Azoty POLYOLEFINS are hedged against interest rate risk, and the company's currency exposure is additionally hedged against foreign exchange risk.

It should also be noted that the Parent and its subsidiaries do not hold any material assets in Ukraine, Russia and Belarus and sales to these markets before the outbreak of war in Ukraine were immaterial, accounting for less than 2.5% of total sales. Since the outbreak of the war in Ukraine, sales of products by the Company to customers in Russia and Belarus have been suspended. Sales to the Ukrainian market have been significantly reduced due to the unavailability of trade receivables insurance and the deteriorating financial condition of buyers, as well as difficulties experienced by some Ukrainian customers in making payments to the Group. Accordingly, the outbreak of the war in Ukraine did not have a material effect on the Group's sales or the value of its assets.

3.11. Information on sanctions

Sanctions imposed on a minority shareholder of the Parent

On April 6th 2022, Mr Vyacheslav Moshe Kantor, who holds a controlling interest in the Russian chemical company ACRON, was placed on the United Kingdom sanctions list, on April 8th 2022 - on the European Union sanctions list, and on April 25th 2022, together with the entities through which he controls 19.82% of Grupa Azoty shares - on the Polish sanctions list. Mr Kantor is a minority shareholder who has no influence over the operations of Grupa Azoty or the right to nominate members of the Parent's governing bodies, and therefore, despite his shareholding, Mr. Kantor does not own or control the Parent within the meaning of Council Regulation (EU) No. 269/2014 of March 17th 2014 on restrictive measures with regard to actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine.

None of the prerequisites for Grupa Azoty S.A. and its subsidiaries to be directly or indirectly subjected to any sanctions are met. Grupa Azoty S.A. and its subsidiaries comply with all sanctions regulations, condemn the Russian aggression and any actions directed against Ukraine and have no relations with the government of the Russian Federation.

3.12. Other information

Participation in the support programme for energy-intensive businesses

In the three months ended March 31st 2023, the Group received PLN 234,180 thousand in financial support from the National Fund for Environmental Protection and Water Management, granted based on the governmental programme 'Aid to energy-intensive sectors related to sudden increases in natural gas and electricity prices in 2022' (the "Programme"), approved by the Council of Ministers' Resolution No. 1/2023 of January 3rd 2023. This amount is equivalent to the maximum permitted amount of public aid (EUR 50m).

The aid received was included in other income, in the amount credited to the bank account. Under the Programme, use of the aid is to be accounted for by June 30th 2023. As at the date of these interim consolidated financial statements, the Group had not received any information from the National Fund for Environmental Protection and Water Management on accounting for the use of the aid.

Adjustment of production levels to market conditions in the first quarter of 2023

The market trends observed since the end of 2022, including in particular a gradual decline in natural gas prices and falling prices of agricultural crops, as well as unfavourable weather conditions delaying the start of field work, caused the demand for mineral fertilizers in the Agro Segment to fall significantly below the level normally observed in the first quarter of each year. The result was a significant decrease in sales volumes and selling prices of mineral fertilizers. Unfavourable market developments are also seen in other business segments of the Parent and key subsidiaries, that is in Plastics and Chemicals.

In view of the situation, the Parent and the key subsidiaries decided to reduce the utilisation of their production capacities to match the market demand. In addition, on March 10th 2023 Grupa Azoty PUŁAWY stopped the production of melamine on the only operating melamine unit and halted the production of caprolactam. The sale of stocks of these products is continued. Information on production levels is announced regularly in current reports.

The Parent and its subsidiaries are monitoring the market environment and if there is an improvement in the economic conditions affecting production, production will be increased on the operating units or resumed on the units that have been shut down.

At the same time, steps have been taken at the Parent and the subsidiaries to optimise costs and expenses, including measures to cut or postpone capital expenditure.

The circumstances are beyond the control of the Parent and the subsidiaries. In the Management Board's opinion, the current situation is temporary and the optimisation measures being taken and planned will enable the Group to maintain production potential and return to full capacity utilisation if the market conditions change.

3.13. Events after the reporting date

Propane purchase contract

On April 27th 2023, Grupa Azoty POLYOLEFINS and TOTSA Total Energies Trading SA of Switzerland (the "Seller") signed a propane purchase contract.

The contract provides that propane will be delivered by the Seller to Grupa Azoty POLYOLEFINS from April 2023 to the end of November 2024, in accordance with the agreed schedule and commercial terms. Propane volumes delivered under the contract will be supplementary to other deliveries and in 2023 will cover approximately 46% of Grupa Azoty POLYOLEFINS' total requirement for this key production feedstock.

The value of the deliveries to be made under the contract is estimated at approximately USD 90m.

Melamine production resumed at Grupa Azoty PUŁAWY

On May 17th 2023, the Management Board of Grupa Azoty PUŁAWY decided to commence work on the re-start of production from the Melamine III unit. Its output will be aligned with the current supply and demand situation. At 90 tonnes per day, the capacity of the Melamine III unit represents about a third of the company's total rated capacities in melamine.



Interim condensed financial statements of Grupa Azoty Spółka Akcyjna for the three months ended March 31st 2023, prepared in accordance with IAS 34 *Interim Financial Reporting* as endorsed by the European Union

Financial highlights

	(PLN '000)		(EUR '000)	
	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>
Revenue	651,877	1,110,013	138,682	238,856
Operating (loss)/profit	(22,026)	185,024	(4,686)	39,814
(Loss)/profit before tax	(53,439)	191,748	(11,369)	41,261
Net (loss)/profit	(74,388)	158,366	(15,826)	34,078
Comprehensive income for the period	(70,095)	151,877	(14,912)	32,681
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings/(loss) per ordinary share (PLN)	(0.75)	1.60	(0.16)	0.34
Net cash from operating activities	28,133	188,191	5,985	40,496
Net cash from investing activities	7,169	(12,461)	1,525	(2,681)
Net cash from financing activities	(352,990)	(1,242,869)	(75,096)	(267,445)
Total net cash flows	(317,688)	(1,067,139)	(67,586)	(229,631)
Cash and cash equivalents at beginning of period	1,341,688	1,816,416	285,435	390,862
Cash and cash equivalents at end of period	1,023,864	749,238	217,820	161,224
	As at Mar 31 2023 <i>unaudited</i>	As at Dec 31 2022 <i>audited</i>	As at Mar 31 2023 <i>unaudited</i>	As at Dec 31 2022 <i>audited</i>
Non-current assets	8,666,887	8,752,737	1,853,681	1,866,295
Current assets	2,719,172	2,606,300	581,579	555,726
Non-current liabilities	3,029,124	2,487,605	647,872	530,417
Current liabilities	2,958,700	3,403,102	632,809	725,624
Equity	5,398,235	5,468,330	1,154,579	1,165,980
Share capital	495,977	495,977	106,080	105,754

Selected items of the statement of comprehensive income, statement of financial position and statement of cash flows were translated into the euro using the generally applicable method described below:

- Items of assets and equity and liabilities in the statement of financial position were translated at the exchange rate effective for the last day of the reporting period:
the exchange rate as at March 31st 2023 was EUR 1 = PLN 4.6755 (table No. 64/A/NBP/2023);
the exchange rate as at December 30th 2022 was EUR 1 = PLN 4.6899 (table No. 252/A/NBP/2022);
- Items of the statement of comprehensive income and statement of cash flows were translated using the arithmetic average of the EUR/PLN rates quoted by the National Bank of Poland as effective for the last day of each month in the reporting period:
in the period January 1st-March 31st 2023, the average exchange rate was EUR 1 = PLN 4.7005;
in the period January 1st-March 31st 2022, the average exchange rate was EUR 1 = PLN 4.6472.

The translation was made using the exchange rates specified above by dividing amounts expressed in thousands of the zloty by the exchange rate.

Interim condensed statement of comprehensive income

	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>
<i>Profits and losses</i>		
Revenue	651,877	1,110,013
Cost of sales	(652,548)	(837,765)
Gross (loss)/profit	(671)	272,248
Selling and distribution expenses	(27,672)	(35,268)
Administrative expenses	(45,356)	(48,327)
Other income	55,638	2,609
Other expenses	(3,965)	(6,238)
Operating (loss)/profit	(22,026)	185,024
Finance income	39,999	42,034
Finance costs	(71,412)	(35,310)
Net finance (costs)/income	(31,413)	6,724
(Loss)/profit before tax	(53,439)	191,748
Income tax	(20,949)	(33,382)
Net (loss)/profit	(74,388)	158,366
<i>Other comprehensive income</i>		
Items that are or will be reclassified to profit or loss		
Cash flow hedges - effective portion of fair-value change	5,300	(8,011)
Income tax relating to items that are or will be reclassified to profit or loss	(1,007)	1,522
Total items that are or will be reclassified to profit or loss	4,293	(6,489)
Total other comprehensive income	4,293	(6,489)
Comprehensive income for the period	(70,095)	151,877
(Loss)/earnings per share:		
Basic (PLN)	(0.75)	1.60
Diluted (PLN)	(0.75)	1.60

The supplementary information is an integral part of these interim condensed financial statements.

Interim condensed statement of financial position

	As at Mar 31 2023 <i>unaudited</i>	As at Dec 31 2022 <i>audited</i>
Non-current assets		
Property, plant and equipment	1,698,899	1,715,567
Right-of-use assets	49,005	47,445
Investment property	19,414	19,688
Intangible assets	43,783	44,122
Shares	5,719,622	5,719,622
Other financial assets	1,106,097	1,155,408
Other receivables	30,067	29,189
Deferred tax assets	-	21,696
Total non-current assets	8,666,887	8,752,737
Current assets		
Inventories	600,264	497,333
Property rights	266,832	225,725
Derivative financial instruments	1,414	981
Other financial assets	167,119	141,405
Trade and other receivables	659,679	399,168
Cash and cash equivalents	1,023,864	1,341,688
Total current assets	2,719,172	2,606,300
Total assets	11,386,059	11,359,037
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	(39,365)	(43,658)
Retained earnings	2,523,353	2,597,741
Total equity	5,398,235	5,468,330
Liabilities		
Borrowings	2,841,390	2,291,834
Lease liabilities	37,267	39,308
Other financial liabilities	17,476	23,340
Employee benefit obligations	55,930	55,930
Provisions	28,358	28,358
Government grants	48,341	48,835
Deferred tax liabilities	362	-
Total non-current liabilities	3,029,124	2,487,605
Borrowings	1,592,966	2,245,834
Lease liabilities	15,284	14,677
Other financial liabilities	463,627	192,339
Employee benefit obligations	5,987	5,987
Current tax liabilities	18,969	19,532
Trade and other payables	689,772	898,085
Provisions	13,881	24,127
Government grants	158,214	2,521
Total current liabilities	2,958,700	3,403,102
Total liabilities	5,987,824	5,890,707
Total equity and liabilities	11,386,059	11,359,037

The supplementary information is an integral part of these interim condensed financial statements.

Interim condensed statement of changes in equity

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
As at Jan 1 2023	495,977	2,418,270	(43,658)	2,597,741	5,468,330
<i>Profit or loss and other comprehensive income</i>					
Net loss	-	-	-	(74,388)	(74,388)
Other comprehensive income	-	-	4,293	-	4,293
Comprehensive income for the period	-	-	4,293	(74,388)	(70,095)
As at Mar 31 2023 (unaudited)	495,977	2,418,270	(39,365)	2,523,353	5,398,235
As at Jan 1 2022	495,977	2,418,270	(39,268)	2,246,437	5,121,416
<i>Profit or loss and other comprehensive income</i>					
Net profit	-	-	-	158,366	158,366
Other comprehensive income	-	-	(6,489)	-	(6,489)
Comprehensive income for the period	-	-	(6,489)	158,366	151,877
As at Mar 31 2022 (unaudited)	495,977	2,418,270	(45,757)	2,404,803	5,273,293

The supplementary information is an integral part of these interim condensed financial statements.

Interim condensed statement of cash flows

	For the period Jan 1 – Mar 31 2023 <i>unaudited</i>	For the period Jan 1 – Mar 31 2022 <i>unaudited</i>
Cash flows from operating activities		
(Loss)/profit before tax	(53,439)	191,748
Depreciation and amortisation	36,000	33,433
Impairment losses	186	408
Loss on investing activities	165	245
Interest, foreign exchange gains or losses	45,564	23,085
Fair value gain on financial assets	(13,004)	(26,927)
Increase in trade and other receivables	(260,511)	(221,352)
(Increase)/decrease in inventories and property rights	(144,038)	155,876
Increase/(decrease) in trade and other payables	276,015	(74,595)
Decrease in provisions	(10,246)	(751)
Increase in grants	155,198	128,746
Other adjustments	(3,297)	(3,415)
Income tax paid	(460)	(18,310)
Net cash from operating activities	28,133	188,191
Cash flows from investing activities		
Proceeds from sale of intangible assets, property, plant and equipment, and investment property	164	196
Acquisition of intangible assets, property, plant and equipment, and investment property	(47,325)	(55,881)
Acquisition of other financial assets	-	(12,005)
Interest received	21,690	8,496
Repayments of loans	33,177	46,893
Other cash provided by (used in) investing activities	(537)	(160)
Net cash from investing activities	7,169	(12,461)
Cash flows from financing activities		
Proceeds from borrowings	958,564	225,382
Repayment of borrowings	(1,052,244)	(1,002,230)
Interest paid	(71,030)	(24,084)
Commission fees on bank borrowings	(2,150)	(1,930)
Payment of lease liabilities	(4,658)	(4,604)
Payment of reverse factoring liabilities	(190,022)	(436,632)
Other cash provided by (used in) financing activities	8,550	1,229
Net cash from financing activities	(352,990)	(1,242,869)
Total net cash flows	(317,688)	(1,067,139)
Cash and cash equivalents at beginning of period	1,341,688	1,816,416
Effect of exchange rate fluctuations on cash held	(136)	(39)
Cash and cash equivalents at end of period	1,023,864	749,238

The supplementary information is an integral part of these interim condensed financial statements.

Notes to the interim condensed financial statements

1. Basis of accounting used in preparing the interim condensed financial statements

1.1. Statement of compliance and basis of accounting

Grupa Azoty Spółka Akcyjna ("the Company") is a joint stock company with its registered office in Tarnów, Poland. The Company shares are publicly traded on the Warsaw Stock Exchange.

These interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed financial statements of the Company cover the three months ended March 31st 2023 and contain comparative data for the three months ended March 31st 2022 and as at December 31st 2022.

The Company is entered in the Register of Businesses in the National Court Register maintained by the District Court in Kraków, 12th Commercial Division of the National Court Register, under No. KRS 0000075450. The Company's REGON number for public statistics purposes is 850002268.

The Company has been established for an indefinite period.

Grupa Azoty's business includes in particular:

- manufacture of basic chemicals,
- manufacture of fertilizers and nitrogen compounds,
- manufacture of plastics and synthetic rubber in primary forms,
- manufacture of plastics.
- managing of subsidiaries.

These interim condensed financial statements of the Company for the three months ended March 31st 2023 were authorised for issue by the Management Board on May 22nd 2023.

The interim condensed financial statements do not include all the information and disclosures required to be included in full-year financial statements and should be read in conjunction with the full-year financial statements of Grupa Azoty Spółka Akcyjna for the 12 months ended December 31st 2022, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union and authorised for issue on April 30th 2023.

The Company's interim financial results may not be indicative of its potential full-year financial results.

All amounts in these interim condensed financial statements are presented in thousands of złoty.

These interim condensed financial statements have been prepared on the assumption that the Company will continue as a going concern for the foreseeable future. For information on the market situation and steps taken by the Company and other Grupa Azoty Group companies to maintain their market position and ensure the required level of sales and financial performance, see Section 3.12 of the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2023. Considering the circumstances described in this section, the Company's Management Board concluded that they did not represent a threat to its going concern assumption.

1.2. Accounting policies and data presentation

The accounting policies applied to prepare these interim condensed financial statements are consistent with those applied to draw up the Company's full-year financial statements for the year ended December 31st 2022.

a) Amendments to International Financial Reporting Standards

The following standards effective as of 2023 have no material impact on the Company's operations or its financial reporting:

Standard	Description of amendments	Effect on financial statements
IFRS 17 Insurance Contracts	The new standard was issued on May 18th 2017 and subsequently amended on June 25th 2020, and is effective for annual periods beginning on or after January 1st 2023. Early application is permitted as long as IFRS 15 and IFRS 9 are also applied. The standard supersedes earlier regulations on insurance contracts (IFRS 4). On June 25th 2020, IFRS 4 was also amended to defer the effective date of IFRS 9 <i>Financial Instruments</i> for insurers until January 1st 2023.	The amendment has no material effect on the financial statements.
IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	Amendments to IAS 1 were issued on January 23rd 2020 with its effective date subsequently modified in July 2020, and are effective for annual periods beginning on or after January 1st 2023. The amendment redefines the criteria for classifying liabilities as current. The amendment may affect the presentation of liabilities and their reclassification between current and non-current.	The amendment has no material effect on the financial statements.
IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	The amendments were issued on February 12th 2021, and are effective for annual periods beginning on or after January 1st 2023. The purpose of these amendments is to place greater emphasis on the disclosure of material accounting policies and to clarify how companies should distinguish between changes in accounting policies and changes in accounting estimates.	The amendments have no material effect on the financial statements.
IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendment to IAS 12 was issued on May 7th 2021 and is effective for annual periods beginning on or after April 1st 2023. The amendments clarify that the exemption relating to initial recognition of deferred tax does not apply to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences and entities are required to recognise deferred tax on such transactions. The amendments thus address the emerging doubts as to whether the exemption applies to transactions such as leases and decommissioning obligations.	The amendment has no material effect on the financial statements.
IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Financial Instruments Comparative Information	The amendment to IFRS 17 was issued on December 9th 2021 and is effective for annual periods beginning on or after April 1st 2023. It provides a transition option for comparative information on financial assets presented on initial application of IFRS 17. The amendment is intended to help entities avoid temporary accounting	The amendments have no material effect on the financial statements.

mismatches between financial assets and insurance contract liabilities.

b) New standards and interpretations

The standards and interpretations which have been issued but are not yet effective as they have not been endorsed by the EU, or have been endorsed but the Company has not elected to apply them early:

Standard	Description of amendments	Effect on financial statements
IFRS 16 Leases: <i>Lease liability in a sale and leaseback</i>	The amendments to IFRS 16 was issued on September 22nd 2022 and are effective for annual periods beginning on or after January 1st 2024. The amendments require the seller-lessee to determine “lease payments” or “revised lease payments” in such a way that the seller-lessee does not recognise any amount of profit or loss that relates to the right of use retained by the seller-lessee.	The Company is analysing the effect of the amendment on its financial statements.

c) Presentation changes

Since January 1st 2023, the Company has applied hedge accounting in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"). Before that date, the Company applied hedge accounting in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

The transitional provisions of IFRS 9 allow entities to choose their accounting policies and continue to apply hedge accounting requirements of IAS 39 instead of IFRS 9 until the International Accounting Standards Board has completed work on the project concerning fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities (macro hedging).

As at the date of implementation of IFRS 9, the Company decided to continue applying the principles of hedge accounting set out in IAS 39. As of January 1st 2023, the Company designated IFRS 9 to be applied to hedge accounting in accordance with its requirements. The Company expects that the changes introduced by IFRS 9 with respect to hedge accounting will better align hedge accounting with the entity's risk management activities.

IFRS 9 for hedge accounting has been implemented prospectively. As at the date of transition to IFRS 9, the Company had updated documentation for all existing hedging relationships under IAS 39 that continue to qualify for hedge accounting under the new standard, in order to comply with the IFRS 9 documentation requirements. The update involved mainly the inclusion in the documentation of the hedge ratio and expected sources of ineffectiveness (not required by IAS 39) as well as the removal of the retrospective effectiveness test (no longer required under IFRS 9). The introduction of IFRS 9 had no significant effect on the classification of hedging instruments, hedged items and hedge relationships designated before January 1st 2023.

2. Supplementary information

2.1. Impairment testing

As at March 31st 2023, one of the external impairment indicators listed in par. 12 d) of IAS 36 *Impairment of Assets* was identified, i.e. the carrying amount of the Company's net assets was higher than its market capitalisation,

Therefore, the Company analysed the validity of the assumptions adopted for previous impairment tests and the results of those tests.

The analysis showed that:

- the risk-free interest rate (yield on 10-year Treasury bonds) fell from 6.85% at the end of 2022 to 6.04% at the end of March 2023; This changed the weighted average cost of capital for the Company, leading to an immaterial change in the recoverable amount of the cash-generating units ("CGUs");
- the adopted strategy and key assumptions remained largely unchanged as at the reporting date;
- as at the reporting date, the definition of the CGUs within the Company and the value of assets of each CGU did not change materially relative to the respective amounts as at December 31st 2022;
- EBITDA delivered by the individual CGUs in the three months ended March 31st 2023 did not materially differ from EBITDA included in the tests prepared as at December 31st 2022;
- there were no more up-to-date annual financial plans available as at the reporting date for the individual CGUs than those included in the impairment tests prepared at the end of 2022.

Taking into account the above circumstances, as well as the wording of par. 16 b) of IAS 36 *Impairment of Assets*, a decision was made to not prepare a formal estimate of recoverable amounts as at March 31st 2023, considering that the estimates of recoverable amounts determined in previous tests remained valid as at March 31st 2023 and therefore no additional impairment losses were necessary; further, none of the circumstances provided any rationale for reversing impairment losses recognised in prior periods.

For detailed information on the impairment tests and their results, see Note 4 to the Company's financial statements for the 12 months ended December 31st 2022.

2.2. Impact of the COVID-19 pandemic

For information on the effects of the COVID-19 pandemic on the Company and the Group, see Section [3.9](#) to the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2023.

2.3. Impact of the war in Ukraine

For information on the effects of the war in Ukraine on the Company and the Group, see Section [3.10](#) of the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2023.

2.4. Information on sanctions

For information on the sanctions imposed on the Company's minority shareholder and the introduction of an embargo on coal import from the Russian Federation, see Section 3.11 of the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2023.

2.5. Other information

In the three months ended March 31st 2023, the Company generated revenue of PLN 652m, a decrease of 41.3% (or PLN 458m) year on year. The Company reported negative EBIT, due mainly to the negative results of the Plastics segment and - to a lesser extent - the Energy segment. The Company's performance in the period was mainly affected by low demand for its products, reducing sales volumes and the average product prices. Prices of raw materials were either a positive or a negative performance driver, depending on the segment and product category. A strong rise was recorded in the costs of energy carriers (coal and electricity).

The PLN 102,931 thousand increase in **inventories** was attributable to a higher volume of fertilizer product stocks and, to a lesser extent, a higher volume and value (prices) of coal stocks.

The PLN 41,107 thousand increase in **property rights** was mainly an effect of the purchase of CO₂ emission allowances.

The increase in **short-term trade and other receivables** was attributable, among other things, to the recognition of receivables for CO₂ emission allowances to be received for 2023 in a total amount of PLN 211,180 thousand.

The PLN 271,288 thousand increase in **other financial liabilities** was mainly attributable to reverse factoring liabilities.

As at March 31st 2023, **grants** increased following the recognition by the Company of the outstanding grant of CO₂ emission allowances of PLN 155,722 thousand.

The value of the right and obligation to repurchase Grupa Azoty POLYOLEFINS shares from non-controlling shareholders, i.e., the call and put options, as at March 31st 2023 was as follows:

Instrument	Total valuation	Company's interest (47%)	Grupa Azoty POLICE's interest (53%)
Call option (financial asset)	118,566	55,726	62,840
Put option (financial liability)	25,253	11,869	13,384

The effect of measurement of the financial instruments referred to above on the Company's profit before tax in the three months ended March 31st 2023 was PLN (10,899) thousand.

Participation in the support programme for energy-intensive businesses

In the three months ended March 31st 2023, the Company received PLN 52,285 thousand in financial support from the National Fund for Environmental Protection and Water Management ("NFOŚiGW"), granted based on the governmental programme 'Aid to energy-intensive sectors related to sudden increases in natural gas and electricity prices in 2022' (the "Programme"), approved by the Council of Ministers' Resolution No. 1/2023 of January 3rd 2023.

The aid received was included in other income, in the amount credited to the bank account. Under the Programme, use of the aid is to be accounted for by June 30th 2023. As at the date of these interim financial statements, the Company had not received any information from the National Fund for Environmental Protection and Water Management on accounting for the use of the aid.



Management's discussion and analysis of Grupa Azoty S.A.'s performance in the three months ended March 31st 2023

1. General information on the Grupa Azoty Group

1.1. Organisation and structure

The Grupa Azoty Group is one of Central Europe's major chemical groups with a strong presence on the market of mineral fertilizers, engineering plastics, OXO products, and other chemicals.

The Grupa Azoty Group has brought together companies with different traditions and complementary business profiles, seeking to leverage their potential to implement a common strategy. This has led to the creation of Poland's largest and a major European chemical group. Thanks to its carefully designed structure, the Group offers a diverse product mix, ranging from nitrogen and compound fertilizers, engineering plastics, to OXO products and melamine.

As at March 31st 2023, the Grupa Azoty Group ("Grupa Azoty", the "Group") comprised: Grupa Azoty S.A. (the Parent) and ten direct subsidiaries together with companies included in their respective groups.

Parent

Grupa Azoty S.A. (the "Parent" or the "Company") is the Parent of the Grupa Azoty Group. Its principal business activities include manufacturing, trading in and service activities related to nitrogen fertilizers, engineering plastics and intermediates.

The Company operates its own research facilities, concentrating both on research into new products and technologies, and on advancing existing products.

The Company's registered office is located at ul. Eugeniusza Kwiatkowskiego 8, Tarnów, Poland. Since April 22nd 2013, the Company has been trading under the name Grupa Azoty Spółka Akcyjna. Its history goes back to 1927, when Państwowa Fabryka Związków Azotowych was established in Mościce, a township later incorporated into Tarnów. The plant's construction was one of the largest investment projects undertaken in the Republic of Poland after it regained independence in 1918.

Parent's direct subsidiaries

Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna

The company's registered office is located in Puławy.

Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna ("Grupa Azoty PUŁAWY") specialises in the production of nitrogen fertilizers and is also one of the largest melamine manufacturers in the world.

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna

The company's registered office is located in Police.

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna ("Grupa Azoty POLICE") is a major producer of compound fertilizers, nitrogen fertilizers and titanium white.

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna

The company's registered office is located in Kędzierzyn-Koźle.

The business of Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna ("Grupa Azoty KĘDZIERZYN") is based on two pillars: nitrogen fertilizers and OXO products (OXO alcohols and plasticizers).

COMPO EXPERT Holding GmbH

The company's registered office is located in Münster, Germany.

COMPO EXPERT Holding GmbH ("COMPO EXPERT") is a holding company for a group of subsidiaries, including the main operating company COMPO EXPERT GmbH, one of the world's largest manufacturers of speciality fertilizers for professional customers. The group's products are sold in many countries in Europe, Asia, Africa, as well as North and South Americas.

Grupa Azoty ATT Polymers GmbH

The company's registered office is located in Guben, Germany.

Grupa Azoty ATT Polymers GmbH ("Grupa Azoty ATT POLYMERS") manufactures polyamide 6 (PA6).

Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

The services of Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty PKCh") encompass comprehensive design support for investment projects in the chemical industry – from study and concept work to engineering design, building permit design and working plans, to services provided during the construction, commissioning and operation of process units.

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty KOLTAR") is a nationwide provider of railway services. It is one of the few organisations in Poland to hold licences required to perform comprehensive repairs of rail car chassis and tank cars used in the transport of dangerous materials (according to RID).

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna

The company's registered office is located in Grzybów.

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna ("Grupa Azoty SIARKOPOL") is Poland's largest producer of liquid sulfur.

Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

The business model of Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty COMPOUNDING") is based on a portfolio of specialised engineering plastics manufactured through the compounding of plastics, with the use of innovative technological solutions. The company manufactures and sells modified plastics.

Grupa Azoty Energia Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

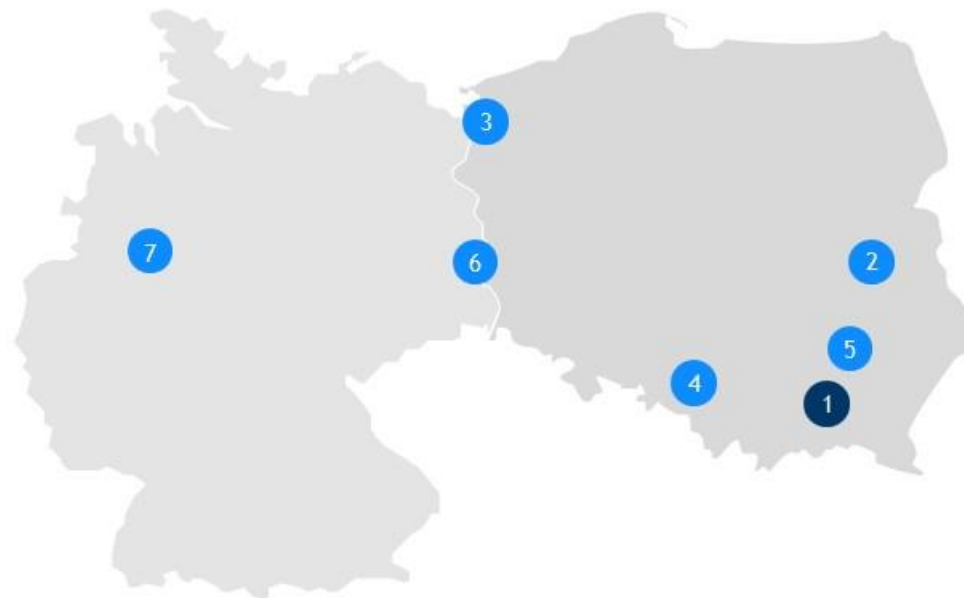
Grupa Azoty Energia Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty ENERGIA") was set up to support the Group in delivering its Strategy for 2021-2030 in the area of energy transition and lower emissions from production processes. In particular, the company is to implement renewable energy projects on land owned and used by the Group companies, and to participate in acquisition and development projects in the energy sector, including nuclear energy projects (modular nuclear reactors).

Parent's equity interests in subsidiaries and jointly-controlled entities as at March 31st 2023

<i>(in relevant currency)</i>			
Company	Registered office/address	Share capital	% of shares held directly
COMPO EXPERT	Krögerweg 1048155, Münster, Germany	EUR 25,000	100.00
Grupa Azoty ATT POLYMERS	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
Grupa Azoty COMPOUNDING	ul. Chemiczna 118, 33-101 Tarnów, Poland	PLN 72,007,700	100.00
Grupa Azoty ENERGIA	ul. Kwiatkowskiego 8, 33-101 Tarnów, Poland	PLN 1,000,000	100.00
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów, Poland	PLN 60,620,090	99.56
Grupa Azoty PUŁAWY	al. Tysiąclecia Państwa Polskiego 1324-110 Puławy, Poland	PLN 191,150,000	95.98
Grupa Azoty KĘDZIERZYN	ul. Mostowa 30 A P.O. Box 163, 47-220 Kędzierzyn-Koźle, Poland	PLN 285,064,300	93.48
Grupa Azoty PKCH	ul. Kwiatkowskiego 7, 33-101 Tarnów, Poland	PLN 85,630,550	63.27
Grupa Azoty POLICE	ul. Kuźnicka 1, 72-010 Police, Poland	PLN 1,241,757,680	62.86
Grupa Azoty KOLTAR	ul. Kwiatkowskiego 8, 33-101 Tarnów, Poland	PLN 54,600,000	60.00
Grupa Azoty POLYOLEFINS*	ul. Kuźnicka 1 72-010 Police, Poland	PLN 922,968,300	30.52

* jointly-controlled entity

The Parent and its subsidiaries as at March 31st 2023



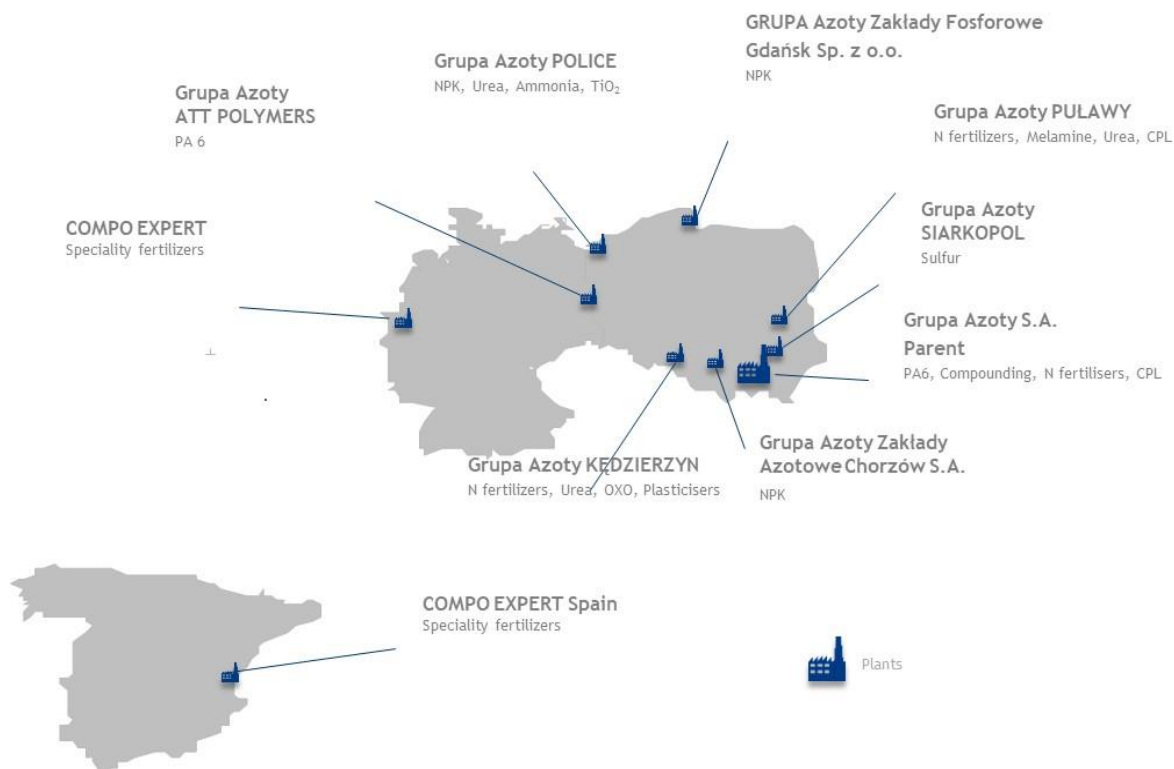
1	Parent		
	Grupa Azoty COMPOUNDING	2	Grupa Azoty PUŁAWY 95.98%
	100%	3	Grupa Azoty POLICE 62.86%
	Grupa Azoty ENERGIA	4	Grupa Azoty KĘDZIERZYN 93.48%
	100%	5	Grupa Azoty SIARKOPOL 99.56%
	Grupa Azoty PKCh	6	Grupa Azoty ATT POLYMERS 100%
	63.27%	7	COMPO EXPERT 100%
	Grupa Azoty KOLTAR		
	60%		

Source: Company data.

1.2. Business segments

The Group is the largest chemical group in Poland and a significant player in Central Europe. It offers mineral fertilizers and B2B products, including engineering plastics, OXO products and melamine.

Grupa Azoty - core business areas



Source: Company data.

The Group's business is divided into the following segments:

- Agro Fertilizers,
- Plastics,
- Chemicals,
- Energy,
- Other Activities.

Agro Fertilizers

Mineral fertilizers are the key area of the Group's business. The Agro Fertilizers segment manufactures nitrogen and compound fertilizers, as well as speciality fertilizers, Ammonia and other nitrogen-based intermediate products.

The segment's manufacturing activities are conducted by the companies based in Tarnów (the Parent), Puławy, Kędzierzyn, Police, Gdańsk, Chorzów, as well as Germany and Spain. The Group is Poland's largest and European Union's second largest manufacturer of mineral fertilizers.

Plastics

The segment's key products are engineering plastics (polyamide 6 (PA6) and modified plastics) and auxiliary products, such as caprolactam and other chemicals.

They are manufactured by three companies – in Tarnów, Puławy, and Guben (Germany). The Group is the leading manufacturer of PA6 in Poland and the third largest producer of this polyamide in the European Union.

Chemicals

The Chemicals segment is an important part of the Group's business, comprising OXO alcohols, plasticizers, melamine, technical grade urea, titanium white, sulfur, RedNOx® reductants, and other products.

They are manufactured in Kędzierzyn, Puławy, Police, and Grzybów. The Grupa Azoty Group is the third largest manufacturer of melamine in the EU. The Group is Poland's only producer of OXO alcohols and plasticizers. It is

EU's No. 4 producer of OXO alcohols and No. 5 producer of plasticizers. The Group is Poland's only producer of titanium white.

Energy

The segment generates energy mostly for the needs of the Group's production plants. Part of the electricity and heat produced by the Energy segment is sold locally, to customers in the immediate vicinity of the Group's plants.

The Group companies operate their own energy and energy carrier distribution networks, through which they supply their local customers.

The segment is also involved in various operations in such areas as environmental protection, plant maintenance supervision, administration and research.

Other Activities

The Other Activities segment comprises auxiliary and support services. As in the case of the Energy segment, its services are mainly rendered for the Group companies. Outside the Group, the segment mainly provides maintenance (automation, design, repair, etc.) and logistics services (road transport, rail transport, ports), and conducts manufacturing at the Catalyst Production Plant. The segment is also involved in various infrastructure management operations.

1.3. Overview of key products

AGRO FERTILIZERS

The Group classifies **mineral fertilizers** as nitrogen (single-nutrient) fertilizers and compound fertilizers, the latter including at least two of the following key nutrients: nitrogen (N), phosphorus (P) or potassium (K), as well as speciality fertilizers.

Nitrogen fertilizers

Nitrogen fertilizers are substances or mixtures of substances where nitrogen is the primary plant nutrient. The Group's product range includes a number of nitrogen fertilizers: urea, nitrate fertilizers (including ammonium nitrate, calcium ammonium nitrate, liquid nitrogen fertilizers (UAN-RSM®) and nitrogen-sulfur fertilizers (made as a result of mixing fertilizers in the manufacturing process: ammonium sulfate nitrate, solid and liquid mixtures of urea and ammonium sulfate, and ammonium sulfate). Natural gas is the main feedstock in manufacturing nitrogen fertilizers.

Urea

Urea is a nitrogen fertilizer with a 46% nitrogen content. It is produced in Puławy, Police and Kędzierzyn. Urea is a universal fertilizer - it can be used for all crops at various growth stages, both in the granular form and as a solution.

The Group's portfolio also includes Pulrea® +INu, that is urea with an addition of urease inhibitor (NBPT), which increases the absorption of nitrogen from the fertilizer. The fertilizer is a stable source of nitrogen for plants.

Outside agriculture, urea is used for technical purposes, mainly for manufacturing of adhesive resins, which find application in the wood-based panel industry. It may also be further processed into urea-ammonium nitrate solution (UAN - RSM®), a liquid fertilizer, or into melamine.

Nitrate fertilizers

- Ammonium nitrate is a nitrogen fertilizer which is easily dissolved in water, containing between 30% and 34% of nitrogen. The Group offers this product in a wide variety of granule forms and sizes, such as mechanically granulated ZAKsan®, with excellent sowing properties, and the PULAN® beaded ammonium nitrate.
- Calcium ammonium nitrate (CAN) is a nitrogen fertilizer with a nitrogen content of up to 27%. It is a universal fertilizer, suitable for all types of soil, well soluble and easily absorbed by crops. The Group markets CAN in a number of granule varieties; the offering includes the granulated Salmag® fertilizers (including varieties with a sulfur or boron content), and bead fertilizers such as Saletrzak 27 (CAN 27) standard and Saletrzak 27 with boron.
- Urea-ammonium nitrate solution (UAN - RSM®) is a liquid nitrogen fertilizer coming in three varieties: with 32%, 30% and 28% nitrogen content. Thanks to its form, RSM® is easily absorbed by plants. It is also produced with an admixture of sulfur, as UAN-RSM®S.

Nitrogen-sulfur fertilizers

These fertilizers improve sulfur content in the soil, enhance arable crops' ability to absorb nitrogen, and thus increase the quality and volume of crops.

- PULGRAN®S - urea-ammonium sulfate, is a nitrogen fertilizer with sulfur in the form of white hemispherical pastilles, obtained by blending urea and ammonium sulfate. It is manufactured in two varieties with various

contents: 37% nitrogen/21% sulfur and 33% nitrogen/31% sulfur.

- Saletrosan®, or ammonium sulfate nitrate, is a nitrogen fertilizer with sulfur, obtained by blending ammonium nitrate and ammonium sulfate. Saletrosan® 26 contains 26% nitrogen and 13% sulfur. The product may also include small amounts of iron and magnesium - Saletrosan® 26 Plus, and boron - Saletrosan® 26 with boron. Saletrosan® 30 has different proportions of main components: 30% nitrogen and 6% sulfur. Saletromag® contains 25% nitrogen, 7% sulfur and 6% total magnesium oxide. The product contains small amounts of iron which increase the fertilizer's resistance to high temperatures.
- Polifoska® 21 is a nitrogen fertilizer with sulfur, a mixture of ammonium sulfate-urea containing 21% nitrogen and 33% sulfur.
- Ammonium sulfate, marketed under the trade names AS 21 and Pulsar®, is a simple nitrogen fertilizer with sulfur, containing 21% nitrogen and 24% sulfur. It is a by-product in the manufacture of caprolactam and in flue gas desulfurisation. The Group manufactures a wide range of ammonium sulfate in various granule forms and sizes: selection, macro, standard, and crystalline.
- PULASKA® is a liquid nitrogen fertilizer with sulfur, obtained by blending urea and ammonium sulfate, and has a 20% nitrogen and a 6% sulfur content.

Compound fertilizers (NPK, NP)

NPK and NP compound fertilizers are universal fertilizers which, depending on composition, can be applied to various types of crops and soil. Aside from the primary components – nitrogen (N), phosphorous (P) and potassium (K), these fertilizers contain secondary nutrients such as magnesium, sulfur or calcium, and may contain microelements such as boron or zinc.

Compound fertilizers may be used to provide nutrients to all types of arable crops. The Grupa Azoty Group's current offering includes more than 40 grades of compound fertilizers, marketed under the following trade names: Polifoska®, Polidap®, Superfosfat, Amofoska®, etc. The Group also offers dedicated fertilizers, custom-made to satisfy customers' specific requirements.

Speciality fertilizers

Speciality fertilizers are designed to meet the requirements of various sectors, including fruit and vegetable growing, horticulture or maintenance of green areas. In addition to the primary components – nitrogen (N), phosphorous (P) and potassium (K), such fertilizers also contain secondary nutrients and microelements. They may also contain inhibitors that reduce nutrient leaching.

Available in solid (coated or uncoated) or in liquid form, this product range also includes fertigation and foliar fertilizers.

Currently, they are marketed under a number of trade names, including Azoplon Nutri, Azoplon Opti, Fertiulon, Blaukorn®, NovaTec®, Hakaphos®, Basfoliar®, Easygreen®, DuraTec®, Basacote®, Floranid®Twin.

Ammonia

Ammonia is a feedstock for the manufacture of fertilizers, produced in a process of direct synthesis of nitrogen and hydrogen. Ammonia is the basic intermediate product used to manufacture nitrogen fertilizers and compound fertilizers. It is also used in the chemical industry, e.g. for the manufacturing of caprolactam or polymers, or as a cooling agent. Natural gas is the key feedstock for the production of ammonia.

PLASTICS

Engineering plastics

Engineering plastics exhibit high thermal resistance and good mechanical properties. The wide range of the plastics' beneficial properties makes them a product of choice for many industries, including automotive, construction, electrical engineering, household appliances, and the food and textile industries.

The Group manufactures polyamide 6 and modified plastics (with admixtures affecting the physical and chemical properties of the final plastics) based on polyamide 6 and other engineering plastics (PP, PBT, PA6.6). It also offers modified plastics, custom-made to meet the requirements of individual customers.

Polyamide 6 (PA6)

Polyamide 6 (PA6) is a high quality thermoplastic in granular form used for injection processing. It is the leading product among engineering plastics. The Group's very popular brands in this segment are Tarnamid® and Alphalon®.

Caprolactam

An organic chemical compound and an intermediate product used for the manufacture of polyamide 6. It is produced mainly from benzene and phenol. Synthesis of caprolactam yields ammonium sulfate as a by-product.

CHEMICALS

OXO products

OXO alcohols manufactured by the Grupa Azoty Group: OXO alcohols - 2-ethylhexanol (2-EH) and butanols (n-butanol, isobutanol). The key product in this group is 2-EH.

2-ethylhexanol (2-EH) is used in the manufacture of plasticizers, paints and varnishes as well as in the textile industry and oil refining processes. It is also applied as a solvent for vegetable oils, animal fats, resins, waxes and petrochemicals.

Plasticizers manufactured by the Grupa Azoty Group:

- **DEHT/DOTP.** It is used in the chemical industry to increase the plasticity of materials, mainly PVC, and as an additive to paints and varnishes. The Group's DEHT/DOTP is marketed under the Oxoviflex® brand. It is used in plastics processing as a non-phthalic plasticizer as well as in the manufacture of paints and varnishes. It is also widely applied for the production of floor coverings and wall cladding as well as toys for children.
- **DBTP/DBT.** It is a plasticizer characterised by quick plastification of polymers and low migration, giving higher flexibility to finished products. Due to these properties, DBTP/DBT is used in the production of PVC flooring as a functional plasticizer in combination with Oxoviflex®, as well as in the production of adhesives, seals, and inks. The Group's DBTP/DBT is marketed under the Oxofine™ DBT brand.
- **DEHA/DOA.** It is a high quality bis(2-ethylhexyl) adipate which is recommended for the manufacture of food contact materials (particularly PVC food wrapping film) due to its very good plastifying properties and the fact that it maintains its properties in low-temperature applications and has a safe toxicological profile. The Group markets its DEHA/DOA under the Oxofine™ DOA brand. The product is also used in the manufacture of garden hoses, cables and coated fabrics. Depending on the application, it may be used as the main plasticizer or a functional plasticizer in combination with Oxoviflex®. Besides its application in PCV processing, Oxofine™ DOA is also recommended as a solvent for the cosmetics industry, for use in nitrocellulose and synthetic rubber plasticisation, and in the manufacturing of lacquers.

Sulfur

The product offered by Grupa Azoty is mined sulfur. Sulfur is mainly used to produce sulfuric acid, which is widely used in the chemical industry, for instance to produce DAP, a two-component fertilizer. The product is offered in various forms. For the Group's own needs, sulfur is also purchased from other suppliers who obtain it as a by-product from flue gas desulfurisation or crude oil refining.

Melamine

A non-toxic, non-flammable product in the form of a white powder, used for the production of synthetic resins, thermosetting plastics, adhesives, paints, varnishes (including furnace varnishes), auxiliary materials for the textile industry, fire retardants, and other.

Titanium white

Titanium white (titanium dioxide) is the most widespread category of inorganic pigments characterised by the highest refractive index. Its other properties include the capacity to strongly absorb harmful ultraviolet radiation. The pure form is a colourless, crystalline, non-volatile, non-flammable, insoluble and thermally stable solid. Industrial applications of titanium white include the manufacture of paints and varnishes, plastics, paper, synthetic fibres, ceramics, rubber, cosmetics, pharmaceuticals and food products.

The Group sells titanium white under the Tytanpol® brand. Several titanium white grades are regularly manufactured, including universal grades (R-001, R-003, R-210) and speciality grades (R-002, R-211, R-213, RD-5, RS, R-310).

Sources of strategic raw materials

For the most part, the Group procures its raw materials, merchandise and services on the domestic and EU markets. Certain raw materials (phosphate rock, slag, potassium chloride) are purchased from non-EU suppliers. Raw materials supplied by the Group companies, i.e. ammonia and to some extent sulfur, account for a significant share of the total raw materials procured by the Group.

Ammonia

The procurement strategy is based primarily on the optimisation of intragroup supplies. Intragroup supplies are transacted on arm's length terms. The Grupa Azoty Group is the largest ammonia manufacturer in Poland and CEE, operating several ammonia units. It is also one of the largest consumers of ammonia in the region, with a significant potential in logistics.

Having satisfied its own needs, the Group sells a surplus on the market or purchases ammonia on the market if price relations are favourable.

Benzene

Benzene is mainly delivered under one-year contracts, with supplementary purchases made on the spot market. Benzene is sourced chiefly from domestic and EU suppliers. The benzene market is largely driven by the situation on the crude oil market and the demand-supply relationship on global markets, particularly the level of demand for benzene outside Europe.

Electricity

The Group purchases electricity from major Polish suppliers trading with large accounts. Following a number of tenders for 2022, the Group companies signed electricity supply contracts under their existing framework agreements. Thanks to the joint procurement strategy for electricity supplies, they secured competitive prices and favourable terms of the contracts. Given the volatility of the electricity market and its changing legal framework, the Group's policy is to purchase electricity under forward contracts concluded for various periods and on the spot market, including on the Polish Power Exchange.

Phenol

The procurement strategy is based primarily on supplies from the domestic and the EU markets, with deliveries from outside Europe covering any deficit. The Group secures phenol supplies for its own needs under long-term contracts concluded directly with Europe's largest producers.

Phosphate rock

Phosphate rock is purchased under one-year contracts, chiefly from North African and West African producers, given the mineral's abundance in the region and the well-developed local sea logistics infrastructure. The situation on the phosphorite market is to a large extent driven by the situation in the fertilizers sector. The Group has in place a joint phosphate rock purchase programme for Grupa Azoty POLICE and Grupa Azoty FOSFORY.

Natural gas

High-methane gas and gas from local sources was supplied by PGNiG S.A. (now PKN ORLEN S.A.) under long-term contracts. In the three months ended March 31st 2022, natural gas was purchased under the contract with PGNiG S.A. at spot prices and in forward transactions, in accordance with the policy of gas price hedging.

As announced by PGNiG S.A. on April 27th 2022, supplies of natural gas from Russia to Poland were withheld as a result of PGNiG S.A.'s refusal to make payments for gas in the Russian currency. As at the date of authorisation of this Report for issue, there were no interruptions in the supply of natural gas to the Group. The Group monitors the situation around gas supplies on an ongoing basis. Contingency scenarios have also been developed in case manufacturing operations have to be curtailed in the event of a reduction in natural gas supplies, including in particular a reduction of the load on production units and acceleration of annual maintenance shutdowns.

Propylene

The bulk of the Group's purchases of propylene are made under one-year contracts, with supplementary purchases made on the spot market. To a large extent, propylene prices are driven by oil prices as well as the supply and demand balance on the propylene market. The Group pursued a diversified procurement strategy, based chiefly on supplies from the EU and countries east of Poland. As Russia's aggression against Ukraine caused disruptions in the supply chain, the Group switched to a short-term policy for securing supplies from other available sources on the best commercial terms while ensuring the security of supplies.

Sulfur

The Group is the largest producer and consumer of liquid sulfur on the domestic market and in the region. Its sulfur procurement strategy is based on optimising intragroup supplies (from Grupa Azoty SIARKOPOL) and on supplies from the petrochemical sector. This approach gives the Group considerable procurement flexibility, and significantly reduces the risk of supply shortages. With a centralised sulfur procurement strategy in place (a joint purchase programme for the entire Group), the Group is able to aggregate the supply volumes and reduce the cost of this raw material.

Potassium chloride

Having access to substantial natural resources and offering competitive commercial terms, producers from Canada and Germany are the primary suppliers of potassium chloride. The Group's procurement strategy is chiefly based on quarterly framework agreements. The Group pursues a centralised procurement strategy by making joint purchases for Grupa Azoty POLICE and Grupa Azoty FOSFORY.

Coal

The Group purchases coal mainly on the domestic market. Purchasing large volumes of coal of the required quality from geographically remote markets is considerably more expensive given the transport costs and price formulae (ARA - a price benchmark for coal delivered at the ports of Amsterdam, Rotterdam and Antwerp).

Since 2018, the Group companies have followed a strategy of purchasing coal under multi-year contracts with guaranteed prices. As a result of force majeure events at the Polish coal producers and their policy to supply coal at minimum levels permitted under the contracts, the Group's long-term contracts fail to satisfy its basic requirement for this commodity. The Group companies are securing additional supplies.

Grupa Azoty Group's production volume by product group ('000 tonnes)

	Q1 2023	Q1 2022	change	% change
Agro Fertilizers				
Nitrogen fertilizers	681	953	(272)	(29%)
Compound fertilizers	148	201	(53)	(26%)
Speciality fertilizers	70	93	(23)	(25%)
Chemicals				
Pigments	5	6	(1)	(17%)
Urea	217	395	(178)	(45%)
OXO products	23	59	(36)	(61%)
Plastics				
Polyamide	33	48	(15)	(31%)

Source: Company data.

2. Financial position of the Group

2.1. Assessment of factors and one-off events having a material impact on the Group's operations and financial performance

Below are presented one-off items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows. Additionally, in the three months ended March 31st 2023, the Grupa Azoty Group received PLN 234m in financial support from the National Fund for Environmental Protection and Water Management, granted based on the governmental programme 'Aid to energy-intensive sectors related to sudden increases in natural gas and electricity prices in 2022'. For detailed information on the aid received, see the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2023.

Exchange rates

Over the first quarter of 2023, the zloty strengthened, following the trend seen at the end of 2022. It only fell briefly in February. The exchange rates of key currencies, in particular the EUR/PLN and USD/PLN pairs, were lower than at the end of December. At the beginning of April, the prices of USD and EUR fell to their lowest levels since, respectively, March 2022 and June 2022.

Despite the continuing armed conflict in Ukraine, the zloty appreciated driven by increased appetite for the region's assets and a greater inflow of capital to Poland as part of global supply chain adjustments. The Polish currency was also supported by a global weakening of the US dollar caused by lower expectations of interest rates hikes from the Federal Reserve Bank later in the year, after problems came to light at regional US banks and the inflation rate declined. At the same time, representatives of the European Central Bank kept up the rhetoric about the need to further tighten the monetary policy in the months to come, which supported the euro exchange rate.

The current account situation also improved over the recent months. In January and February there was a surplus of EUR 4.7bn, whereas a year earlier there was a deficit of EUR 2.2bn, which in December 2022 reached EUR 2.5bn. Polish exports grew significantly, while imports did not change considerably year on year. This was due to weaker internal demand, an effect of the economic downturn, decline in real wages, eroded savings and lower purchasing power of the zloty.

The Monetary Policy Council has kept interest rates stable, including the reference rate, which is maintained at 6.75%, and given the prospects of falling inflation rates in Poland and around the world, the NBP's monetary policy tightening has most likely come to an end and no further interest rate hikes are expected in the near future. The disparity between the domestic interest rates and the rates in the euro area and in the US is expected to shrink by the end of the year, which may adversely affect the PLN exchange rate. The 25-50 basis points interest rate hikes in the US and the 50-75 basis points interest rate hikes in the euro area are to be discounted until June 2023 and until mid-year, respectively. Real interest rates in PLN will remain strongly negative due to persistent high domestic inflation.

As the combined movements of the average PLN/EUR exchange rate were limited and the PLN/USD exchange rate followed the development of the EUR/USD exchange rate, they did not significantly affect the Grupa Azoty Group's performance in the three months ended March 31st 2023 in terms of the Group's partly offset EUR exposure and limited USD exposure.

The Group reduces the risk resulting from its currency exposure by using selected instruments and taking measures to hedge against the currency risk based on the current and planned currency exposure. In the reporting

period, the Group used natural hedging, factoring and currency forwards as its primary currency risk hedging tools.

The Group has in place a physical PLN, EUR and USD cash pooling structure enabling its companies to use the Group's global liquidity limit, which further reduces exposure to the currency risk in the euro and the US dollar by adjusting potential mismatches in revenue and expenses over time.

In the three months to March 31st 2023, the Group settled FX forward contracts for the sale of EUR and USD and entered, to a limited extent, into new transactions hedging its currency exposure due to increased volatility during the period.

The net result on hedging transactions settled in the three months ended March 31st 2023 by the Group (excluding Grupa Azoty POLYOLEFINS) was positive at PLN 758 thousand, with the net result on remeasurement of hedging instruments positive at PLN 173 thousand.

The overall net result of the Group (excluding Grupa Azoty POLYOLEFINS) on the settlement of hedging transactions and remeasurement of hedging instruments in the three months ended March 31st 2023 was positive at PLN 931 thousand.

Grupa Azoty POLYOLEFINS's exposure to currency risk

In the three months ended March 31st 2023, Grupa Azoty POLYOLEFINS held and entered into FX forward contracts to buy EUR for USD and PLN for EUR and USD to hedge its expected expenditure in EUR and PLN related to contractual payments for the Polimery Police project, to be covered from disbursements under the term facility made available on the basis of the Credit Facilities Agreement.

As at March 31st 2023, Grupa Azoty POLYOLEFINS had the following open contracts:

- FX forward to buy approximately EUR 96,333 thousand for USD (hedging expenditure planned to be financed with proceeds from the term facility made available under the Credit Facilities Agreement in USD);
- FX forward to buy approximately PLN 19,230 thousand for EUR (hedging expenditure planned to be covered with proceeds from the term facility made available under the Credit Facilities Agreement in EUR);
- FX forward to buy approximately PLN 92,227 thousand for USD (hedging expenditure planned to be covered with proceeds from the term facility made available under the Credit Facilities Agreement in USD).

The FX forwards to purchase PLN for USD were designated for the purpose of cash flow hedge accounting.

As at March 31st 2023, the total result on the measurement of open transactions hedging currency risk executed by the company was PLN -53,427 thousand, including PLN -7,612 thousand attributable to the measurement of transactions designated for hedge accounting.

Interest rate risk

In the three months ended March 31st 2023, Grupa Azoty POLYOLEFINS held IRSs with a zero floor whereby positive values of EURIBOR and USD LIBOR are exchanged for a fixed interest rate. The contracts hedge the planned interest expense on the term facility made available under the Credit Facilities Agreement. They constitute security required under the Credit Facilities Agreement.

As at March 31st 2023, Grupa Azoty POLYOLEFINS had the following open contracts:

- IRS with a zero floor on EURIBOR for a maximum notional amount of EUR 370,299 thousand (the notional amounts increase and then are amortised in accordance with the company's expectations regarding the notional amounts resulting from the term facility under the Credit Facilities Agreement in EUR);
- IRS with a zero floor on USD LIBOR for a maximum notional amount of USD 408,151 thousands (the notional amounts increase and then are amortised in accordance with the company's expectations regarding the notional amounts resulting from the term facility under the Credit Facilities Agreement in USD).

The transactions hedging interest rate risk were designated for the purpose of cash flow hedge accounting. As at the end of March 2023, the notional amount of the transactions hedging interest rate risk was higher than the actual amount of debt outstanding under the term facility. The hedge relationship for that part of the hedging instrument's notional amount which was not covered by the hedged item was de-designated. A part of the fair value measurement of the IRS and floor contracts was reclassified to profit or loss. Only the measurement amount corresponding to the portion of the hedge for which the hedged item is still expected to occur was charged to equity.

As at March 31st 2023, the total result on the measurement of open IRSs with a zero floor executed by the company was PLN 405,478 thousand, including PLN 383,424 thousand attributable to the measurement of transactions designated for hedge accounting.

Commodity risk - natural gas prices

After a period of soaring natural gas prices, which peaked in September 2022 having reached an unprecedented level of EUR 345/MWh, the fourth quarter saw a steady decline in prices. In March 2023, natural gas prices at

Europe's largest hub TTF (Title Transfer Facility) fell to EUR 40/MWh. The savings plans put in place by the European Commission, fears of an upcoming recession and high average temperatures led to a decline in demand for natural gas, pushing its prices down to the lowest level in 18 months. Given increased LNG imports into Europe, prices at the largest European gas hubs are expected to remain relatively low in the spring and summer of 2023, with a risk of rising again in autumn and winter. The Group constantly monitors the prices of all commodities, especially natural gas, as the prices are the key factor driving the profitability of production, and stabilises future cash flows by signing contracts providing for some of the gas supplies to be made at a specific time and for a specific price.

In the period under review, Grupa Azoty POLYOLEFINS did not carry any commodity risk hedges.

Foreign currency derivatives and hedge accounting

As at March 31st 2023, the notional amount of the Grupa Azoty Group's open FX forwards was EUR 12.7m (with maturities in 2023).

As regards the US dollar, as at March 31st 2023 the Group had no outstanding derivative instruments in that currency.

Such contracts are only entered into with reliable banks under master agreements. All the contracts reflect actual cash flows in foreign currencies. Currency forwards and derivative contracts are executed to match the currency exposure and their purpose is to limit the effect of exchange rate fluctuations on profit or loss.

The Group applies cash flow hedge accounting. The hedged item are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from April 2023 to March 2029. The hedging covers currency risk. The hedging instruments are two EUR-denominated credit facilities, which as at March 31st 2023 amounted to:

- EUR 45,405 thousand, repayable in the period from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each;
- EUR 109,333 thousand, repayable in the period from September 2021 to March 2029 in 16 half-yearly instalments, including the first instalment of EUR 6,666 thousand, 14 instalments of EUR 9,667 thousand each, and the last instalment of EUR 3,000 thousand.

As at March 31st 2023, the carrying amount of the two credit facilities was PLN 723,239 thousand. As at March 31st 2023, the hedging reserve included PLN -48,599 thousand on account of effective hedge. In the reporting period, the Group reclassified PLN 3,414 thousand from other comprehensive income to the statement of profit or loss in connection with the settlement of a hedging relationship with respect to payment of currency loan instalments against proceeds from sales in the euro.

Grupa Azoty POLYOLEFINS applies cash flow hedge accounting with respect to currency risk and interest rate risk. In currency risk hedges, the hedged item are future highly probable cash flows related to PLN-denominated costs attributable to a project, financed with drawdowns under the USD-denominated credit facility. In interest rate risk hedges, the hedged item are future highly probable cash flows arising from interest on the term loan denominated in EUR and USD.

As at March 31st 2023, PLN -7,612 thousand on the measurement of FX hedging transactions and PLN 383,424 thousand on the measurement of interest rate risk hedging transactions were recognised in Grupa Azoty POLYOLEFINS's hedge reserve.

2.2. Market overview

AGRO FERTILIZERS

Agriculture confidence level

In the first quarter of 2023, the agriculture confidence index (IRGAGR) fell by 2.3 points quarter on quarter, to -23.1 points. The sentiment slump in agriculture can be attributed to its seasonality, but it has exacerbated unfavourable conditions prevailing in the Polish agricultural sector for almost two years now. Findings of the surveys carried out in January and February indicate a possibility that the downtrend may be reversed. Since the second quarter of a year is typically a period of general upswing in agriculture, confidence levels are expected to improve.

In the first three months of 2023, the prices of basic agricultural produce in Poland were lower than in the fourth quarter of 2022. The average prices of milling wheat, milling rye, maize and rapeseed were PLN 1,328/tonne, down 14% quarter on quarter; PLN 1,035/tonne, down 15% quarter on quarter; PLN 1,277/tonne, down 9% quarter on quarter; and PLN 2,691/tonne, down 13% quarter on quarter, respectively. Relative to the same period of the previous year, when prices rose sharply in the wake of Russia's armed aggression against Ukraine, the average price of milling wheat in the first three months of 2023 was 2% lower. More significant price declines were seen in the case of milling rye (-9% year on year) and rapeseed (-20% year on year), while maize was the only exception as its prices grew 13% year on year.

With Russia's ongoing aggression against Ukraine, situation on the cereals market remains dynamic, its impact felt most acutely in neighbouring countries, affecting both the supply and prices. Higher volumes of agricultural produce have pushed down its prices, giving rise to concerns among farmers in countries neighbouring with Ukraine. For this reason, in March 2023 the EU decided to allocate EUR 56m to compensation payments for three countries, i.e., Romania, Bulgaria and Poland, of which Poland's share is close to EUR 30m. According to the EC, farmers are to receive the funds by September 30th.

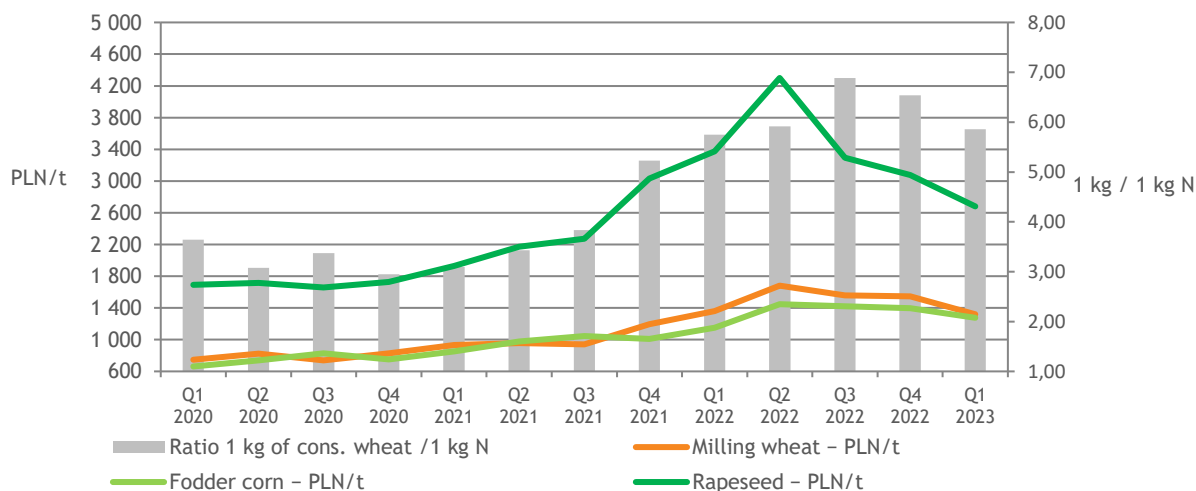
Direct and area payments under the Rural Development Programme will be made until June 30th 2023 as part of the 2022 campaign. From March 15th onwards, farmers can apply for direct and area payments under the second pillar of the Common Agricultural Policy (CAP) for 2023. Applications will be accepted for the first time under the Strategic Plan for the CAP 2023-2027. In 2023, the basic payment in Poland will be EUR 116/ha, i.e., EUR 9 more than the year before.

According to the EC (data published in late March 2023), grain harvest forecasts for Poland in the 2022/2023 season indicate that output may increase to 13.38 million tonnes in the case of wheat (up 10.4% season on season) and 8.27 million tonnes in the case of maize (up 10.8% season on season). The output of barley is expected to decrease to 2.82 million tonnes (down 6.5%). In the 2023/2024 season, the output of wheat and barley is projected to increase by 0.6% and 23.7%, respectively, with a 11.1% drop in maize production. If that is the case, the total output of all cereals would be 0.48 million tonnes higher than in the 2022/2023 season (an increase of 1.4%).

In the case of the European Union, the EC expects to see a season-on-season decline in the output of wheat and maize, with an increase in barley production. The overall crop yield volumes in the 2022/2023 season will be largely affected by an expected massive decline in the production of maize (down 28.9% season on season) and wheat (down 2.4% season on season). The output of barley will increase by 0.1% season on season. The dramatic drop in maize production will mainly be due to droughts that have impacted most of the EU territory, including the largest maize producers. The coming 2023/2024 season is expected to see an increase in wheat, maize and barley production volumes of 3.9%, 24.9% and 5.2%, respectively (up by a total of 8.4% on the current season).

In addition to macroeconomic factors and weather conditions, situation in the agricultural sector will continue to be affected mainly by developments in Ukraine and the prospect of continuing grain supplies from Ukraine to global markets, which will impact both the overall grain balance and prices.

Prices of wheat, maize and rapeseed



Source: Company data.

Market of nitrogen fertilizers

In the first quarter of 2023, demand for fertilizers improved only slightly despite resumed fertilizer production in Europe and a strong rebound in supply, prompting price cuts which were additionally supported by a downward trend in the urea market. The level of demand for nitrate fertilizers, typical for this season of a year, was dampened by high stock levels at customers and urea-based fertilizers which, as a cheaper alternative, enjoyed more popularity with end users. The unfavourable situation was further aggravated by wintry and rainy weather, hardly conducive to farming activity or field work. This affected demand, which was limited to spot purchases.

In the reporting period, the prices of nitrate products on the reviewed markets fell quarter on quarter. The sharpest decline (by 39%, to USD 314/tonne) was seen in the case of 32% UAN (FOB Black Sea). The price of 33.5% AN on the French market went down by 31.4%, to EUR 530/tonne DEL, while the price of 27% CAN on the German market fell to EUR 435/tonne CIF Inland (down by 32.2% quarter on quarter). Year-on-year, price declines were even steeper.

According to available forecasts, the prices of nitrate fertilizers are beginning to fall in line with a long-running trend as the application period draws to a close. However, these changes should not be as dynamic as those observed in previous periods.

Urea

In the first quarter of 2023, the average urea price (FOB Baltic) was USD 325/tonne, down 53.1% year on year and 37% quarter on quarter.

The urea market in most regions slowed down at the beginning of 2023. Buyers were holding off on purchases for fear of paying excessive prices. Although urea prices on several markets were close to two-year lows, in January there was no demand from any region. The urea market focused on India, which in February announced a tender for the purchase of urea with delivery by June 1st. Unfortunately, the market sentiment worsened on the prolonged dispatch time. India did purchase 1.1 million tonnes of urea, but this did not help stabilise the already oversupplied market. Exports from China discontinued in the reporting period. In the United States, spring demand was suppressed by wintry weather. At the end of the first quarter, demand for urea was low, the market continued to be oversupplied, and buyers anticipated further price declines.

In January, the cost of natural gas in Europe declined and production slowly increased, to 70% of the capacity. In the first quarter of 2023, both imported and locally produced urea was available on the European market. However, customers purchased urea only to satisfy their current needs and enquired about small batches. Buyers were waiting in expectation. Adverse weather conditions and anticipation of lower prices in April prompted customers to reduce their purchases to a bare minimum.

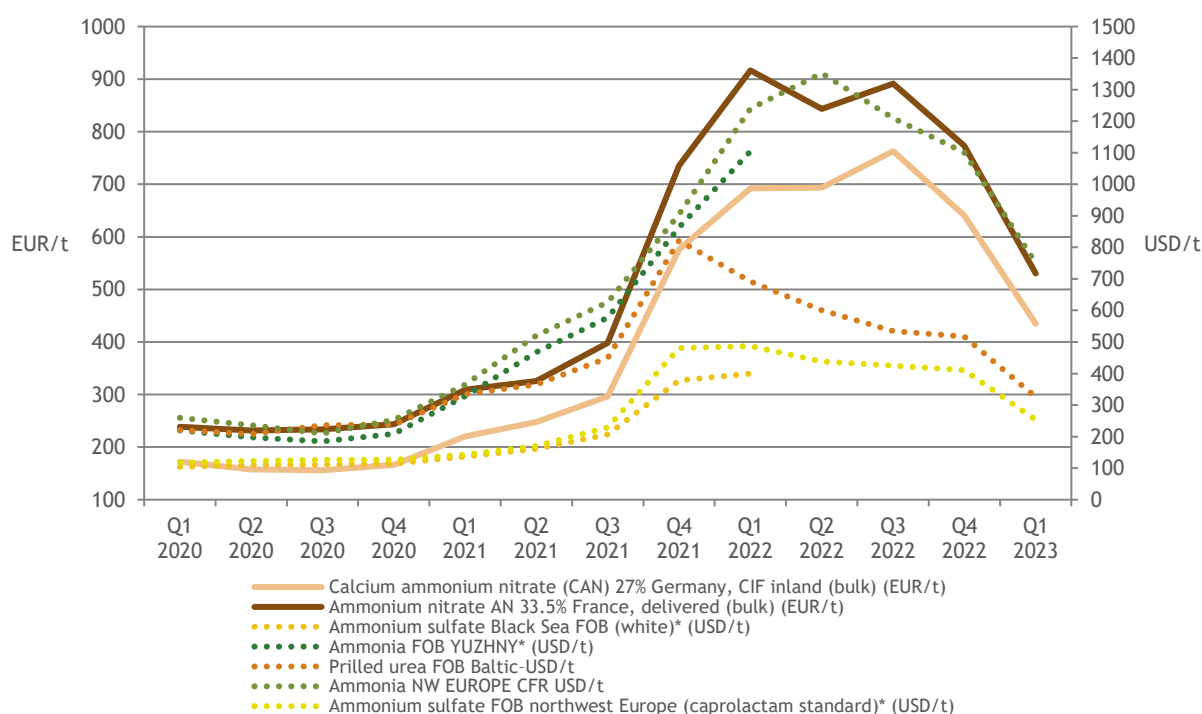
Ammonia

In the first quarter of 2023, the prices of ammonia were much lower than a year earlier. The average price of ammonia (NW Europe) was USD 751/tonne, down 39.4% year on year and 31.7% quarter on quarter.

Few spot contracts were concluded on the global ammonia market at the beginning of 2023, with a slowdown trend persisting throughout the first quarter. Continuing low demand, high supply and lower production costs were putting pressure on prices. Some activity was only seen in contractual supplies. A significant drop in the contract price of ammonia on the Tampa market in February (down USD 185/tonne) and March (down by another USD 200/tonne) on account of poor demand affected all markets, including Europe, Trinidad and Morocco. Price declines were also observed in the Persian Gulf region.

The middle of the quarter saw a plunge in ammonia imports into Europe. In February, the costs of ammonia production ranged between USD 520 and USD 565/tonne. Production of ammonia was reduced due to low demand and high levels of supply in the region. Demand for fertilizers and chemicals remained subdued throughout the reporting period. It is no longer the gas price, but rather the demand and supply situation, that is determining price levels. In the United States, direct application of ammonia was discontinued due to unfavourable wintry weather, which suppressed demand until the end of the reporting period. The demand will remain low until field work resumes.

Prices of nitrogen fertilizers (urea, CAN, AN, AS,) and ammonia



* Ammonia FOB YUZHNY, ammonium sulfate Black Sea FOB, no quotations available since March 2022 due to the situation in Ukraine; the quarterly average for the first quarter based on January and February.

Source: Company data.

Market of compound fertilizers

In the first quarter of 2023, the average NPK 3x16 price benchmark was USD 540/tonne FOB Baltic/Black Sea, down 2% quarter on quarter and 12% year on year.

Negative sentiment around NPK fertilizers was caused by weak demand. The prices were under pressure due to conservative approach of potential buyers, who refrained from making purchases in anticipation of declining prices following a drop in the prices of other fertilizer products. Low liquidity helped avoid a stronger reduction of the benchmark. According to market analysts, in Europe demand was focused on simple nitrogen fertilizers.

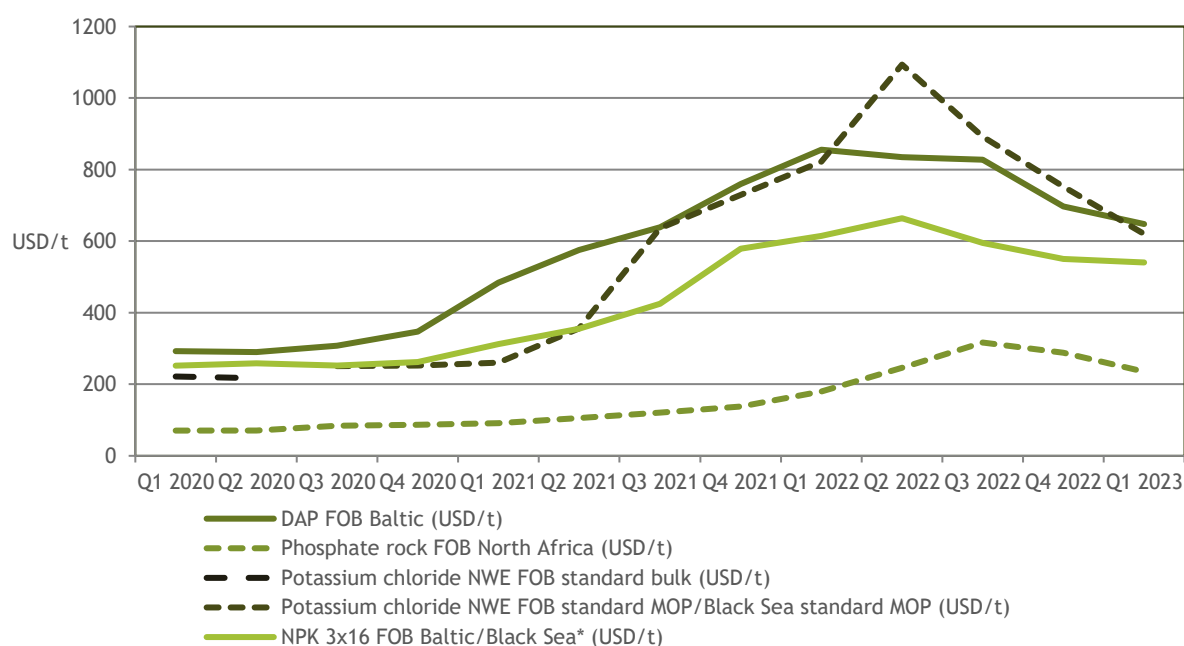
In the first quarter of 2023, the average biammonium phosphate (DAP) price benchmark was approximately USD 650/tonne FOB Baltic, down 7% quarter on quarter and 24% year on year.

India was the world's capital city of trade in phosphate fertilizers. Because of weak demand, purchasing activity was relatively low and centred around a few key locations. Global suppliers gradually reduced their prices driven by unfavourable market conditions and a persistent shortage of demand.

European buyers kept waiting, with poor demand reflected in steadily falling prices across the region. Additionally, in the second part of the first quarter, the weather in some European countries did not encourage field activity.

The decision of China, one of the key market players, to uphold its restrictive export policy for phosphates was especially important for foreign supply constraints.

Prices of compound fertilizers (DAP, NPK), potassium chloride and phosphate rock



* NPK 3x16 - since January 2022, change of the source of quotations and delivery basis to FOB Baltic/Black Sea.

Source: Company data.

Phosphate rock

In the first quarter of 2023, the average phosphate rock price benchmark (FOB North Africa) was down 18% quarter on quarter and up 31% year on year. The price benchmark of phosphoric acid in Western Europe decreased by 5% quarter on quarter and 16% year on year.

The phosphate and NPK fertilizers market was weakening at the beginning of the year, with prices following downward trends. A shortage of demand in Europe was an important issue for local manufacturers of phosphate fertilizers, especially due to the high prices of production inputs, i.e., phosphate rock and phosphoric acid.

In Morocco (the leading exporter of phosphate rock), the price of phosphate rock increased despite lower prices of DAP fertilizers, with which it is usually correlated. Concurrently, the prices of phosphate rock from other sources went down as expected, by a few/more than ten USD/tonne quarter on quarter. Phosphate rock from Morocco has always been priced higher than phosphorite supplies from other countries in North Africa, i.e., Algeria, Tunisia and Egypt, but the current price gap is so large that it disrupts the market of raw materials used in the production of phosphate fertilizers.

Potassium chloride

In the first quarter of 2023, the price of potassium chloride in Brazil, the world's largest importer of the product, gradually declined, supported by increased supplies from Belarus, which were cheaper than potassium chloride offered by other producers. The price benchmark in Brazil was below the contract prices for 2022 in India and China - the key Asian customers. This was an abnormal situation, sending a signal for both countries to negotiate lower prices for the 2023 contracts.

As the prices of potassium chloride kept falling, conclusion of those negotiations was delayed. Participants of the market, viewing those contracts as an indicator of its current condition, awaited their conclusion, which further limited trading activity.

Gradual price cuts were also seen in Western Europe. However, in the first three months of 2023, the world's highest prices were paid for potassium chloride in Europe, so regional market participants postponed purchasing larger volumes of the product in expectation of further price drops.

Supplies from Belarus gradually improved due to the establishment of new logistics channels using Russian maritime and land transport infrastructure. A UN committee recommended that the Lithuanian government review its decision to ban the transit of Belarusian potassium chloride and fertilizers. In the past, the port of Klaipėda was the main export point for Belarusian potash. Prior to the outbreak of the military conflict in Ukraine, Russia and Belarus had an approximately 40% share of the potassium chloride market.

PLASTICS

Polyamide 6 chain

During the first quarter of 2023, the European market was affected by the unstable geopolitical situation, challenging economic conditions, fears of a global recession, and changes in consumers' buying sentiment due to high inflation.

The European contract prices of benzene rose in January and February, to fall off slightly in March. On the European market demand from the local processing industry was low, with prices driven mainly by demand from the US market.

In the first quarter, the European phenol market continued to be affected by lukewarm demand from derivative product sectors. Lower energy costs, especially compared with their soaring levels in 2022, did not translate into improved demand for phenol. Some downstream markets, including BPA (bisphenol A) with derivatives and the polyamide chain, were additionally under the pressure of imports from outside of Europe. In view of the macroeconomic challenges, both producers and processors maintained reduced capacity utilisation rates. A key European producer did not resume phenol/acetone production at one location after a maintenance shutdown between the third and fourth quarters of 2022.

In the first quarter of 2023, the average quarterly contract price of benzene (CIF NWE) in Europe fell 13%, while that of phenol rose 1% (FD NWE) year on year. Compared with the fourth quarter of 2022, the quarterly prices of benzene and phenol went up 13% and 1%, respectively.

The PA6 product chain market is strongly correlated with economic cycles. During the reporting period, market conditions across the entire product segment were shaped by demand and supply factors, with the European market exhibiting very weak demand for both CPL and PA6 as well as a price decline reflecting lower energy costs, overcapacity on the polyamides market and pressure from buyers. In the period under review, the average European contract price of liquid caprolactam (Liq. DDP WE) fell by 10% year on year and 15% quarter on quarter, while the average quarterly contract price of caprolactam on the broad Asian market (CFR NE Asia) went down 20% year on year and 3% quarter on quarter.

Year on year the quarterly average price of polyamide 6 in Europe (Engineering Resin Virgin DDP, WE) was down 7%, and 14% relative to the fourth quarter of 2022.

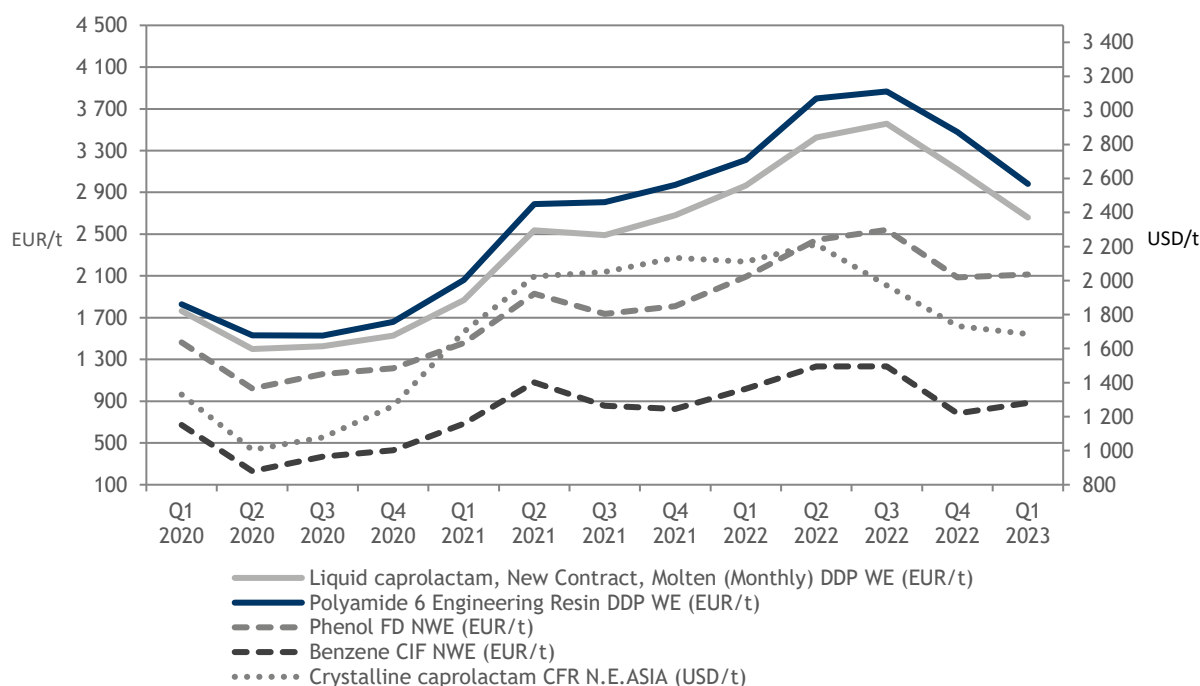
The supply of CPL in Europe was still limited as the market remained balanced due to very subdued demand for PA6 products. In the case of CPL, the combined effect of the recent wave of both permanent and temporary plant closures and scheduled maintenance shutdowns was one of the lowest average operating rates seen in recent years. Two producers decided to temporarily shut down their CPL lines in the face of unfavourable market conditions. Force majeure declared in the previous year was maintained by one producer, while another one engaged in scheduled maintenance work. A key producer announced plans to permanently close down one of its CPL plants in Europe.

Despite these constraints on the supply side, the market remained well supplied. Low demand from polymer producers and the lack of export markets where CPL could be sold prompted an adjustment of operating rates to the regional requirements.

Situation on the European PA6 market was very tough over the reporting period. Soft demand was a consequence of continued high costs (albeit lower than those prevailing in the second half of 2022), management of stocks, low demand for finished goods amid the inflationary headwinds and lack of customer confidence in the future. Imports of cheaper PA6 chain products, especially from Asia, further eroded demand for PA6 and CPL.

The PA6 market was well supplied and balanced thanks to reduced operating rates, adjusted to existing demand. One of the European producers maintained the state of force majeure for PA6 declared in the previous year. Early in the quarter, the volume of PA6 orders grew slightly as stocks were being replenished following extensive sellout over the last months of the previous year. At the end of the period positive signals came from the automotive industry, but they were not reflected in any noticeable increase in demand. According to industry data, demand for new passenger cars in the EU increased by more than 10% over the reporting period, but was still below the pre-pandemic level of 2019.

Prices of PA6, caprolactam, benzene and phenol



Source: Company data.

In the months to come, the main factor determining the prices of PA6 chain products will include the demand and supply forces on the applications markets, which in turn will be driven by macroeconomic conditions and the prices of petrochemical feedstocks.

The short-term market sentiment is weak with mixed demand prospects, depending on the downstream sector. In the second quarter, a slow but steady pick-up in demand from the automotive sector is expected, but an improvement is unlikely to be seen earlier than the late third quarter.

Lower energy prices, if they stay at current levels, should bolster the competitiveness of European producers, which could also, to some extent, stimulate the downstream markets. Production costs in Europe remain much higher than in the US or China.

CHEMICALS

OXO product chain

In the first quarter of 2023, the prices of OXO alcohols were down year on year, both in the case of 2-EH and n-Butanol. The prices of isobutanol, on the other hand, were higher compared with the same period last year. The prices of OXO alcohols were reduced to reflect lower prices of the key feedstock (propylene) and natural gas as the energy carrier, as well as adequate product supply relative to limited demand. The market availability of OXO alcohols remained good, although European producers, prompted by the weakening demand, decided to cut down production and reduce stocks. Demand over the reporting period remained very subdued. This was the case for most industries, including those that proved resilient to declines in the fourth quarter of 2022. Buyers sought to reduce their stocks of finished goods, making purchases of raw materials, if any, on a short term basis, in step with incoming orders for their own products. The buyers expected further reductions in raw material prices. Consumer sentiment and economic indicators deteriorated in the face of high inflation, further aggravating the poor demand situation. Due to a significant price difference and lower demand in Asia, exports of OXO alcohols from Europe, save for contractual deliveries, were practically non-existent.

In the first quarter of 2023, the prices of all plasticizer products under monitoring fell year on year. The decline in the prices of plasticizers was attributable to lower prices of propylene and natural gas, and, especially in the case of DOTP, strong product supply relative to limited demand. The market availability of DOTP remained very good, although European producers, prompted by the weakening demand, decided to cut down production and reduce stocks. The European market was dominated by much cheaper products of Korean and Turkish origin, manufactured using cheaper raw materials from Asia and shipped to Europe under conditions of steeply falling logistics rates. Demand remained low throughout the period across all markets, including Asia, which also contributed to an increase in plasticizer exports to Europe. The strongest decline in demand was recorded among plastic granules producers, while the least affected group were the manufacturers of floor coverings, which, however, reduced purchases of additional volumes outside of existing contracts. Most buyers sought to reduce or not to increase their stocks of finished goods, making purchases of raw materials, if any, on a short term basis,

in step with incoming orders for their own products. The buyers expected further reductions in raw material prices. Consumer sentiment and economic indicators deteriorated in the face of high inflation, further aggravating the poor demand situation. A decrease in the number of new housing loans granted in the reporting period will ultimately have an adverse effect on the production of floor coverings, dampening demand for plasticizers.

Propylene

In the first quarter of 2023, the contract prices of propylene were down year on year, their change mainly attributable to lower crude oil prices. In terms of supply and demand, the propylene market was oversupplied in the reporting period. Despite production cuts, the availability of propylene remained adequate, fully covering limited demand. Demand for propylene remained subdued during the period, mainly from polyolefins producers, the largest consumer industry. Weak demand and production cuts were also seen in the case of other industries, including chemicals.

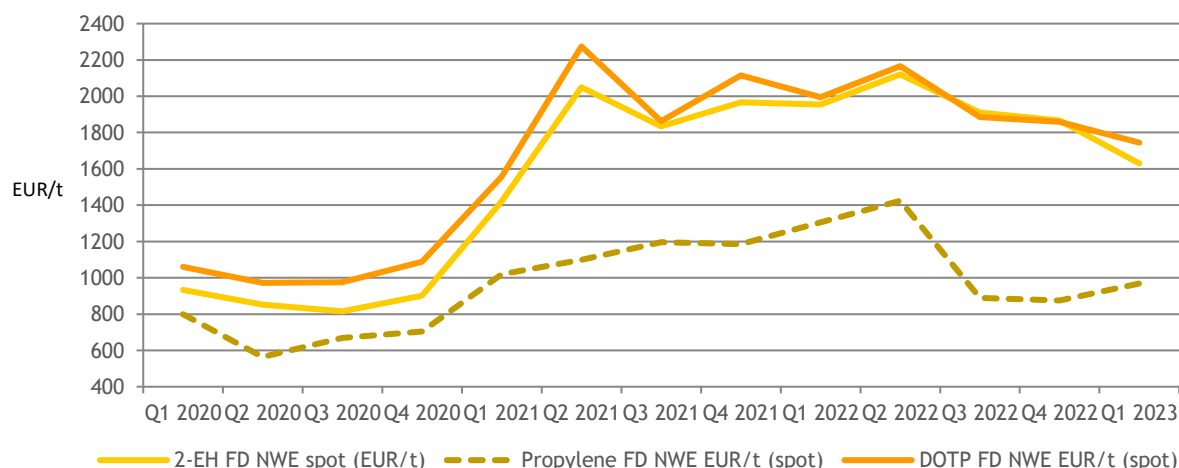
Terephthalic acid

In the first quarter of 2023, the contract prices of PTA were lower than in the same quarter of 2022. The price of the main feedstock for PTA production, i.e. paraxylene, rose year on year in the reporting period. The drop in PTA prices in the quarter under review resulted from supply and demand factors. Despite production cuts, the availability of PTA on the European market remained adequate, fully covering limited demand, and a cheaper product imported from Asia was also available. During the reporting period, demand for PTA remained low across all processing segments. Producers expect a seasonal increase in buyer activity, mainly among PET bottle manufacturers.

Crude oil

In the first quarter of 2023, the prices of crude oil were down year on year, staying on a downward trend. Factors contributing to their change included investor sentiment, which could be traced back to weakening optimism as to the scale of Chinese demand for crude oil, aggravated by announced production cuts. Strong declines were recorded driven by the bankruptcy of several US banks, sustained by uncertainty surrounding the sector. Finally, at the end of March, with an improvement of investor sentiment, diminishing risk associated with the banking sector and reduction of crude oil exports from Turkey, the prices of crude oil returned to a growth path. In the reporting quarter, demand for the commodity remained lower than the year before. Demand for crude oil will likely go up later in the year, and is even expected to exceed supply, which would result in a supply deficit on the global oil markets, deepening throughout 2023.

Prices of 2-EH, DOTP and propylene



Source: Company data.

Sulfur

In the first quarter of 2023, the average sulfur price benchmark was USD 124/tonne FOB Vancouver, down 15% quarter on quarter and 62% year on year. For Delivered Benelux liquid sulfur, settled on the basis of quarterly contracts, the average price was USD 134/tonne, up 10% quarter on quarter and down 53% year on year.

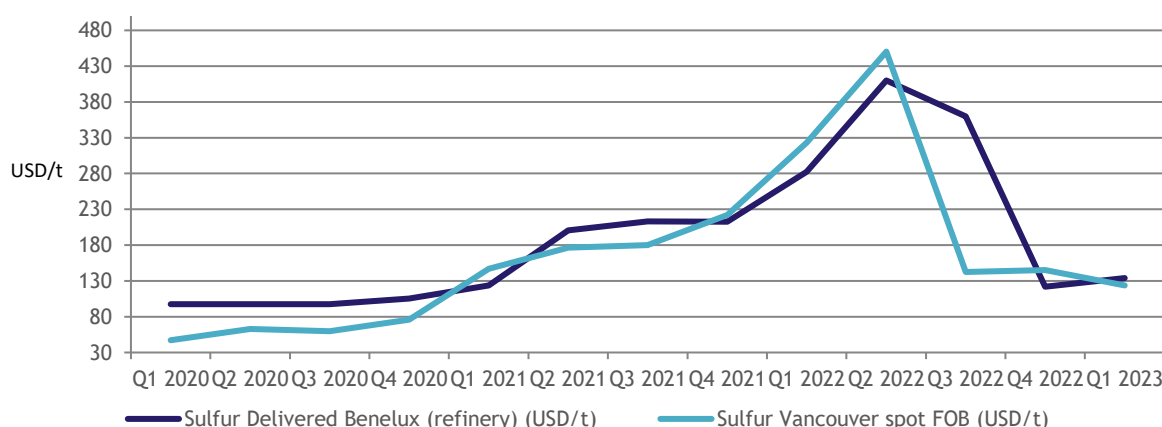
In the first part of the quarter, demand for sulfur was subdued, gradually driving down its spot prices. Between mid-February and mid-March, the trend reversed and the prices of prilled sulfur supplied to China rose by several USD/tonne, supported by an anticipated increase in the production of phosphate fertilizers destined for that market. The last weeks of the quarter witnessed the return of a downward trend, which more than offset the

earlier increases. Finally, Chinese import prices settled at USD 130/tonne CFR. During the period, the Vancouver sulfur price was strongly correlated with the Chinese benchmark, ultimately falling to slightly more than USD 100/tonne FOB. The sentiment reversal was largely due to a deterioration of the global macroeconomic climate and a weaker position of the fertilizer markets.

In the Middle East, the prices of sulfur under monthly contracts for January and February were considerably reduced, to USD 125/tonne FOB. Prices under contracts for March rebounded slightly, to USD 135/tonne FOB.

In the reporting quarter, overhaul and maintenance work was carried out at some refineries in Western Europe. The resulting shutdowns and production cuts, coupled with worker strikes in France, led to a corresponding tightening of supply on the local market for liquid sulfur. However, softer demand from Western Europe during the period helped maintain the regional market in balance.

Sulfur prices



Source: Company data.

Pigment chain

Titanium white

In the first quarter of 2023, the prices of titanium white ranged from EUR 3,300 to EUR 3,600/tonne FD NWE. The average price of titanium white in Europe was up 3% year on year and down 3% quarter on quarter. Demand for TiO₂ in Europe remained weak due to macroeconomic headwinds, albeit slightly better than expected, while supply was more than sufficient, thanks partly to import sources. Buyers were actively encouraged by TiO₂ producers to provide their demand forecasts so that could closely align output and supply with the actual needs. The steepest decrease in demand, of the order of 30% year on year, was recorded from the paints and coatings sector, in particular the construction and DIY segments. The constraints were not only due to the low season, but also to the rising interest rates and costs of financing new investments, including housebuilding projects, combined with high inflation causing a decline in DIY expenditure.

On the European market, contract prices for the first three months of 2023 fell for the second straight quarter, driven down by limited demand due to macroeconomic reasons and by cheap, very competitively priced titanium white imported from China. In some cases though, prices remained unchanged on account of production costs and margins, as well as depleted TiO₂ stocks following a significant decrease in production during the fourth quarter of 2022.

After an increase was announced in Chinese export prices of titanium white by USD 100-150/tonne, players remained strongly focused on China and the extent to which the price increases for new deliveries would be accepted, but even with those increases, the price gap was significant enough for the Chinese export prices under spot contracts to retain a competitive advantage over the European product.

The majority of titanium white producers reported a marked deterioration of their operating performance in the fourth quarter of 2022, caused by a decline in demand leading to a decline in sales volumes combined with growing production costs.

Following significant reductions in capacity utilisation rates on TiO₂ facilities in Europe during the last quarter of 2022, most of them were restarted in the reporting quarter to replenish stocks ahead of the high season. When one producer announced it would probably close down two plants due to waste landfilling issues and poor profitability, some buyers started to look for alternative sources of supply. The situation sparked some concerns on the market that Europe would be excessively exposed to Chinese supplies after the plants' closure, which could destabilise supply and prices, especially in the event of crises like those seen in the past, when supply

chains and logistics had been severely disrupted. In addition, it could expose Europe to increased volatility and risks due to geopolitical reasons and the more unstable, opportunistic nature of the Chinese market.

At the end of the period under review, discussions began concerning contracts for the following quarter. The tough macroeconomic environment, loss of profits by TiO₂ producers and concerns that the situation would persist remained the main focus of such discussions. Other relevant factors may include a possible plant closure considered by one of the European producers and the impact of such decision on local supply, the still shaky demand with little or no signs of a seasonal recovery, the interesting but less competitive spot prices in China, and the risk of potentially growing dependence on China. Interest in securing supplies for companies amid the fragile macroeconomic climate may provide some room for price compromise.

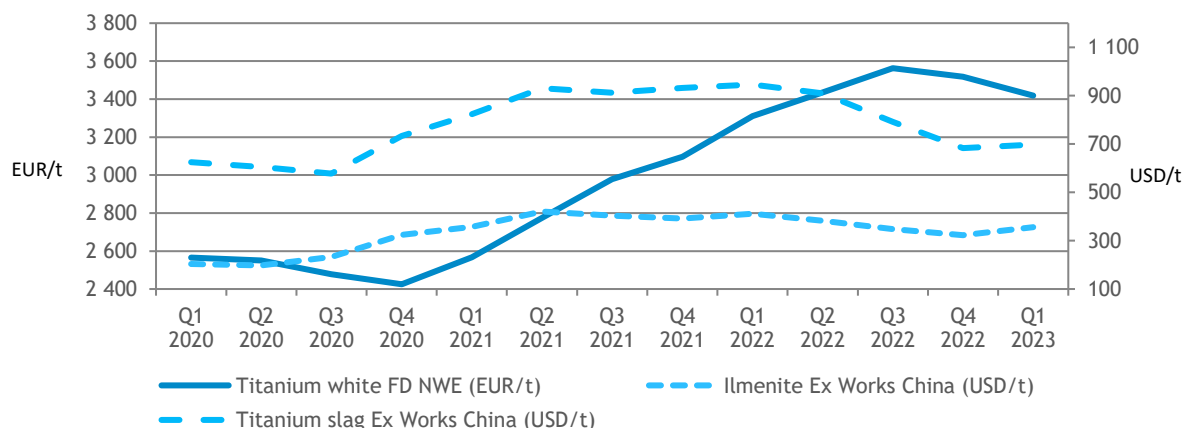
Fundamental factors on the European market suggest a rollover or a slight reduction in prices, all the more so that - despite an increase in Chinese export prices under spot contracts in the first weeks of the second quarter - they remain competitive in relation to the European product.

There is still considerable uncertainty over the scale of a seasonal recovery this year in the context of the volatile macroeconomic climate. While demand from the downstream construction and DIY sectors is usually subject to seasonal hikes in spring, any recovery is likely to be mitigated by the macroeconomic volatility. The sales trends in the coming quarters will also largely depend on the extent of China's recovery and on whether Chinese exports will retain a competitive edge over European supplies.

Other products

Iron sulfate is a by-product of titanium white and steel production. In early 2023, producers using iron sulfate bought only small volumes, which was due to cement plant stoppages caused by seasonally lower demand for end products from these industries. Market trends also showed a lower level of investments additionally driving down demand, as observed on the Polish market and in Germany, France, and Italy. Producers expect to see a positive upward trend in the coming months, but ultimately demand will depend on a number of factors, including the weather, the scale of sulfate imports from China, the investment levels and improvement of the macroeconomic climate.

Prices of titanium white, ilmenite and titanium slag



Source: Company data.

Ilmenite and titanium slag

Due to a decline in demand for titanium white, the prices of titanium-bearing minerals stopped growing in mid-2022, but they still remain high. The prices of ilmenite available in Europe, used to produce titanium white by the sulfate method, rose by 13% year on year in the first quarter of 2023 but declined by 4% quarter on quarter. Prices of titanium-bearing minerals in China declined from record-high levels, due mainly to the market downturn. The Chinese construction market is seeing a deep slowdown, exacerbated by problems in the property development market and COVID-19-induced lockdowns in major cities during the fourth quarter of 2022. The lifting of restrictions in the first quarter of 2023 stimulated activity in the Chinese titanium white segment, but it may take some time for the demand to normalise.

The average prices of Chinese ilmenite in the first three months of 2023 decreased by 14% year on year and increased by 10% quarter on quarter. The prices of titanium slag available in Europe, used to produce titanium white by the sulfate method, increased by 12% quarter on quarter, while the prices of titanium slag in China went down by 26% year on year and up by 2% quarter on quarter. The prices of Chinese titanium-bearing minerals again approached the global price level, which, combined with relatively lower energy and gas costs, is keeping the Chinese products highly competitive.

Until situation on the global titanium white market improves, demand for titanium-bearing minerals will be suppressed by manufacturers' decisions to cut down production of titanium white. If the situation persists, a

certain reduction or stabilisation of raw material prices can be expected over the coming months in Europe, while the raw material prices in China should follow the global trend.

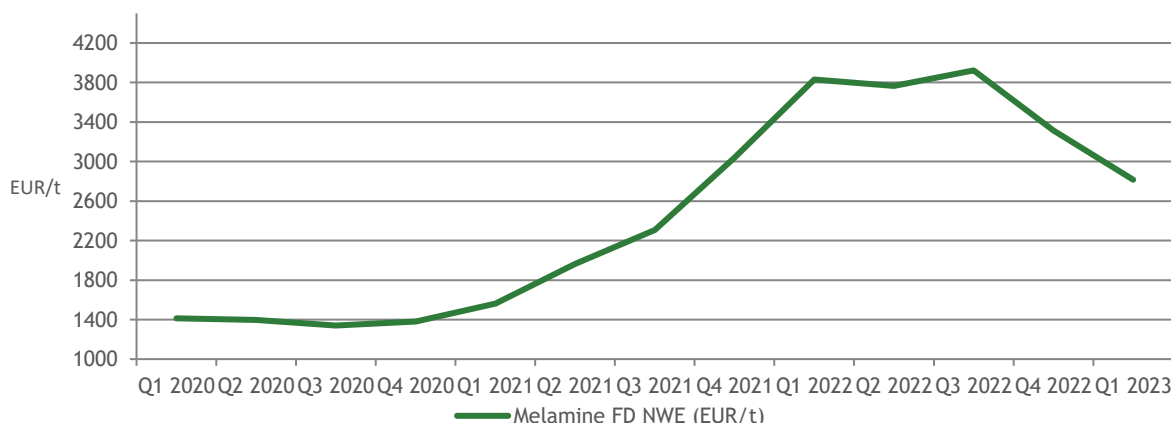
Melamine

Situation on the European market remained tough throughout the period under review. Operating rates in Europe were squeezed down by low demand. Reduced supply covered lower demand amid continuing producer concerns over cheaper imports, which affected demand for locally produced melamine. The challenging situation on the European market resulted in production cuts or temporary stoppages. BASF was also reported to consider ceasing its melamine production altogether due to high operating costs.

In view of the unstable macroeconomic and market situation, contract prices were still set by market participants on a monthly basis and, at the end of the first quarter of 2023, were set retrospectively, reflecting a three-month accumulation of changes in contracts that could be confirmed. In the end, the contract price of melamine in the first quarter of 2023 averaged EUR 2,815/tonne FD NWE (down 26.5% year on year and 15% quarter on quarter). Since there was no demand for melamine from European producers on the spot market the difference between spot prices and contract prices narrowed considerably. While in December 2022 the price spread was as much as EUR 1,665/tonne, at the end of March it shrank to approximately EUR 1,000/tonne.

The uncertain macroeconomic data and outlook for the coming months are sending mixed signals for the melamine market. The second quarter is usually the peak season for melamine, so the demand may pick up, although there is no hard data available right now to confirm that prediction.

Prices of melamine



Source: Company data.

ENERGY

Natural gas

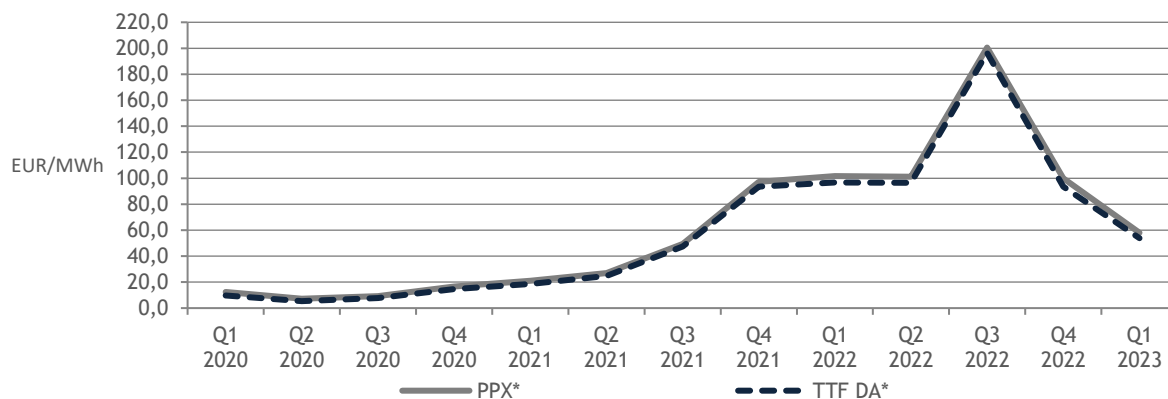
After a sharp decline in natural gas prices from EUR 140/MWh in mid-December 2022 to approximately EUR 65/MWh at the turn of the year, gas prices on the spot market, showing heavy daily fluctuations, declined steadily until mid-March, with two major corrections at the end of the first and second decades of January. The first correction was triggered by news of a delay in the launch of Freeport LNG in the US following a failure in June, while the second one was caused by a brief cold wave and decline in deliveries via Ukraine when buyers found it cheaper to purchase gas on the spot market than under a Russian long-term contract. Temperatures in most NWE (North-West Europe) countries remained generally above the seasonal average in the period. Wind generation, supplanting gas-fired generation in the energy mix, was also well above the seasonal average. On the other hand, stable pipeline supplies and strong LNG deliveries coupled with low demand resulted in continued record-high fill levels at storage facilities.

After a short-lived correction in mid-March with prices going up by EUR 10/MWh following reports of nuclear power issues in France and worker strikes at French regasification terminals, the prices dropped to EUR 43/MWh at the end of the quarter. The further price reduction was due to the same factors as before, i.e. high storage levels after a relatively warm winter and large LNG supply coupled with continued favourable weather conditions. This demand and supply situation enabled periodic gas injections into European storage facilities already in March. At the end of March, EU storage facilities were 55.7% full, with storage fill levels 22.5 bcm (22%) higher than the five-year average for the period. In parallel, the prices of coal plummeted down, almost by half in the first quarter, supporting a decline in gas prices. At the same time, the EU's LNG import capacities grew as new regasification facilities were placed in service. All this was accompanied by a banking sector turmoil, which shook up the global financial markets and triggered massive selloffs in many different asset classes, raising fears of a

financial crisis, which could reduce demand for energy commodities. In addition, the European Council agreed to extend the 15% gas demand reduction target for EU member states by another year.

In view of favourable weather forecasts, high stock levels, stable deliveries, and low demand, prices at European hubs should remain stable with a slow downward trend in the near future. A widening spread relative to the Asian market, with its weak demand for LNG, guarantees that free LNG supplies will be directed to the Atlantic Basin, which should strengthen the supply side and put additional pressure on gas prices.

Prices of natural gas



* Excluding transmission.

Source: Company data.

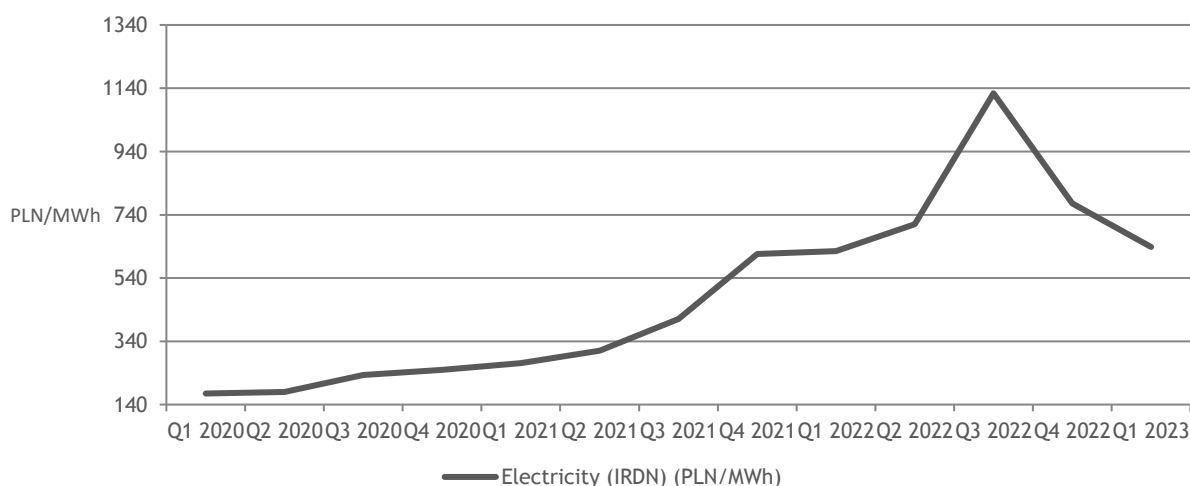
Electricity

Average electricity prices continued to fall relative to the fourth quarter of 2022, having declined by 18%. Compared with the same quarter of the previous year, the prices increased by a mere 2%. This price trend is mostly driven by legal regulations and large-scale state intervention imposing price caps in the wholesale market.

The factors which will influence electricity prices in the coming months include:

- situation in Poland and Europe related to the scale of demand for electricity;
- maintaining the marginal cost pricing mechanism in spot markets (based on variable costs of conventional power generation);
- speed of implementation of the energy market reform, including a stronger role of long-term contracts, higher renewable share targets in the energy mix, and enhanced incentives to invest in low-emission sources;
- sensitivity to developments on the CO₂ emission allowance market.

Prices of electricity



* IRDN – average price weighted by the volume of all transactions on a trading day, calculated after the delivery date for the entire day.

Source: Company data.

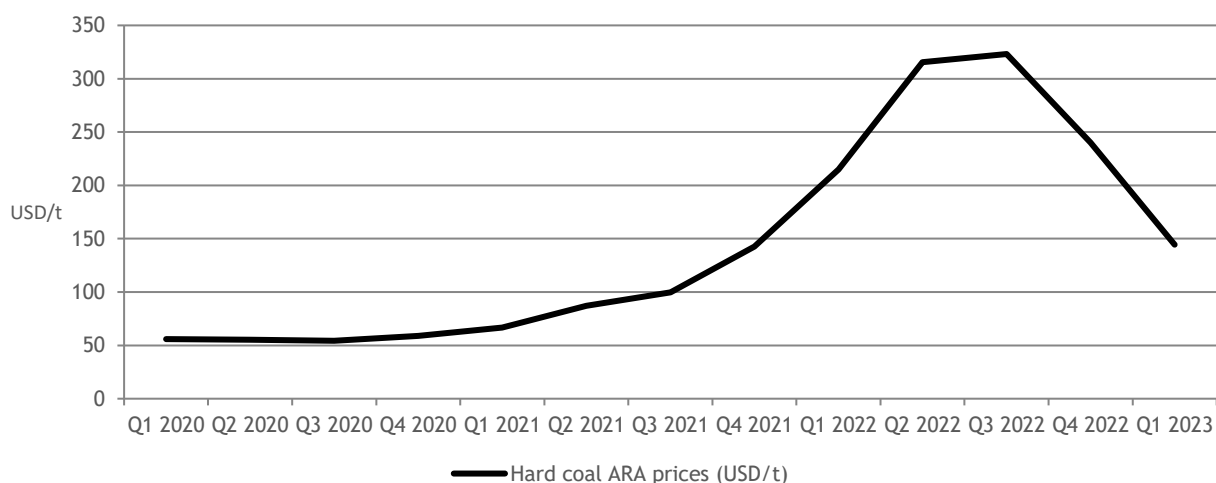
Coal

The prices of coal continued to decline in the first quarter of 2023, having gone down 33% quarter on quarter. The average price dropped by more than 40% compared with the same period of the previous year. The trend changed mostly because of the mild winter coupled with growing stock levels, which had a positive effect on the market.

In the coming months, coal prices will be driven by:

- geopolitical situation;
- declining demand for coal in Europe;
- decarbonisation regulations.

Prices of hard coal



Source: Company data.

2.3. Key financial and economic data

2.3.1. Consolidated financial information

Consolidated data

Item	Q1 2023	Q1 2022	change	% change
Revenue	3,895,453	6,827,163	(2,931,710)	(42.9)
Cost of sales	(4,203,254)	(5,155,231)	951,977	(18.5)
Gross (loss)/profit	(307,801)	1,671,932	(1,979,733)	(118.4)
Selling and distribution expenses	(252,281)	(303,003)	50,722	(16.7)
Administrative expenses	(246,244)	(213,194)	(33,050)	15.5
Gross (loss)/profit	(806,326)	1,155,735	(1,962,061)	(169.8)
Net other income/(expenses)	210,300	(590)	210,890	35,744.1
Operating (loss)/profit	(596,026)	1,155,145	(1,751,171)	(151.6)
Net finance income/(costs)	6,697	(67,814)	74,511	109.9
Share of profit of equity-accounted investees	5,929	3,451	2,478	71.8
(Loss)/profit before tax	(583,400)	1,090,782	(1,674,182)	(153.5)
Income tax	28,096	(208,412)	236,508	(113.5)
Net (loss)/profit	(555,304)	882,370	(1,437,674)	(162.9)
EBIT	(596,026)	1,155,145	(1,751,171)	(151.6)
Depreciation and amortisation	194,853	178,279	16,574	9.3
Impairment losses	252	1,344	(1,092)	(81.3)
EBITDA	(400,921)	1,334,768	(1,735,689)	(130.0)

Source: Company data.

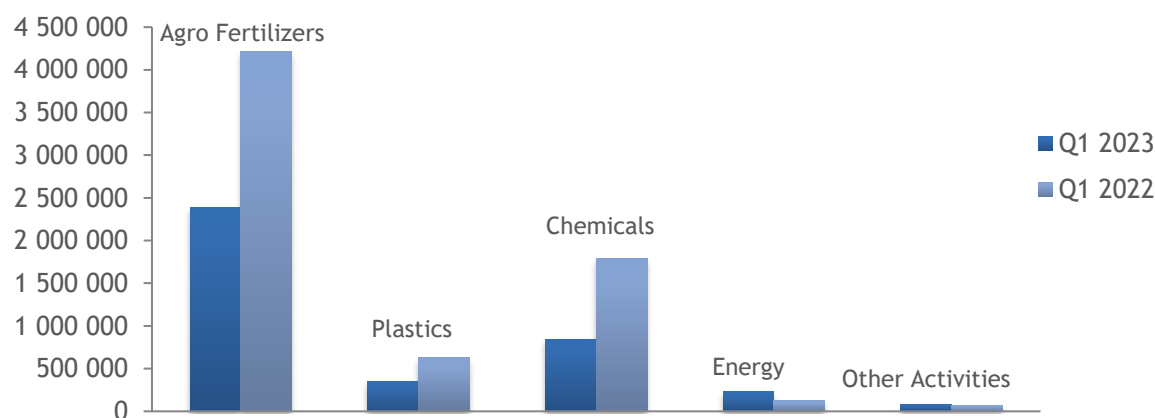
2.3.2. Segment results

EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities
External revenue	2,386,953	353,419	845,970	226,660	82,451
EBIT	(236,370)	(114,977)	(81,760)	(134,507)	(28,412)
EBITDA	(140,081)	(99,146)	(61,446)	(106,834)	6,586

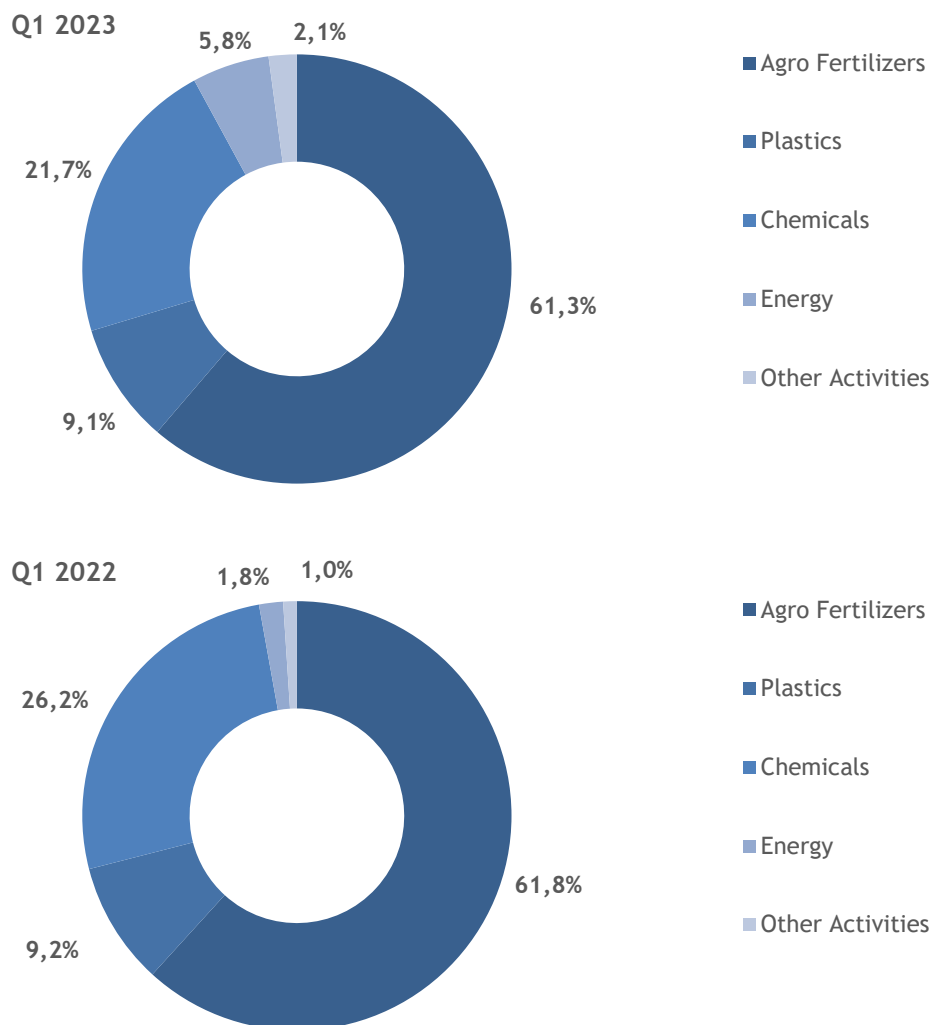
Source: Company data.

Revenue by segment



Source: Company data.

Revenue by segment



Source: Company data.

Agro Fertilizers

In the three months ended March 31st 2023, revenue in the Agro Fertilizers segment came in at PLN 2,386,953 thousand and accounted for 61.3% of the Group's total revenue. The segment's revenue shrank by 43.4% year on year, and its share in the Group's total revenue declined by 0.5 pp.

The Agro Fertilizers segment reported an EBIT loss of PLN 236,370 thousand and a negative EBITDA.

Domestic market accounted for 56% of the segment's total sales.

Plastics

In the three months ended March 31st 2023, revenue in the Plastics segment was PLN 353,419 thousand and accounted for 9.1% of the Group's total revenue. Year on year, the segment's revenue decreased by 44.0%. The segment delivered an operating loss of PLN 114,977 thousand and a negative EBITDA.

Foreign markets accounted for 83% of the segment's total revenue.

Chemicals

In the three months to March 31st 2023, revenue in the Chemicals segment amounted to PLN 845,970 thousand, having decreased 52.6% year on year. The segment's revenue accounted for 21.7% of the Group's total revenue. The segment delivered an operating loss of PLN 81,760 thousand and a negative EBITDA.

Foreign markets accounted for 53% of the segment's total sales.

Energy

In the three months ended March 31st 2023, revenue in the Energy segment was PLN 226,660 thousand and accounted for approximately 5.8% of the Group's total revenue. Year on year, the segment's revenue increased by 83.7%. The segment's EBIT was negative at PLN 134,507 thousand.

Other Activities

In the three months ended March 31st 2023, the Other Activities segment reported revenue of PLN 82,451 thousand, up 17.4% year on year, accounting for 2.1% of the Group's total revenue. The segment's operations generated a loss on sales and negative EBIT of PLN 28,412 thousand.

Structure of operating expenses

Operating expenses by nature of expense

	Q1 2023	Q1 2022	y/y change	% change
Depreciation and amortisation	193,781	177,242	16,539	9.3
Raw materials and consumables used	3,692,226	4,428,562	(736,336)	(16.6)
Services	339,031	393,092	(54,061)	(13.8)
Salaries and wages, including surcharges, and other benefits	545,856	491,883	53,973	11.0
Taxes and charges	155,745	186,505	(30,760)	(16.5)
Other	(2,125)	33,940	(36,065)	(106.3)
Total	4,924,514	5,711,224	(786,710)	(13.8)

Source: Company data.

Structure of operating expenses [%]

	Q1 2023	Q1 2022
Depreciation and amortisation	3.9	3.1
Raw materials and consumables used	75.0	77.5
Services	6.9	6.9
Salaries and wages, including surcharges, and other benefits	11.1	8.6
Taxes and charges	3.1	3.3
Other	0.0	0.6
Total	100.0	100.0

Source: Company data.

2.3.3. Assets, equity and liabilities

Structure of assets

	Q1 2023	Q1 2022	y/y change	% change
Non-current assets, including:	17,122,614	15,508,243	1,614,371	10.4
Property, plant and equipment	13,508,310	12,443,006	1,065,304	8.6
Intangible assets	961,618	1,002,844	(41,226)	(4.1)
Right-of-use assets	766,685	815,005	(48,320)	(5.9)
Other receivables	686,429	563,588	122,841	21.8
Goodwill	304,083	323,365	(19,282)	(6.0)
Current assets, including:	10,314,348	9,348,369	965,979	10.3
Inventories	3,442,348	2,409,537	1,032,811	42.9
Property rights	1,991,359	1,758,329	233,030	13.3
Trade and other receivables	4,160,731	4,469,421	(308,690)	(6.9)
Cash and cash equivalents	656,110	672,092	(15,982)	(2.4)
Total assets	27,436,962	24,856,612	2,580,350	10.4

Source: Company data.

Structure of equity and liabilities

	Q1 2023	Q1 2022	y/y change	% change
Equity	9,376,299	10,020,095	(643,796)	(6.4)
Non-current liabilities, including:	7,984,824	6,168,144	1,816,680	29.5
Borrowings	5,669,585	3,890,599	1,778,986	45.7
Other financial liabilities	681,293	642,442	38,851	6.0
Deferred tax liabilities	384,541	445,654	(61,113)	(13.7)
Employee benefit obligations	437,282	419,700	17,582	4.2
Lease liabilities	362,300	358,500	3,800	1.1
Provisions	237,589	194,417	43,172	22.2
Government grants	191,309	195,991	(4,682)	(2.4)
Current liabilities, including:	10,075,839	8,668,373	1,407,466	16.2
Trade and other payables	4,747,783	5,137,569	(389,786)	(7.6)
Other financial liabilities	2,297,305	631,991	1,665,314	263.5
Borrowings	1,043,864	1,118,132	(74,268)	(6.6)
Provisions	105,529	89,146	16,383	18.4
Government grants	1,548,175	1,336,396	211,779	15.8
Total equity and liabilities	27,436,962	24,856,612	2,580,350	10.4

Source: Company data.

2.3.4. Financial ratios

Profitability ratios [%]

	Q1 2023	Q1 2022
Gross profit margin	(7.9)	24.5
EBIT margin	(15.3)	16.9
EBITDA margin	(10.3)	19.6
Net profit margin	(14.3)	12.9
ROA	(2.0)	3.5
ROCE	(3.4)	7.1
ROE	(5.9)	8.8
Return on non-current assets	(3.2)	5.7

Source: Company data.

Ratio formulas:

Gross profit margin = gross profit (loss) / revenue (statement of comprehensive income by function)

EBIT margin = EBIT / revenue

EBITDA margin = EBITDA / revenue

Net margin = net profit (loss) / revenue

Return on assets (ROA) = net profit (loss) / total assets

Return on capital employed (ROCE) = EBIT / TALCL, that is EBIT / total assets less current liabilities

Return on equity (ROE) = net profit (loss) / equity

Return on non-current assets = net profit (loss) / non-current assets

Liquidity ratios

	Q1 2023	Q1 2022
Current ratio	1.0	1.1
Quick ratio	0.7	0.8
Cash ratio	0.1	0.1

Source: Company data.

Ratio formulas:

Current ratio = current assets / current liabilities

Quick ratio = (current assets - inventories) / current liabilities

Cash ratio = (cash + other financial assets) / current liabilities

Efficiency ratios [days]

	Q1 2023	Q1 2022
Inventory turnover	74	42
Average collection period	48	35
Average payment period	102	90
Cash conversion cycle	20	-13

Source: Company data.

Ratio formulas:

*Inventory turnover = inventories * 90 / cost of sales*

*Average collection period = trade and other receivables, excluding other items receivable related mainly to free CO2 emission allowances expected to be received, * 90 / revenue*

*Average payment period = trade and other payables * 90 / cost of sales*

Cash conversion cycle = inventory turnover + average collection period - average payment period

Debt ratios [%]

	Q1 2023	Q1 2022
Total debt ratio	65.8	59.7
Long-term debt ratio	29.1	24.8
Short-term debt ratio	36.7	34.9

	Q1 2023	Q1 2022
Equity-to-debt ratio	51.9	67.5
Interest cover ratio	(607.5)	3,609.7

Source: Company data.

Ratio formulas:

Total debt ratio = total liabilities / total assets

Long-term debt ratio = non-current liabilities / total assets

Short-term debt ratio = current liabilities / total assets

Equity-to-debt ratio = equity / current and non-current liabilities

Interest cover ratio = (profit before tax + interest expense) / interest expense

2.4. Financial liquidity

The Parent and the Group's other leading companies have remained fully solvent, with a solid credit standing. In the three months ended March 31st 2023, the Group paid all of its liabilities under borrowings and other financial liabilities when due, and there is no threat to its ability to continue regular servicing of its debt.

The liquidity management policy pursued by the Group consists in maintaining surplus cash and available credit facilities as well as limits under the intragroup financing agreement (one purpose of which is to effectively distribute funds within the Group), and in ensuring that their level is safe and adequate to the scale of the Group's business.

The Group may also defer the payment of amounts due to suppliers and service providers under the reverse factoring agreements, for a total of amount of PLN 2,870m. The Group is also able to finance its receivables from trading partners under factoring agreements executed together with the Group companies, for up to PLN 750m.

The Group monitors on an ongoing basis the impact of the war in Ukraine and the resulting extraordinary and highly volatile prices of natural gas and other energy commodities on the Group and the Group's economic environment.

As at the date of this Report, the Group did not record any material adverse impact of the war in Ukraine on its financial position.

2.5. Borrowings

In the three months ended March 31st 2023, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue regular servicing of its debt. The Group has access to umbrella limits under PLN, EUR and USD overdraft facilities linked to physical cash pooling arrangements and under a multi-purpose credit facility which may be used as directed by the Parent in accordance with changes in funding requirements of any of the Group's subsidiaries. The Group also has access to bilateral overdraft limits and multi-purpose facilities.

The aggregate amount of the Group's undrawn overdraft and multi-purpose credit facilities as at March 31st 2023 was PLN 835m. At the same time, the Group had undrawn limits under corporate credit facilities of PLN 411m, and PLN 3m in funds available under special purpose loans.

In addition, the amount of credit limits available to Grupa Azoty POLYOLEFINS under the Credit Facilities Agreement for the financing of the Polimery Police project was PLN 3,086m.

As at March 31st 2023, under the agreements specified above the Group had access to total credit limits of approximately PLN 4,335m (of which limits under Grupa Azoty POLYOLEFINS special purpose credit facilities for the financing of the Polimery Police project were PLN 3,086m, and other limits available to the Group amounted to PLN 1,249m).

The Grupa Azoty Group has a sound financial standing. However, it cannot be ruled out that a further accumulation of adverse external factors, including any extraordinary volatility of the prices of key raw materials, lower demand for the Group's products, and stoppages of some production units, may result in a temporary deterioration of its financial standing.

2.6. Type and amounts of one-off items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows

There were no other one-off items that would materially impact the Group's assets, equity and liabilities, capital, net profit/loss or cash flows.

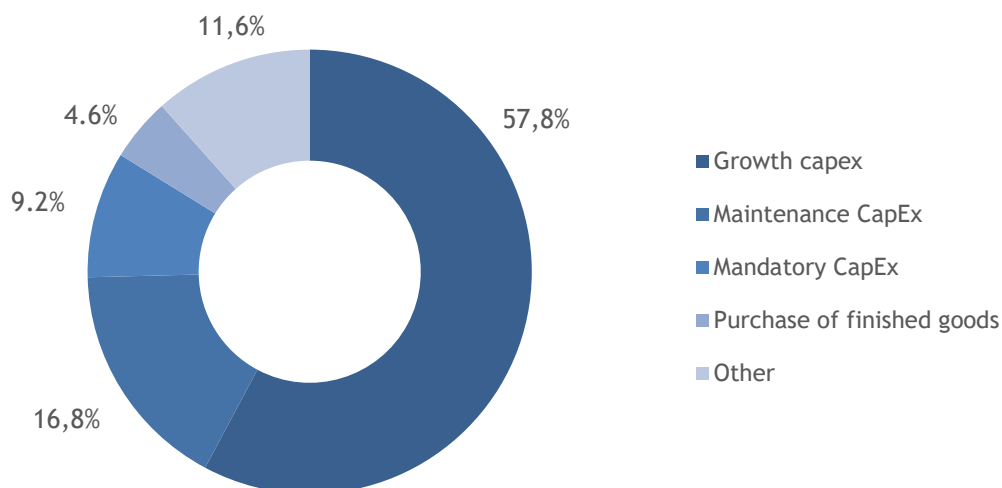
2.7. Key investment projects

In the three months ended March 31st 2023, the Group incurred expenditure of PLN 258,969 thousand to purchase intangible assets and property, plant and equipment.

Structure of capital expenditure:

• Growth CapEx	PLN 149,771 thousand
• Maintenance CapEx	PLN 43,464 thousand
• Mandatory CapEx	PLN 23,877 thousand
• Purchase of finished goods	PLN 11,800 thousand
• Other (major overhauls, components, catalysts, etc.)	PLN 30,057 thousand

Structure of Grupa Azoty Group's capital expenditure in the three months ended March 31st 2023



Source: Company data.

Below is presented Grupa Azoty Group's capital expenditure in the three months ended March 31st 2023:

• Parent	PLN 14,692 thousand
• Grupa Azoty POLYOLEFINS	PLN 108,008 thousand
• Grupa Azoty PUŁAWY Group	PLN 72,448 thousand
• Grupa Azoty KĘDZIERZYN Group	PLN 26,383 thousand
• Grupa Azoty POLICE Group	PLN 18,566 thousand
• COMPO EXPERT	PLN 5,007 thousand
• Grupa Azoty KOLTAR	PLN 4,029 thousand
• Grupa Azoty SIARKOPOL	PLN 3,258 thousand
• Grupa Azoty PKCH	PLN 2,262 thousand
• Grupa Azoty COMPOUNDING	PLN 4,274 thousand
• Grupa Azoty ATT POLYMERS	PLN 42 thousand

Key investment projects implemented by the Group as at March 31st 2023 (PLN '000)

Project name	Project budget	Expenditure incurred	Expenditure in the first quarter of 2023	Project purpose	Scheduled completion date
Parent					
Neutralisation unit (for ammonium nitrate)	210,000	5,587	982	The purpose of the project is to construct a new unit for the production of concentrated ammonium nitrate solution (neutralisation unit). The objective of the project is to ensure continuity and improve the efficiency of production of nitrate fertilizers. The project will help reduce heat consumption and contain the environmental impact of the production process, also improving cost competitiveness.	2025
Construction of a neutralisation and precipitation unit	141,000	8,594	1,427	The purpose of the project is to construct a new neutralisation and precipitation unit and upgrade the caprolactam and ammonium sulfate manufacturing process to reduce heat consumption through better use of the heat generated by neutralisation of caprolactam ester. Reduction of steam consumption will help to lower the cost of caprolactam and ammonium sulfate production and improve cost competitiveness.	2025
Grupa Azoty POLYOLEFINS					
Polimery Police	7 210 957*	4,747,883	108,008	The project is to build an on-purpose propylene dehydrogenation plant (PDH) and a polypropylene production plant with associated infrastructure, including expansion of the Police Sea Port to include a propane and ethylene handling and storage terminal.	2023
Grupa Azoty POLICE					
Making production of demineralised water independent of variable salinity of the Oder River and increasing the ability to produce special waters in the water preparation units	111,000	109,798	1,302	The upgrade and expansion of the water treatment and demineralisation station will help protect Grupa Azoty POLICE against periods of elevated salinity in the Oder River and will enable the use of the river as the only supply source. The project will also secure the supply of demineralised water to Grupa Azoty POLYOLEFINS units.	2023**
Grupa Azoty PUŁAWY					
Construction of coal-fired power generation unit	1 200 000***	1,005,861	809	Bringing Grupy Azoty PUŁAWY's energy generation units in line with the latest environmental requirements, while increasing the share of the autoproducer CHP plant in the electricity volumes consumed by the production units, and ensuring uninterrupted supplies of energy (process steam and heating water).	2023

Project name	Project budget	Expenditure incurred	Expenditure in the first quarter of 2023	Project purpose	Scheduled completion date
Upgrade of existing nitric acid production units and construction of new nitric acid production and neutralisation units and units for production of new fertilizers based on nitric acid	695,000	450,255	17,940	Increase in the efficiency of nitric acid production and the economics of production of nitric acid-based fertilizers. Any nitric acid surplus will be processed on the new line for the production of speciality fertilizers: magnesium nitrate, calcium nitrate and potassium nitrate.	2028
Upgrade of steam generator OP-215 No. 2 to reduce NO _x emissions	145,000	134,849	6,076	Bringing the generator into compliance with new NO _x emission standards and refurbishing the generator, which is to become a principal generating unit at the captive CHP plant along with generators Nos. 4 and 5.	2023
Upgrade of Urea 2 unit - reduction of ammonia consumption rates	139,396	411	394	Improvement of the energy intensity of urea production, reducing the carbon footprint of urea from Urea 2 unit and improving the competitiveness of urea by reducing the unit cost of raw materials.	2026
Grupa Azoty KĘDZIERZYN					
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	180,000	147,788	1,079	Rebuilding the synthesis gas compression capacities for the Ammonia Plant through the installation of new compressors. The project will reduce maintenance expenditure and the energy intensity of the ammonia production process and significantly lower department overheads.	2023
Peak-load/reserve boilers	110,087	73,360	9,931	The peak-load/reserve boiler house functioning as a peak-load source will interoperate with steam generators at the existing CHP plant. In the event of downtime of coal-fired boilers, the peak-load/reserve boiler house will operate as a stand-alone reserve steam generator.	2024
Purchase and installation of a new oxygen compressor	75,600	69,935	89	The objective is to replace old steam turbine driven oxygen compressors K-101 A and K-101 B with one electric compressor. The project follows the concept of innovative management of heat from ammonia production processes as an alternative to heat generation in coal-fired boilers.	2024
2-ethylhexanoic acid unit	156,000	2,886	0	Enabling the production of 20,000 tonnes of 2-EHA per year.	2026

Project name	Project budget	Expenditure incurred	Expenditure in the first quarter of 2023	Project purpose	Scheduled completion date
Upgrade of the urea production line	172,447	6,384	5	Improving consumption rates for utilities and raw materials/feedstocks, improving environmental performance of the unit and increasing daily production capacity to 780 tonnes, which will step up the production of technical-grade urea and significantly improve the overall balance of liquid ammonia and carbon dioxide.	2025

* The project budget translated into PLN at the PLN/USD mid exchange rate assumed in the project financial model. The project budget approved by corporate bodies is USD 1,837,998 thousand.

** All the project work has been completed. Settlement of the project is under way.

*** On April 24th 2023, the Supervisory Board of Grupa Azoty PULAWY, in response to the general contractor's request, endorsed the proposal to the General Meeting to increase the project's budget to PLN 1,230m and extend its completion deadline until June 3rd 2023.

Source: Company data.

2.8. Factors which will affect the Group's performance over at least the next reporting period

The global economic outlook remains negative. In 2023, GDP growth will be lower than in 2022. After China abandoned its zero-COVID policy, the chances of avoiding the worst case scenarios are higher, but the coincident and leading indicators still point to a high risk of recession in the United States and in the euro area. In the first half of 2023, also the Polish economy may enter a technical recession to begin rebounding in the third quarter.

Exchange rates

There is uncertainty in the economy and financial markets regarding future economic developments. After inflation peaked in the key economies (the US, the euro area) and favourable developments took place in raw materials, energy carriers and food markets, forecasts of a further fast decrease of CPI are becoming increasingly likely. At the same time, a full-blown energy crisis in Europe was avoided (thanks to the mild winter, among other things), so the extremely negative scenarios for the European economy could be discarded. At the end of the year, Europe's economic indicators were better than expected. Investors started to hope for a soft landing, that is avoiding recession caused by fighting inflation through monetary tightening. As a result, the market sentiment improved. The risk appetite went up, prompting an increase in stock indices and prices of more risky assets. While reports from Europe are becoming less pessimistic, the US figures, as expected, are getting worse leading to a reduced inflow of capital into the US markets. As a result, the US dollar has weakened against most currencies since the beginning of the fourth quarter of 2022.

At the same time, central banks are maintaining a relatively reserved stance (compared with the markets) concerning further inflation and monetary policy. Despite slower price increases, both the US Federal Reserve (the FED) and the European Central Bank (ECB) intend to continue monetary tightening in the second quarter of 2023, with the EBC being more hawkish in its rhetoric than the FED since the beginning of 2023. The FED has announced that interest rates will be raised to 5-5.25% and kept high over a longer period of time. The ECB has announced its intention to increase the rates by 50 basis points over several meetings. An interest rates hike to approximately 4-4.25% is expected in the euro area (refinance rate).

A reduction of projected differences in interest rates between the US and the eurozone, compounded when the problems of the US banking sector surfaced, is additionally supporting the euro against the US dollar. This is having a positive effect on the zloty, which has gained again: 4% against the euro and 5% against the US dollar since year-end.

However, the situation remains tense and there is nothing to indicate that the zloty would have much potential to follow a lasting appreciation trend. The zloty remains exposed to the risk of weakening, which is due to the continued negative real interest rate in Poland despite a lower inflation rate, the risk of non-payment of EU funds under the National Recovery Plan and the deteriorating economic conditions. The Polish currency may depreciate later during the year, also because of the growing interest rate disparity between Poland on the one side and the euro area and US on the other, being a consequence of an end to interest rate rises by the National Bank of Poland and continued tightening by the FED and the ECB.

The Grupa Azoty Group expects the exchange rate of the Polish zloty to weaken moderately in the second half of 2023, with continually strong market volatility. A slight depreciation of the zloty against the EUR or USD should not significantly affect the Group's results with regard to its planned currency exposure.

In the long term, since Poland's public debt to GDP is relatively low, household debt is limited and the banking sector is solid, further depreciation of the zloty should decelerate in 2024.

Interest rates in Poland

Since the third quarter of 2022, interest rates in Poland have remained unchanged at 6.75%. The National Bank of Poland has most likely ended the monetary policy tightening cycle. Financial markets anticipate that interest rates will remain stable until mid-2023 and that minor rate cuts may take place later on in the year. Currently, in forward interest rate contracts in Poland the 3M WIBOR rate is estimated to stabilise at approximately 7.0% over the first half of the year, to decrease to approximately 6% as at the end of 2023 and 5% in mid-2024. At the same time, given the still high inflation rate, a scenario where interest rates grow cannot be absolutely ruled out, but this is not a base case scenario. The Group expects that PLN interest rates will remain unchanged while EUR and USD interest rates will go up by mid-2023 with respect to the currencies in which it finances its operations, and will stabilise later on in the year, with limited PLN rate cuts expected at the end of 2023. This will increase the Group's financing costs, while ensuring further safe debt servicing, also taking into account the planned increase in the financing of investing activities. The debt service costs will then stabilise at a relatively high level in PLN, EUR and USD.

In the US, interest rates may be increased by a further 25 basis points in the second quarter of 2023, to 5.0-5.25%, and stabilise within that range in the coming months. Interest rate cuts may also take place during the year if the inflation rate drops to the 2% target and the economy enters a recession.

In the euro area, the rates are projected to be raised to approximately 4-4.25% (refinance rate) in the second quarter of 2023. A higher rate of monetary policy tightening coupled with better-than-expected economic performance may lead to the euro remaining stronger versus the US dollar in the first months of the year.

Disinflation should be the key global economic phenomenon in the near future. A lot depends on whether economies will manage to avoid a recession and whether there will be a second wave of high inflation within the next two years. Poland is seeing a marked decline in the economic growth rate, which may result in a technical recession, i.e. two consecutive quarters of negative GDP growth. From 2024 onwards, Poland's economy should begin to gradually recover.

Prices of CO₂ emission allowances

In 2022, the CO₂ emission allowance market was highly volatile, with the EUA price ranging between EUR 58 and EUR 98/tonne. In the first quarter of 2023, the price of CO₂ emission allowances settled above EUR 77/tonne. In the last days of March, the price on the EU ETS market was around EUR 90/tonne.

The price of allowances is affected by the imminent deadline (April) for surrendering allowances in respect of 2022 emissions by the operators of EU ETS installations. On the other hand, concerns about an economic recession persist, dampening demand for emission allowances.

Based on the adopted joint model for managing CO₂ emission allowances and approved purchase plans, the Group companies have secured all EUAs required for 2022, which were purchased earlier and paid for much less than the current market prices. The Group companies are surrendering CO₂ emission allowances for 2022 in line with their internal procedures.

European Union Regulatory Area

Farm to Fork strategy

Consultations on the project involving certification of carbon removals continued until March 23rd 2023. Rules for monitoring, reporting and verifying the authenticity of carbon removals were developed under the initiative. The purpose is to expand sustainable carbon removals and encourage the use of innovative solutions to capture, recycle and store CO₂ in the agriculture, forestry and industry sectors. This constitutes a necessary major step towards integrating carbon removals into the EU's climate policy.

Fit for 55

Most of the individual acts making up the *Fit for 55* package are at an advanced phase of the legislative procedure. In December 2022, the trilogues phase ended in reaching a preliminary agreement on the amendment to Directive 2003/87/EC (ETS Directive) and Regulation on establishing a carbon border adjustment mechanism (CBAM), providing for the establishment of a mechanism to redeem purchased certificates for goods covered by CBAM from third countries, the withdrawal of free emission allowances for EU producers of goods covered by CBAM, making the allocation of free allowances dependent on implementing energy audits recommendations, and the revision of benchmarks for 2026-2030 for products covered by the ETS. In March 2023, the EU bodies agreed on amendments to Directive (EU) 2018/2001 (RED II), which provides, among other things,

for increasing the use of renewable energy in industry and the share of non-biological renewable fuels in sectors consuming hydrogen for energy and non-energy purposes. An agreement was also reached to amend Directive 2012/27/EU (EED), which provides that the EU's overall energy consumption in 2023 should be no more than 763 million tonnes of oil equivalent (Mtoe) in the case of final energy consumption (binding target), and 993 Mtoe in the case of primary energy consumption (indicative target).

Energy market reform

On March 16th 2023, the EC submitted a proposal to reform the electricity market. The proposed reform consists in particular of amendments to Regulation (EU) 2019/943 and Directive (EU) 2019/942 setting out the basic legal framework for the functioning of the common market for electricity in the EU. The main objective of the amendments is to enhance the resilience of the electricity market and to protect it against price surges in the event of a significant rise in the prices of energy commodities. To achieve this objective, the EC proposes to increase the role of long-term contracts between producers of renewable electricity and its direct customers (under PPAs), to introduce the obligation to use Contracts for Difference for new installations using low-carbon technologies benefiting from public support, and to improve the flexibility of using demand response mechanisms. The proposed regulations are now in the public consultation phase.

Green Deal Industrial Plan for the Net-Zero Age

On February 1st 2023, the European Commission presented its Green Deal Industrial Plan. The Plan aims to enhance the competitiveness of Europe's industry, support fast transition to climate neutrality and provide a more supportive environment for the scaling up of the EU's manufacturing capacity for the net-zero technologies and products required to meet EU's ambitious climate targets. It builds on earlier initiatives and relies on the strengths of the EU Single Market, complementing ongoing efforts under the European Green Deal and REPowerEU.

On March 16th 2023, the European Commission published a proposal for a regulation on establishing measures for strengthening clean energy generation technologies (Net Zero Industry Act). The proposal establishes a framework of measures for innovation and strengthening of the EU's net-zero technology products manufacturing ecosystem, ensuring access to secure and sustainable supplies of net-zero emission technologies necessary to protect the resilience of the EU energy system and contribute to creating quality jobs. The initiative was announced as part of the Green Deal Industrial Plan.

Sustainable Finance Package

In the first quarter of 2023, the EC, in pursuit of the European Green Deal objectives, adopted a package of measures to help improve the flow of money towards sustainable activities across the European Union. Key elements of the package:

- EU Taxonomy Climate Delegated Acts and delegated acts on the other environmental objectives,
- Article 8 of the relevant Taxonomy Regulation,
- proposal for a Corporate Sustainability Reporting Directive,
- amendments to delegated acts on fiduciary duties as well as insurance and investment advice.

From the perspective of economic sectors, one should point out to the Taxonomy Regulation and the related delegated acts as a tool for the EC classification to determine whether an economic activity qualifies as environmentally sustainable or not, etc. From the perspective of economic sectors, one should point out to the Taxonomy Regulation and the related delegated acts as a tool for the EC classification to determine whether an economic activity qualifies as environmentally sustainable or not, etc.

Taxonomy

In the first quarter of 2023, after receiving a recommendation from the Platform on Sustainable Finance, the EC completed drawing up a proposal for two delegated acts. The proposal covers the following environmental objectives: 3) the sustainable use and protection of water and marine resources, 4) the transition to a circular economy, 5) pollution prevention and control, and 6) the protection and restoration of biodiversity and ecosystems. It includes additional criteria for climate objectives by amending the existing Climate Delegated Act and adding more actions (mainly in the transport sector) to the first two objectives: 1) climate change mitigation and 2) climate change adaptation.

Corporate Sustainability Due Diligence Directive

In the first quarter of 2023, negotiations continued on the scope of the directive which aims to hold companies to account for human rights abuses and environmental damage along their value chains. Considerations also included the obligation for companies to adopt a climate transition plan. The requirements for climate transition plans are being developed simultaneously as part of work on two other directives, namely the Corporate Sustainability Reporting Directive (CSRD) and the Capital Requirements Directive (CRD) for banks. The outcome of the ongoing negotiations on the transition plans may have a material impact on the Grupa Azoty Group's operations, as the act may introduce mandatory implementation and sanctions.

State Aid Temporary Crisis Framework

On January 3rd 2023, in continuation of its efforts initiated in 2022 with respect to the governmental programme 'Aid to energy-intensive sectors related to sudden increases in natural gas and electricity prices in 2022', the Polish Council of Ministers passed a resolution to adopt the programme. The Programme Operator, i.e., the National Fund for Environmental Protection and Water Management (NFOŚiGW), accepted applications between February 9th and February 22nd. The amount of support granted on March 10th to the Grupa Azoty Group companies (the Parent, Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty Zakłady KĘDZIERZYN and Grupa Azoty SIARKOPOL) totalled PLN 234.2m.

March 17th 2023 saw the publication of a new Temporary Crisis and Transition Framework to foster support measures in sectors key for the transition to a net-zero economy, in line with the Green Deal Industrial Plan.

The possibility for Member States to further support measures needed for the transition towards a net-zero industry was prolonged. This concerns schemes for accelerating the rollout of renewable energy and energy storage, and schemes for the decarbonisation of industrial production processes, which Member States may now set up until December 31st 2025.

GBER

On March 9th 2023, the EC endorsed specific amendments to the General Block Exemption Regulation (GBER) to facilitate, simplify and speed up support for the green and digital transition. Together with the new Temporary Crisis and Transition Framework, these amendments are intended to help Member States to provide the necessary support to the key sectors in line with the Green Deal Industrial Plan. They will help speeding up investment and financing for clean tech production in Europe in accordance with the Green Deal Industrial Plan.

EU's chemicals strategy for sustainability

On March 30th 2023, the EC concluded public consultation on a revision of the EU legislation on hazard classification, labelling and packaging of substances and mixtures (CLP). In the context of the implementation of the European Green Deal, the strategy identifies a number of actions that require a targeted review of the CLP Regulation.

In the first quarter of 2023, the Joint Research Centre (JRC) submitted for opinion a draft report on the application of the relevant assessment framework for Safe and Sustainable by Design (SSbD) chemicals with respect to selected substances. Innovation activities set out in the EU's Chemicals Strategy for Sustainability (CSS) include safe and sustainable design, which is to help the European Commission develop criteria to replace or minimise, as far as possible, the use of potentially hazardous substances while maintaining their full functionality. CSS aims to contribute to protecting human health and the natural environment as part of an ambitious approach to a zero-pollution, non-toxic environment.

Other initiatives / measures

- Until January 22nd 2023, as part of preparations for a revision of the Innovation Fund Delegated Act, the Directorate-General for Climate Action (DG CLIMA) launched a survey on the Innovation Fund - proposals for the introduction of an auctions mechanism to obtain financing.
- Between February 7th and March 7th 2023, DG CLIMA carried out a market-testing survey on key features of the future Innovation Fund to establish an appropriate portfolio of support instruments that would best meet the market needs. The survey comes in a moment when the EU is defining its ambitions towards a Net Zero Industrial Plan, with the Innovation Fund also set to contribute, as well as delivering under the RePower EU Plan and the Hydrogen Bank.
- On February 28th 2023, the European Council approved a proposal for the EU GBS Regulation establishing an EU green bond standard. The proposed regulation establishes rules and requirements for issuers who would wish to designate their instruments as 'European Green Bonds' or 'EUGB', and creates a regime for the registration and supervision of external reviewers to check the alignment of the issue and the issuer's activities with the EU GBS and EU Taxonomy.
- On February 13th 2023, the EC presented the final version of delegated acts setting out detailed rules for the production of renewable liquid and gaseous fuels of non-biological origin and establishing a methodology for assessing greenhouse gas emissions savings from RFNBOs and recycled carbon fuels. The draft acts will be relevant to determining what hydrogen meets the requirements for the sub-targets currently identified and planned to be achieved as part of the Fit for 55 package from Directive 2018/2001 on the promotion of the use of energy from renewable sources. The acts are currently pending approval by the European Parliament and by the Council.
- On February 16th 2023, the European Parliament adopted a Resolution on the EC Communication on ensuring the availability and affordability of fertilizers. The document describes EP's recommendations for short-, medium- and long-term measures to ensure the availability and affordability of fertilizers, protecting agricultural producers' interests and food security. The resolution is the EP's response to the EC Communication on the availability and affordability of fertilizers, published in November 2022 to address the consequences of the gas crisis caused by Russia's invasion of Ukraine. The European Parliament calls on the

Commission to secure fertilizer supplies, take steps to reduce their prices and increase the EU's strategic autonomy in fertilizers.

- Until March 14th 2023, the EC held consultation on the Urban Wastewater Treatment Directive. The amendments provide for introduction of new obligations to monitor wastewater, including: a change in the permitted total nitrogen concentration (from 15 mg/dm³ to 6 mg/dm³) and a minimum percentage reduction (from 70-80 to 85), a change in the permitted phosphorus concentration (from 1.0 mg/dm³ to 0.5 mg/dm³), increased monitoring of pollution in the inlets and outlets of treatment facilities, identification of the presence of micro-plastics, an obligation to additionally treat urban wastewater to remove the widest possible spectrum of micro-pollutants by December 31st 2040 in those areas where the concentration or accumulation of micro-pollutants represents a risk for human health or the environment.
- On March 31st 2023, the Commission launched a consultation process to set an intermediary climate target for 2040. The EU has already set targets for 2030 (GHG emissions reduction by 55% relative to 1990) and 2050 (climate neutrality, i.e., net-zero GHG emissions). The setting of the intermediary target for 2040 will affect a number of economic sectors and may require new solutions, in social and labour market policies as well as other areas, but it also aims to create a more predictable environment for investment decisions.

Polish Regulatory Area

- On February 17th 2023, the Polish Ministry of Climate and Environment published a draft Regulation on the granting of public aid for the development of hydrogen technologies and associated infrastructure under the National Recovery and Resilience Plan.
- On March 23rd 2023, the Act Amending the Act on Wind Farm Investment Projects and Certain Other Acts of March 9th 2023 was promulgated in the Journal of Laws (Dziennik Ustaw). The Act liberalises the '10H rule', according to which the minimum distance from housing is to be ten times the height of a planned wind turbine. Onshore wind power projects can now be implemented within a shorter distance where permitted by the local zoning plan, provided that the absolute distance is to be no less than 700 metres. A number of other changes have also been made to the implementation of investment projects, including: allocation of at least 10% of the installed capacity to virtual prosumption for the municipality's residents, the possibility of locating residential buildings around existing wind farms (in compliance with the minimum distance requirement of 700 metres), and the introduction of additional obligatory public discussion on a draft local zoning plan providing for the construction of wind farms.
- On April 25th 2023, the Ministry of Development and Technology presented a bill to amend the Spatial Planning and Development Act and Certain Other Acts. The bill provides for changing the rules of implementation of planning procedures, in particular by introducing general zoning plans for municipalities, constituting a planning document and a local regulation. The bill was submitted to the Sejm (Lower Chamber of the Polish Parliament) on March 23rd and will be debated on in the near future.

International trade policy

- The EU has autonomously suspended customs duties on imports of urea and ammonia from third countries (except Russia and Belarus) for a period of six months, under Council Regulation (EU) 2022/2465 of December 12th 2022.
- The EU has suspended import duties on Ukrainian goods, as of June 4th 2022 for a period of 12 months. The European Commission is working to extend the liberalisation of trade with Ukraine for another year.
- The United Kingdom has applied the zero-rate tariffs on Ukrainian goods, introduced by the United Kingdom Department of Commerce on April 25th 2022, for a period of at least 12 months.
- As of January 1st 2023, Russia introduced an export duty on mineral fertilizers, which will continue in force until the end of 2023. The duties do not apply to exports to the Euro-Asian Economic Union. The 23.5% duty applies to all types of fertilizers and is levied on prices above USD 450/tonne.
- Russia applies export quotas on nitrogen and compound fertilizers. The quotas for the period from January 1st to May 31st 2023 total 12.6 million tonnes and do not apply to exports to Abkhazia and South Ossetia. Concurrently, Russian government agencies are working to extend the measures limiting fertilizer exports for another six months, until November 2023.
- On February 28th 2023, the European Commission initiated another review of the anti-dumping duties on melamine imports from China at the request of Xinjiang Xinlianxin Energy Chemical Co., Ltd.
- On April 5th 2023, the US Department of Commerce and the US International Trade Commission announced the extension of the anti-dumping and countervailing duties on ammonium sulfate imports from China following the expiry review. The duties will continue to apply for another five years and their rate will remain unchanged.
- The proceedings are pending concerning an appeal filed by Methanol Holding (Trinidad) Ltd and EuroChem Group against the decision of the General Court of the European Union whereby it dismissed the claims of those two companies challenging the Commission's decision to impose anti-dumping duties on UAN imports from Russia, Trinidad and Tobago and the US.
- The EU continues to negotiate its trade agreements with third countries, including India, Australia and Indonesia. Work is under way to update the trade deal with Mexico. Negotiations were resumed on a free

trade agreement with Thailand.

- No significant progress was made in ratifying the trade agreement with MERCOSUR countries. However, negotiations on an addendum tightening up the climate aspects of the EU - MERCOSUR trade agreement have gathered momentum.
- March 31st 2023 saw the conclusion of negotiations on the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) between Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and Canada.

Sanctions imposed on Russia and Belarus in connection with Russia's aggression against Ukraine

- On January 27th 2023, the EU prolonged the sanctions targeted at trade, finance, technology and other industries in Russia by six months, until the end of July 2023.
- On January 31st 2023, Ukraine imposed sanctions on Russian and Belarusian chemical, transport, and coal-fired power generation companies as well as private entrepreneurs in Russia and Belarus.
- On February 4th 2023, the EU Council decided to set two price caps for Russian petroleum products and products which originate in or are exported from Russia. The decision has supplemented the crude oil price cap applicable since December 2022 and the EU import ban on Russian seaborne crude oil and petroleum products. The agreed price caps, effective as of February 5th, are USD 100 per barrel of diesel oil and gasoline and USD 45 per barrel of fuel oil. The EU has also introduced a transitional exemption period of 55 days for Russian petroleum products that are purchased and loaded until February 5th and unloaded before April 1st.
- On February 24th 2023, a tenth package of sanctions was adopted, introducing further bans on exports of critical technologies and industrial goods, such as electronics, special vehicles, machine parts, spare parts for heavy trucks and jet engines, electronic components, drones, missiles, helicopters, specific rare earths, electronic integrated circuits and thermal cameras, as well as construction goods that can be easily redirected to be used to support the Russian war effort, such as airdrops or cranes. Further restrictions were imposed on imports of Russian high-revenue goods, such as bitumen and synthetic rubber. The sanctions list included for the first time seven Iranian entities producing unmanned combat aerial vehicles and four Iranian individuals.
- On February 24th 2023, the EU Council resolved to extend the restrictive measures in respect of Belarus for another year in view of the situation in that country. The decision was taken based on an annual review, considering the continuing grave situation in the country and its involvement in the Russian aggression against Ukraine. The restrictive measures are to apply until February 28th 2024.
- On March 9th 2023, the US Department of the Treasury imposed sanctions on five Chinese companies and one individual accused of supplying aviation components to an Iranian manufacturer of drones sold to Russia and used in attacks on tankers.
- On March 18th 2023, the President of Ukraine approved sanctions against 300 civilians and 141 legal entities from Russia, Iran, and Syria. Volodymyr Zelenskyy signed a relevant decree, confirming the sanctions proposed by the National Security and Defence Council (NSDC). The decree was published on the official website. The sanctions provide, among other things, for blocking of assets and commercial operations, transit and transport through the territory of Ukraine for ten years, cancellation of concessions, prohibition of privatisation, land purchases, as well as transfers of technology and intellectual property. 16 Iranian companies were also included on the Ukrainian sanctions list.
- On March 21st 2023, the US Department of the Treasury announced sanctions on four companies and three individuals from Iran and Turkey engaged in supplying components for drone production to the Iranian arms industry. According to its communication, the sanctions were imposed on the DTSRC research centre of the Iranian ministry of defence, as well as individuals who imported parts for the production of unmanned aerial vehicles and allegedly intermediated in the sale of more than 100 European engines for surface-to-air missiles and drones worth more than USD 1m. These are further US measures targeting the Iranian arms industry manufacturing drones sold to Russia for use in its aggression against Ukraine.

3. Other information

3.1. Other significant events

Implementation of the Polimery Police project

In the three months to March 31st 2023, Grupa Azoty POLYOLEFINS continued the implementation of the Polimery Police investment project, comprising a propylene production unit (429 thousand tonnes per year), a polypropylene production unit (437 thousand tonnes per year) together with auxiliary installations and associated infrastructure, as well as a port terminal with feedstock storage facilities (the "Project").

The General Contractor for the Project is Hyundai Engineering Co., Ltd. (the "General Contractor" or "Hyundai"), in accordance with the contract for turnkey execution of the Project of May 11th 2019 (the "EPC Contract"). The start of its commercial operation is scheduled for 2023.

Market environment

In the early first quarter of 2023, the prices of propane went up driven by increased demand from the petrochemical industry, seasonal requirement and more intense competition from Asia for propane exported from the US. The prices reached USD 783/tonne at the end of January, hovered above USD 600/tonne in February, and then in March, thanks to stable supplies from the US, fell further off, to approximately USD 550/tonne. Towards the end of the reporting quarter, the propane market in Europe was already balanced: the product was available and demand dropped, as a result of which its prices settled at normal levels.

Lower transaction activity was seen on the polypropylene market due to concerns over a global recession. High inflation across Europe was the main factor hampering demand, which in the first quarter of 2023 was below the expected average for the period, but the period's end witnessed a modest pick-up in demand from the agricultural and construction sectors. Demand from the packaging industry was eroded by inflation. Demand from automakers improved slightly with the easing of semiconductor shortages. The market spreads as currently calculated have improved, but are still lower than those recorded in previous years. It should however be noted that the Project's profitability and economics are not based on short-term market assumptions but rather on long-term market growth projections. The long-term stable expectations as to propane-polypropylene spreads remain unchanged.

Risks

New staff with relevant experience are planned to be recruited in the coming months. Although Grupa Azoty POLYOLEFINS has taken a number of measures to mitigate risks associated with the recruitment process, it cannot entirely rule out problems with the availability of workforce on the local labour market.

Activities performed by the General Contractor for the commissioning phase are being monitored with increased attention. Delays are possible due to a significant number of equipment units on individual sub-projects, resulting in a risk of technical issues.

Grupa Azoty POLYOLEFINS is monitoring progress on the Project and other risk factors in terms of their possible impact on projected cash flows. Evidence of an impending economic slowdown, including volatility across the key raw material and product markets, may have an adverse effect on the company's ability to service its obligations.

Owing to the current geopolitical situation in Central and Eastern Europe, Grupa Azoty POLYOLEFINS is carrying out analyses and making assessments, applying the best available remedial measures to mitigate the risks and successfully complete the Project.

Stage of completion

As at March 31st 2023, the overall stage of completion under the EPC Contract was 99.24%. The overall stage of completion is understood as obtaining the required permits, procurement and supply of equipment and materials, construction work, completion testing and commissioning.

In the three months ended March 31st 2023, work on the Project involved finishing works on the buildings and external works, installation of aboveground and underground pipelines, laying of cables, installation of electrical equipment and automation systems, functional testing, mechanical run testing (MRT) of rotating machinery and commissioning. Steam blowing of the pipelines was carried out. The Coldbox drying process was launched at the PDH unit. Between March 27th and March 30th, an ethylene cargo was unloaded from the vessel into a storage tank.

As regards completion testing and commissioning, the following milestones were achieved by Grupa Azoty POLYOLEFINS:

- On January 31st 2023, construction and installation works were completed for PDH, PP and AUX (Mechanical Completion);
- On January 31st 2023, the Ready for Start-up (RFSU) status was achieved for AUX - a document was signed to enable the operation of the Auxiliary and Interconnection Facilities (AUX);
- On February 28th 2023, the Ready for Start-up (RFSU) status was achieved for PDH, PP and PPL - a document was signed to enable the operation of the PDH, PP and PPL units.

Thus, the Project reached the Ready for Start-Up status within the contractual deadline.

Handling and Storage Terminal (HST)

On March 27th 2023, the first delivery of ethylene (as the working medium for the commissioning process) arrived at the Handling and Storage Terminal. The delivery involved certain process-related operations, including gas injection into the facility and ethylene unloading. All the steps were carried out in the appropriate sequence, including mainly mooring of the ship, connecting the unloading arms, start of the system's cooling, start of ethylene unloading, completion of unloading, disconnecting of the unloading arms and unmooring of the ship.

The entire unloading operation was handled by staff of the HST Department, in cooperation with and under the supervision of the General Contractor's Project Commissioning Team.

In the first quarter of 2023, the process parameters of the propane BOG compressors were adjusted, with any previously detected defects removed. In the coming months, the key activities will be the first transfer of propane and ethylene to the PDH and PP units and completion of the adjustment operation at the HST.

Propane dehydrogenation (PDH) unit

In the first quarter of 2023, defects identified during the construction and Mechanical Completion phases were removed and functional tests were performed at the PDH unit. The end of January saw the completion of process and non-process MC Walkdowns at the PDH unit.

On January 31st 2023, the General Contractor submitted the Mechanical Completion Certificate for the PDH unit. Following review, the document was signed on February 14th, with the completion date of January 31st. On February 28th, the General Contractor also submitted the Ready for Start-up (RFSU) Completion document for the PDH unit, which was signed in March after review, with the completion date of February 28th. In the reporting quarter, commissioning operations were performed on the PDH unit: mechanical run testing (MRT) of rotating machinery - pumps, preparation for and the loading of solvent on the PDH unit, preparation for the loading of DMDS, fire-fighting tests, CL Scrubber functional tests, chemical cleaning of the Net Gas and HPC compressors, oil flushing of the Net Gas compressor's oil system, drying of the Coldbox separation system, leakage testing and inertisation of systems, preparation for the unloading of propane.

In the first quarter of 2023, employees (automation and process specialists) of UOP (the Licensor) were present at the PDH unit to check the work performed by the General Contractor and take part in individual commissioning operations. Key tasks to be performed in the coming months will include the first transfer of propane from the HST, further inspections of individual facilities at the PDH unit together with the Licensor, acceptance of hydrogen from GAP, and continuation of commissioning in line with the adopted schedule.

Polypropylene (PP) unit

In the first quarter of 2023, defects identified during the construction and Mechanical Completion phases were removed and functional tests as well as mechanical run testing of equipment were performed at the PP unit. The chemical cleaning of donor tanks, steam blowing of pipelines, and installation of screw agitators at the Extruder unit were completed, and PP powder for mechanical run testing of the Extruder was loaded into the Product Purge Bin (PPB).

On January 31st 2023, the General Contractor submitted the Mechanical Completion Certificate for the PP unit, which was signed on February 14th after review, with the completion date of January 31st. On February 28th, the General Contractor also submitted the Ready for Start-up (RFSU) Completion document for the PP unit, which was signed in March after review, with the completion date of February 28th.

Plans for the coming months include continued removal of defects not affecting the RFSU status, continued operations related to completion of the commissioning process (regeneration of filtration beds in the purification section of the PP sub-project, mechanical run testing of the Extruder, launch of the additive dosing system), and the start of tests and trials of the units during initial operation.

Polypropylene (PPL) logistics infrastructure

As regards the PPL sub-project, defects identified during the construction and Mechanical Completion phases were removed, functional testing of automation systems and mechanical run testing (MRT) of mechanical systems were continued, pre-marketing activities and on-job training on the operation of machinery and equipment were carried out. Steam blowing of steam systems was completed, the HVAC system was put into operation and the cleaning of storage silos was completed to prepare them for polypropylene storage.

On February 28th 2023, the General Contractor submitted the Ready for Start-up (RFSU) Completion document for the PPL facilities, which was signed in March after review, with the completion date of February 28th.

Plans for the next reporting period include continued removal of defects not affecting the RFSU status, continuation of pre-marketing activities and the start of tests and trials of the units during initial operation.

Auxiliary and Interconnection Facilities (AUX)

As regards the AUX sub-project, in the first quarter of 2023 defects identified during the construction and Mechanical Completion phases were removed and commissioning operations in the water preparation system were carried out. After the high-pressure steam boiler was cleaned and its lining dried, work was performed to achieve readiness to supply steam to Grupa Azoty POLICE. In February, after the steam boiler was put into operation, steaming of the HP, MP, and LP steam pipelines was carried out and lateral flow filters for cooling water filtration were placed in service in the second half of March. In March, the steaming of pipelines in the AUX sub-project and the passivation of the cooling water circulation system were completed, a deaerator for mechanical removal of oxygen from boiler water was put into operation, sulfuric acid tanks were filled and MRT was performed.

The auxiliary facilities put into operation included a flare stack, high-pressure steam boiler together with boiler water preparation and surface blowdowns discharge systems, raw and cooling water preparation system, and compressed air and nitrogen plant.

On January 31st 2023, the General Contractor submitted the Mechanical Completion Certificate for the AUX units, which was signed on February 14th after review, with the completion date of January 31st. The Ready for Start-up (RFSU) Completion document was also signed with the same completion date.

Plans for the coming months include continued removal of defects identified during the construction and Mechanical Completion phases, launch of laboratory equipment combined with training, the first transfer of propane and ethylene from the HST to the PDH and PP units through interconnections, achieving readiness to supply steam to Grupa Azoty POLICE, and acceptance of the first deliveries of propylene for the PP unit test run.

Financing

At present, Grupa Azoty POLYOLEFINS draws funds under the term and VAT credit facilities to meet its needs according to the progress in implementing the Project. For details of the annexes to the loan agreements signed to finance the Project, see Section 3.3 of this Report.

On April 27th 2023, the composition of the syndicate providing financing to Grupa Azoty POLYOLEFINS under the Senior Credit Facilities Agreement of May 31st 2020 changed. The change involved transfer of a part of the share in the EUR tranche of the Term Facility from Santander Bank Polska S.A. to Haitong Bank, S.A., Warsaw Branch. The transfer did not affect the terms and conditions of the financing.

In the reporting quarter, Grupa Azoty POLYOLEFINS was party to the Senior Credit Facilities Agreement of May 31st 2020 (the Credit Facilities Agreement), providing the company with financing in the form of:

- a term credit facility of EUR 488m and USD 538m,
- a VAT facility of PLN 150m,
- a working capital facility of USD 180m,

and liabilities under subordinated loan agreements with the Shareholders made on May 31st 2020.

In the first quarter of 2023, the conditions for disbursement of USD 35m under the working capital facility were met, effective until the last Provisional Acceptance Report is obtained, when the available working capital facility will be increased to its full amount (USD 180m).

Stoppage of caprolactam production and temporary stoppage of melamine production at Grupa Azoty PUŁAWY

On March 9th 2023, the Management Board of Grupa Azoty PUŁAWY decided to suspend production of caprolactam (Plastics segment) and the operation of the Melamine III unit (Agro Fertilizers segment) from March 10th 2023. Production at the other two melamine units (Melamine I and Melamine II) had been halted in the summer of 2022, due to the prevailing supply and demand situation in the European market.

On May 17th 2023, the Management Board of Grupa Azoty PUŁAWY decided to commence work on the re-start of production from the Melamine III unit. Its output will be aligned with the current supply and demand situation. At 90 tonnes per day, the capacity of the Melamine III unit represents about a third of the company's total rated capacities in melamine.

Another concentrated nitric acid unit commissioned by the Parent in Tarnów

In January 2023, the Parent launched a new facility for the production of concentrated nitric acid with a design capacity of 40,000 tonnes per year, doubling its existing capacities. This is a second production line for above 98% concentrated nitric acid now operating in Tarnów. It has brought the Parent's total annual capacities for that product to 80,000 tonnes. As Grupa Azoty is the only Polish producer of concentrated nitric acid, the project is key to ensuring supplies of input materials for the manufacture of fine chemicals.

The newly commissioned unit will strengthen the Parent's leading market position in Europe among the suppliers of feedstocks to manufacturers of nitrocellulose, fuel additives, and the branch of organic synthesis, with organic compounds used widely as intermediates for fine chemicals.

The construction of the second production line, permitted in April 2020, took two and a half years. The related capital expenditure amounted to PLN 57.1m, and the unit's test run confirming achievement of the design capacity took place by mid-December 2022.

Concentrated nitric acid is made by concentrating 60% nitric acid in the extractive rectification process. The main applications of concentrated nitric acid on the European market are for the manufacture of polyurethane foams, dyes, crop protection products, fuel additives reducing exhaust emissions and other organic syntheses.

Grupa Azoty KĘDZIERZYN completed energy projects worth over PLN 65m

In February 2023, two projects were completed at Grupa Azoty KĘDZIERZYN under the New Energy Concept, a key capital investment programme currently under way at the company. The projects will help increase production and improve the energy and raw material efficiency. The total value of the projects is PLN 65.6m.

Both projects were implemented on the site of the Ammonia Department, enabling increased ammonia production.

A key component of the first project comprising the upgrade of the partial combustion unit was the replacement of a burner in the partial combustion reactor. This will lower the steam-to-carbon ratio during hydrogen production. The partial combustion process will take place without soot being formed, extending the useful life of catalysts and reducing emissions.

The other project comprising the design and construction of the interior of the E-102 boiler and the E-117 steam superheater will increase the flexibility and safety of the process taking place in the boiler and steam superheater unit. This has been achieved by using heat-resistant materials in the equipment.

The New Energy Concept is a portfolio of projects providing an alternative to implementing phase two of Grupa Azoty ZAK's CHP plant. The concept is largely based on the use of process heat from the ammonia unit to produce electricity and other energy carriers. Two projects remain to be completed under the New Energy Concept: purchase and installation of a new oxygen compressor (in the Ammonia Department) and construction of a peak-load and reserve boiler house (in the Energy Business Unit).

Grupa Azoty POLICE and the West Pomeranian University of Technology setting up the Hydrogen Academy in Szczecin as part of the West Pomeranian Hydrogen Valley project

On March 8th 2023, Grupa Azoty POLICE and the West Pomeranian University of Technology signed an agreement to organise and run the Hydrogen Academy. As a result, the Academy, established as part of the West Pomeranian Hydrogen Valley project set up in late November 2022, was formally launched. Enrolment for the first edition of the programme began on March 7th 2023.

Hydrogen Academy classes will be delivered mainly by hydrogen technology professionals and experts as well as academics from the West Pomeranian University of Technology. The Hydrogen Academy will include the same lectures and laboratory or workshop sessions covering the same thematic scopes as those attended by undergraduate and graduate students of the University. The programme will be delivered from May to July on weekends, in the University's buildings, while future editions will also take place on the premises of Partners. The best students will be given an opportunity to test their own innovative hydrogen projects developed in the course of study at the R&D units of the Grupa Azoty Group. To apply for an internship at the Grupa Azoty Group, candidates will need to obtain a certificate of completion of the Academy programme.

The Academy is addressed to students and graduates of technical or agricultural S1 and S2 courses with a GPA of 4.0 or more in the last semester, or graduates who completed studies with a GPA of 4.0 or more. This opportunity is also open to postgraduate students who have authored or co-authored at least one publication listed in the Journal Citation Reports. The Hydrogen Academy will admit people who are under thirty years of age on the day of submission of the application form. In addition to meeting the formal criteria, candidates will also need to complete a writing assignment.

Grupa Azoty Police, Ultra Safe Nuclear Corporation and West Pomeranian University of Technology signed an agreement to develop 4th Generation MMR research reactor in Police

On March 29th 2023, Grupa Azoty Police, the US-based Ultra Safe Nuclear Corporation (USNC) and the West Pomeranian University of Technology in Szczecin signed an agreement to develop and construct a nuclear energy research facility based on the ultra safe MMR® (Micro-Modular™ Reactor) technology to be provided by USNC. Over the next six months, the parties will prepare a comprehensive research programme and will jointly develop a plan for the construction, operation and maintenance of the MMR.

As envisioned, the first stage of the collaborative project will consist in the construction of a 30 MWt MMR to serve as a training, research and test facility. It will be connected to the existing energy infrastructure of Grupa Azoty POLICE, providing a unique opportunity to study, test, optimise and integrate the MMR as a zero-carbon generation source into an industrial plant. The collaboration will ultimately lead to the development of a plan for full-scale use of nuclear energy to power chemical processes and to generate steam and hydrogen at Grupa Azoty POLICE's plant. This will represent another major step towards decarbonisation of the Grupa Azoty Group's industrial processes.

Headquartered in Seattle, Washington, the US, USNC is a global leader and prominent vertical integrator of nuclear technologies and services both on Earth and in outer space. The USNC-developed MMR is a fourth generation high-temperature, gas-cooled nuclear battery, using Fully Ceramic Microencapsulated (FCM®) fuel to achieve the highest level of safety. MMR offers a simple, scalable, carbon-free source of energy, providing protection to the industrial facilities it powers. It is a crucial element in decarbonising industrial applications. Ultra Safe Nuclear has active microreactor deployment projects in Canada at Canadian Nuclear Laboratories in Chalk River, in the United States at the University of Illinois Urbana-Champaign, and at LUT University in Lappeenranta, Finland. Further projects are under development in the US, Canada and Europe.

The agreement has been signed as part of the US-Polish collaboration in this field, which was officially established by an intergovernmental agreement in February 2021. The high-temperature gas-cooled MMR is considered a vital solution for decarbonising the industrial sector.

Other material events

For information on other material events in the reporting period and subsequent to the reporting date which have not been listed above, see the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2023.

3.2. Significant agreements

Trade contracts

Execution of propane purchase contract

On April 27th 2023, Grupa Azoty POLYOLEFINS signed a propane purchase contract with TOTSA Total Energies Trading SA of Switzerland (the "Seller").

The contract provides that propane will be delivered by the Seller to Grupa Azoty POLYOLEFINS from April 2023 to the end of November 2024, in accordance with the agreed schedule and commercial terms. Propane volumes delivered under the contract will be supplementary to other deliveries and in 2023 will cover approximately 46% of the company's total requirement for this key production feedstock.

Financing agreements

Harmonisation changes to Grupa Azoty Group's Credit Facility Agreements

In order to make a harmonised change of covenants, consisting in a modification of the debt ratio and introduction of conditions for excluding from that ratio subordinated debt of the Grupa Azoty Group and the debt of the Group companies investing in renewables and financed on a project finance basis with no recourse to the Group, the following agreements and annexes were signed:

- Agreement Amending and Restating the Credit Facility Agreement of April 23rd 2015 - on February 6th 2023, the Parent and PKO BP S.A., Bank Gospodarstwa Krajowego, Santander Bank Polska S.A., ING Bank Śląski S.A. and CAIXA Bank S.A., acting jointly as the "Lenders", signed an agreement amending and restating the Credit Facility Agreement of April 23rd 2015, together with a letter of February 16th 2023 concerning correction of a manifest error in that agreement,
- Annex to the Multi-Purpose Credit Facility (MPCF) agreement with PKO BP S.A. - on February 6th 2023, the Parent and the Grupa Azoty Group companies signed with PKO BP S.A. Annex 9 to the Multi-Purpose Credit Facility Agreement of April 23rd 2015, as amended, and on February 20th 2023 - Annex 10 to the aforesaid agreement, concerning correction of a manifest error,
- Annex to the Reverse Factoring Agreement with ING Commercial Finance Polska S.A. - on February 9th 2023, the Parent and Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed with ING Commercial Finance Polska S.A. Annex 2 to the Reverse Factoring Agreement of April 29th 2021, as amended,
- Annex to the Payment Services and Financing Agreement with CaixaBank S.A. - on February 10th 2023, the Parent and Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed with CaixaBank S.A., Polish Branch, Annex 2 to the Payment Services and Financing Agreement of April 29th 2021, as amended,
- Annex to the Supply Financing Agreement of with Pekao Faktoring Sp. z o.o. - on February 17th 2023, the Parent and Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed with Pekao Faktoring Sp. z o.o. Annex 3 to the supply financing agreement of May 31st 2021, as amended,
- Annex to the Factoring Agreement of with Pekao Faktoring Sp. z o.o. - on February 17th 2023, the Parent and Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed with Pekao Faktoring Sp. z o.o. Annex 3 to the Factoring Agreement of May 31st 2021, as amended,
- Annex to the Factoring Agreement with BNP Paribas Bank Polska S.A. - on February 20th 2023, the Parent and Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed with BNP Paribas Bank Polska S.A. Annex 2 to the Factoring Agreement of May 31st 2021, as amended,
- Amendment to the Multi-Purpose Premium Credit Facility agreement with BNP Paribas Bank Polski S.A. - on February 14th 2023, the Parent, together with the key and other Group companies signed with BNP Paribas BP S.A. Amendment 2 to a Multi-Purpose Premium Credit Facility agreement with a credit limit of PLN 240m to be used for opening and servicing guarantees and letters of credit,
- Agreements Amending the Credit Facility Agreements with the European Bank for Reconstruction and Development - on March 9th 2023, the European Bank for Reconstruction and Development and the Parent signed Agreements Amending the Credit Facility Agreement of May 28th 2015 (EBRD I) and the Credit Facility Agreement of July 26th 2018 (EBRD II),
- Agreements Amending the Credit Facility Agreements with the European Investment Bank - on April 25th 2023, the European Investment Bank and the Parent signed Agreements Amending the Financing Agreement of May 28th 2015, as amended (EIB I) and the Financing Agreement of January 25th 2018 (EIB II).

Annex to Reverse Factoring Agreement with ING Commercial Finance Polska S.A.

On March 14th 2023, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed an Annex to the Reverse Factoring Agreement of April 29th 2021, as amended, with ING Commercial Finance Polska S.A. which amended the price terms.

Amended Appendix to the Payment Services and Financing Agreement with CaixaBank S.A.

On March 21st 2023, the Parent and its subsidiaries Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN, COMPO EXPERT GmbH and COMPO EXPERT Hellas S.A. on the one hand and CaixaBank S.A. Polish Branch on the other hand signed Amended Appendix 1 to the Payment Services and Financing Agreement of April 29th 2021, as amended. As part of the amendments made by the Appendix, the facility amount was increased from PLN 800m to PLN 950m (or its equivalent in EUR or USD). The facility under the Agreement is available until April 30th 2024. The claims of CaixaBank S.A. under the Agreement are secured by a notarised statement of submission to enforcement made by the Parent, for up to 120% of the facility amount increased by the Appendix.

Annex to the Supply Financing Agreement with Pekao Faktoring Sp. z o.o.

On April 7th 2023, the Parent and its subsidiaries Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed an Annex to the Supply Financing Agreement of May 31st 2021, as amended, with Pekao Faktoring Sp. z o.o., which amended the price terms.

Annex to the Factoring Agreement with Pekao Faktoring Sp. z o.o.

On April 7th 2023, the Parent and its subsidiaries Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed an Annex to the Factoring Agreement of May 31st 2021, as amended, with Pekao Faktoring Sp. z o.o., which amended the price terms.

Insurance agreements

Consolidated Group Insurance Programme with TUW PZUW

Under a Master Agreement for the Consolidated Property Insurance Programme, executed with TUW PZUW by Grupa Azoty Group companies - members of the Grupa Azoty Mutual Insurance Union operating within TUW PZUW for a period of three years, i.e. from March 1st 2022 to February 28th 2025, policies were issued for the second year, i.e. from March 1st 2023 to February 28th 2024, covering the following lines of insurance:

- all-risk property insurance (PD/ALLR);
- all-risk electronic equipment insurance (EEI);
- loss of profit insurance (PD/ALLR (BI));
- all-risk machinery insurance (MB).

Project co-financing agreements

In the first quarter of 2023, Grupa Azoty KĘDZIERZYN signed Annex No. to the co-financing agreement for the project 'New formulations of speciality organic and mineral fertilizers', extending the expenditure eligibility period under the project until December 31st 2023.

3.3. Sureties and guarantees

Guarantees

In the three months ended March 31st 2023, the total amount of all guarantees issued at the request of the Group companies was PLN 13,324 thousand. Guarantees for the highest amounts, totalling PLN 7,435 thousand, were issued at the request of Grupa Azoty POLICE on January 17th 2023 to the State Treasury (Chief Inspectorate of Environmental Protection).

Letters of credit

In the three months ended March 31st 2023, no material letters of credit were issued at the request of Grupa Azoty Group companies.

Intragroup loans

Annexes to agreements of May 31st 2020 for loans granted to Grupa Azoty POLYOLEFINS by the Parent and Grupa Azoty POLICE

Grupa Azoty POLYOLEFINS signed annexes to loan agreements of May 31st 2020:

- On January 10th 2023, with the Parent, Annex 5 in connection with capitalisation of another portion of commission and interest for the next interest period. In accordance with the Annex, as a result of the capitalisation as of December 31st 2022 the loan principal was PLN 439,271 thousand;
- On January 10th 2023, with Grupa Azoty POLICE, Annex 5 in connection with capitalisation of another portion of commission and interest for the next interest period. In accordance with the Annex, as a result of the capitalisation as of December 31st 2022 the loan principal was PLN 495,348 thousand.

In the case of PKN Orlen S.A. (formerly Grupa LOTOS S.A.) and Korea Overseas Infrastructure & Urban Development Corporation, annexes concerning capitalisation of interest and commission fees for the interest period ended January 13th 2022 were signed by Grupa Azoty POLYOLEFINS on January 24th and February 20th 2023, respectively.

3.4. Shareholding structure

Number and par value of shares as at the issue date of this Report:

- 24,000,000 Series AA shares with a par value of PLN 5 per share,
- 15,116,421 Series B shares with a par value of PLN 5 per share,
- 24,999,023 Series C shares with a par value of PLN 5 per share,
- 35,080,040 Series D shares with a par value of PLN 5 per share.

The total number of Parent shares is 99,195,484 bearer shares (ISIN code PLZATRM00012).

Below are listed shareholders holding directly, or indirectly through subsidiaries, at least 5% of total voting rights at the General Meeting as at the date of this Report, along with information on the number of shares held by such entities, their respective ownership interests, the number of voting rights held, and their share in total voting rights at the General Meeting.

Shareholding structure as at March 30th 2023 (in accordance with the information provided in the interim report for 2023)

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury	32,734,509	33.00	32,734,509	33.00
Nationale-Nederlanden OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. * (indirectly: 19,657,350 shares or 19.82%)	406,998	0.41	406,998	0.41
Rainbee Holdings Limited * **	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited * **	9,430,000	9.51	9,430,000	9.51
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
Other	28,390,113	28.62	28,390,113	28.62
Total	99,195,484	100.00	99,195,484	100.00

* Related parties of Viatcheslav Moshe Kantor.

* Direct subsidiaries of Norica Holding S.à r.l.

On April 6th 2022, Mr Vyacheslav Moshe Kantor, who holds a controlling interest in the Russian chemical company ACRON, was placed on the United Kingdom sanctions list, on April 8th 2022 - on the European Union sanctions list, and on April 25th 2022, together with the entities through which he controls 19.82% of the Parent shares - on the Polish sanctions list. Mr Kantor is a minority shareholder who has no influence over the operations of Grupa Azoty or the right to nominate members of the Parent's governing bodies, and therefore, despite his shareholding, Mr. Kantor does not own or control the Parent within the meaning of Council Regulation (EU) No. 269/2014 of March 17th 2014 on restrictive measures with regard to actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine.

None of the prerequisites for the Parent and its subsidiaries to be directly or indirectly subjected to any sanctions have been met. The Parent and its subsidiaries comply with all sanctions regulations, condemn the Russian aggression and any actions directed against Ukraine and have no relations with the government of the Russian Federation.

The actual shareholding structure may differ from that presented if there were no events giving rise to a shareholder's obligation to disclose a new shareholding or if, despite the occurrence of such events, a shareholder failed to provide information.

In the period from March 30th 2023 to the issue date of this Report, the Parent was not officially notified of any changes in major holdings of its shares, i.e. above 5% of voting rights at the General Meeting.

3.5. Parent shares held by management and supervisory personnel

As at the date of this Report, none of the Management Board members or supervisory personnel held any shares in the Parent.

3.6. Composition of the management and supervisory bodies

The Management Board

As at January 1st 2023, the Management Board was composed of:

- Tomasz Hinc - President of the Management Board,
- Mariusz Grab - Vice President of the Management Board,
- Filip Grzegorzczak, Dr. Habil. - Vice President of the Management Board,
- Tomasz Hryniewicz - Vice President of the Management Board,
- Grzegorz Kądziałowski - Vice President of the Management Board,
- Marek Wadowski - Vice President of the Management Board,
- Zbigniew Paprocki - Member of the Management Board.

The composition of the Company's Management Board changed in the three months ended March 31st 2023:

- on January 16th 2023, the Supervisory Board removed from the Management Board one of its Vice Presidents Tomasz Hryniewicz;
- on January 23rd 2023, a recruitment procedure was initiated following which Marcin Kowalczyk was appointed to the Management Board with effect from February 10th 2023.

As a result, the composition of the Management Board from February 10th 2023 to the issue date of this Report was as follows:

- Tomasz Hinc - President of the Management Board,
- Mariusz Grab - Vice President of the Management Board,
- Filip Grzegorzczak, Dr. Habil. - Vice President of the Management Board,
- Grzegorz Kądziałowski - Vice President of the Management Board,
- Marcin Kowalczyk - Vice President of the Management,
- Marek Wadowski - Vice President of the Management Board,
- Zbigniew Paprocki - Member of the Management Board.

Remits of the Company's Management Board and Supervisory Board members

As at January 1st 2023, the overall division of responsibilities between the Management Board members was as follows:

- Tomasz Hinc - President of the Management Board, responsible for managing the operation of the Management Board and for corporate governance, corporate supervision, legal services, communication and PR, human resources management, sponsorship activities, compliance management, internal audit, CSR, representing the Parent in relations with its stakeholders, including shareholders, governing bodies, central and local government authorities, integration and coordination of the areas and processes under his supervision within the Group;
- Mariusz Grab - Vice President of the Management Board, responsible for management of procurement processes (excluding gas), ICT process management, security and cybersecurity management, raw material and semi-finished product integration, production and sale of polypropylene, integration and coordination of the areas and processes under his supervision within the Group;
- Filip Grzegorzczak, Dr. Habil. - Vice President of the Management Board, responsible for strategic management of energy transition projects; management of logistics processes, corporate risk, market regulations and protection; market analyses, coordination of efforts designed to meet the requirements of the Green New Deal in the area of energy, integration and coordination of the areas and processes under his supervision within the Group;
- Tomasz Hryniewicz - Vice President of the Management Board, responsible for management of sales (excluding polypropylene) and customer service standards, product portfolio management, gas procurement management, integration and coordination of the areas and processes under his supervision within the Group;
- Grzegorz Kądziałowski, Ph.D. - Vice President of the Management Board, responsible for research and development, protection of intellectual and industrial property, technology transfer and cooperation with universities and institutions in the area of innovation, preparation and implementation of investment projects at the Parent, monitoring of the implementation of investment projects at the Group, social dialogue, strategic planning and monitoring of strategy implementation, strategic management of projects with the exception of energy transition, coordination of the Group's efforts designed to meet the requirements of the

Green New Deal (excluding the energy area) and Circular Economy, integration and coordination of the areas and processes under his supervision within the Group;

- Marek Wadowski - Vice President of the Management Board, responsible for finance management, accounting policy management, monitoring of the implementation of plans, planning, budgeting and controlling, mergers and acquisitions, investor relations, integration and coordination of the areas and processes under his supervision within the Group;
- Zbigniew Paprocki - Member of the Management Board, Chief Executive Officer of the Parent, responsible for management of integration and coordination of production processes, management of maintenance of production assets, shutdowns, repair and overhauls, critical infrastructure management, technical safety, fire and environmental safety, integration and coordination of the areas and processes under his supervision within the Group.

In connection with the changes made in the composition of the Management Board in the three months ended March 31st 2023, the division of responsibilities between the Management Board members was also changed, pursuant to Resolution No. 806/XII/2023 of February 13th 2023. The division of responsibilities of the Management Board Members as at March 31st 2023 and the issue date of this Report was as follows:

- Tomasz Hinc - President of the Management Board, responsible for managing the operation of the Parent's Management Board and for corporate governance, corporate supervision, legal services, communication and marketing, human resources management, sponsorship activities, internal audit, compliance management, CSR, representing the Parent in relations with its stakeholders, including shareholders, governing bodies, central and local government authorities, integration and coordination of the areas and processes under his supervision within the Group;
- Mariusz Grab - Vice President of the Management Board, responsible for management of procurement processes (excluding gas, coal, electricity and emission allowances), ICT process management, security and cybersecurity management, raw material and semi-finished product integration, production and sale of polypropylene, integration and coordination of the areas and processes under his supervision within the Group;
- Filip Grzegorzczak, Dr. Habil. - Vice President of the Management Board, responsible for strategic management of energy transition projects, logistics process management, corporate risk management, market regulations and protection, market analyses, integration and coordination of supervised areas and processes within the Group, coordination of efforts designed to meet the requirements of the Green New Deal in the area of energy;
- Grzegorz Kądziałowski, Ph.D. - Vice President of the Management Board, responsible for research and development, protection of intellectual and industrial property, technology transfer and cooperation with universities and institutions in the area of innovation, preparation and implementation of investment projects at the Parent, monitoring of the implementation of investment projects at the Group, social dialogue, strategic planning and monitoring of strategy implementation, strategic management of projects with the exception of energy transition, management of sales and customer service standards in the area of plastics excluding polypropylene, product portfolio management in the plastics area excluding polypropylene, management of integration and coordination of catalyst production processes at the Parent, integration and coordination of the areas and processes under his supervision within the Group, coordination of the Group's efforts designed to meet the requirements of the Green New Deal (excluding the energy area) and Circular Economy;
- Marcin Kowalczyk - Vice President of the Management Board, responsible for management of sales and customer service standards in the Agro area, management of the product portfolio in the Agro area, management of the energy area, including natural gas, coal and electricity, management of natural gas, coal and electricity procurement processes, integration and coordination of the areas and processes under his supervision within the Group;
- Marek Wadowski - Vice President of the Management Board, responsible for finance and accounting policy management, monitoring of the implementation of plans, planning, budgeting and controlling, mergers and acquisitions, ESG, integration and coordination of the areas and processes under his supervision within the Group;
- Zbigniew Paprocki - Member of the Management Board, Chief Executive Officer of the Parent, responsible for management of integration and coordination of production processes at the Parent, excluding catalysts, management of maintenance of production assets, shutdowns, repair and overhauls, critical infrastructure management, technical safety, fire and environmental safety, the production area of the Plastics Business Segment, integration and coordination of the areas and processes under his supervision within the Group.

Division of responsibilities between the Company's Management Board members as at March 31st 2023

 Tomasz Hinc President of the Management Board	 Mariusz Grab Vice President of the Management Board	 Filip Grzegorzczak PhD Vice President of the Management Board	 Grzegorz Kądziałowski , PhD Vice President of the Management Board	 Marcin Kowalczyk Vice President of the Management Board	 Marek Wadowski Vice President of the Management Board	 Zbigniew Paprocki Member of the Management Board, Director General
directing the work of the Management Board corporate management corporate supervision legal support communication, PR, sponsorship and CSR HR internal audit compliance representing the Company before stakeholders	management of procurement processes excluding natural gas, coal, electricity and carbon emission allowances ICT processes safety and cybersecurity management raw materials and intermediate products integration manufacture and sale of polypropylene President of the Management Board of Grupa Azoty Police	energy transition market regulation and protection enterprise risk logistics market analyses President of the Management Board of Grupa Azoty Kędzierzyn	research and development, intellectual and industrial property protection, technology transfer cooperation with universities and other institutions on innovations investment project preparation, implementation, and monitoring of implementation social dialogue strategic planning and monitoring of strategy implementation management of strategic projects, excluding energy transition projects management of sales, customer service standards and product portfolio in the area of plastics excluding polypropylene integration and coordination of catalyst production at the Company	management of sales and customer service standards in the Agro area product portfolio management in the Agro area management of the energy area, including gas, coal and electricity management of gas, coal and electricity purchase processes President of the Management Board of Grupa Azoty Puławy	financial management management of accounting policies monitoring of budget implementation planning, budgeting and controlling investor relations mergers and acquisitions ESG President of the Management Board of Grupa Azoty Energia	Director General integration and coordination of the Company's production processes excluding catalysts maintenance of production assets maintenance shutdowns and repairs critical infrastructure plant, fire and environmental safety

Source: Company data.

Supervisory Board

As at January 1st 2023, the Supervisory Board was composed of:

- Magdalena Butrymowicz, LL D - Chair of the Supervisory Board,
- Wojciech Krysztofik - Deputy Chair of the Supervisory Board,
- Robert Kapka - Secretary of the Supervisory Board,
- Monika Fill - Member of the Supervisory Board,
- Bartłomiej Litwińczuk - Member of the Supervisory Board,
- Marcin Mauer - Member of the Supervisory Board,
- Michał Maziarka - Member of the Supervisory Board,
- Janusz Podsiadło - Member of the Supervisory Board,
- Roman Romaniszyn - Member of the Supervisory Board.

The composition of the Company's Supervisory Board changed in the three months ended March 31st 2023:

- on January 3rd 2023, Marcin Mauer resigned as Member of the Supervisory Board;
- in the exercise of the State Treasury's right as a shareholder, based on a written statement from the Minister of State Assets dated January 11th 2023, the State Treasury appointed Marzena Matek to the Supervisory Board.

As a result, the composition of the Supervisory Board from January 11th 2023 to the issue date of this Report was as follows:

- Magdalena Butrymowicz, LL D - Chair of the Supervisory Board,
- Wojciech Krysztofik - Deputy Chair of the Supervisory Board,

- Robert Kapka - Secretary of the Supervisory Board,
- Monika Fill - Member of the Supervisory Board,
- Bartłomiej Litwińczuk - Member of the Supervisory Board,
- Marzena Małek - Member of the Supervisory Board,
- Michał Maziarka - Member of the Supervisory Board,
- Janusz Podsiadło - Member of the Supervisory Board,
- Roman Romaniszyn - Member of the Supervisory Board.

The Company's Supervisory Board operates in accordance with the following regulations:

- The Accounting Act of September 15th 2000;
- The Act on Commercialisation and Certain Employee Rights of August 30th 1996;
- The Accounting Act of September 29th 1994;
- The Company's Articles of Association;
- The Rules of Procedure for the Company's Supervisory Board.

Pursuant to Art. 32 of the Company's Articles of Association, the key powers and responsibilities of the Supervisory Board include:

- appointing and removing from office Management Board members;
- assessing the Management Board's proposals on distribution of profit or coverage of loss;
- assessing the Directors' Report on the operations of the Parent and the Grupa Azoty Group, as well as of separate financial statements of the Parent and the consolidated financial statements of the Group for their consistency with accounting records and supporting documents and for accuracy;
- appointing an audit firm to review and audit the financial statements of the Parent and the consolidated financial statements of the Group;
- approving the Parent's long-term strategic plans;
- approving annual budgets including capital expenditure budgets;
- issuing opinions on all matters submitted by the Management Board for consideration to the General Meeting;
- granting consent for the Management Board to execute material legal transactions.

In three months ended March 31st 2023, the Supervisory Board had the following committees:

- the Audit Committee,
- the Strategy and Development Committee,
- Corporate Governance Committee.

Audit Committee

To streamline its work and improve control of the Parent and the Group, on July 4th 2013 the Supervisory Board passed a resolution to appoint an Audit Committee.

The composition of the Audit Committee as at January 1st 2023 was as follows:

- Marcin Mauer - Chair,
- Monika Fill - Member,
- Michał Maziarka - Member,
- Robert Kapka - Member,
- Janusz Podsiadło - Member.

The composition of the Audit Committee changed in the three months ended March 31st 2023:

- on January 3rd 2023, Marcin Mauer resigned as Member of the Company's Supervisory Board and Chair of the Audit Committee;
- on January 4th 2023, Robert Kapka tendered his resignation as Member of the Audit Committee;
- on January 5th 2023, the Supervisory Board appointed Michał Maziarka as Chair of the Audit Committee.

As a result, the composition of the Audit Committee from January 5th 2023 to the issue date of this Report was as follows:

- Michał Maziarka - Chair,
- Monika Fill - Member,
- Janusz Podsiadło - Member.

In the three months ended March 31st 2023, the Audit Committee operated pursuant to the Rules of Procedure for the Audit Committee adopted by the Supervisory Board's Audit Committee under a resolution of February 11th 2021 and approved by the Supervisory Board under a resolution of March 8th 2021.

The Audit Committee's main tasks are those prescribed for the Audit Committee in the Act on Statutory Auditors, Audit Firms, and Public Oversight of May 1st 2017, the Company's Articles of Association, and resolutions of the Supervisory Board. The Committee has the right to demand from the Company's Management Board any information, materials and explanations required for the performance of the Committee's tasks.

Strategy and Development Committee

In the three months ended March 31st 2023, there were no changes in the composition of the Strategy and Development Committee. As at March 31st 2023, the Strategy and Development Committee consisted of the following persons:

- Wojciech Krysztofik - Chair,
- Robert Kapka - Member,
- Bartłomiej Litwińczuk - Member.

In the three months ended March 31st 2023, the Strategy and Development Committee operated in accordance with the Committee's Rules of Procedure adopted by a resolution of the Strategy and Development Committee of March 2nd 2021 and approved by the Supervisory Board under a resolution of March 8th 2021.

Corporate Governance Committee

The composition of the Corporate Governance Committee as at January 1st 2023 was as follows:

- Michał Maziarka - Chair,
- Magdalena Butrymowicz - Member,
- Wojciech Krysztofik - Member,
- Roman Romaniszyn - Member.

On January 16th 2023, Wojciech Krysztofik resigned from the Corporate Governance Committee. On the same day, the Supervisory Board appointed Marzena Małek to the Committee. As a result, the composition of the Committee from January 16th 2023 to the date of this Report was as follows:

- Michał Maziarka - Chair,
- Magdalena Butrymowicz - Member,
- Marzena Małek - Member,
- Roman Romaniszyn - Member.

In the three months ended March 31st 2023, the Corporate Governance Committee operated on the basis of the Rules of Procedure for the Committee, the consolidated text of which was approved by the Supervisory Board under a resolution of August 23rd 2022.

4. Additional information

Management Board's position on the achievement of forecasts

As no forecasts for 2023 were published, the position of the Parent's Management Board concerning achievement of such forecasts is not presented.

Litigation

There are no material court, arbitration or administrative proceedings pending with respect to any of the Group companies that would concern liabilities or debt claims as referred to in the Regulation of the Minister of Finance of April 20th 2018 on current and periodic information (Dz. U. of 2018, item 757), other than the case brought by the Parent against Cenzin Sp. z o.o. for payment of PLN 79,821 thousand (the amount in dispute) in connection with claims for:

- payment of liquidated damages for delay, extension of CAR/EAR insurance by the Company, repayment of an outstanding advance,
- loss of co-financing under the Norwegian Financial Mechanism,
- cost of work in progress inventory taking following withdrawal from the Contract for the construction of an FGD unit,
- cost of completion of the FGD project, compensation for the purchase of more expensive coal, compensation for lost benefits from sale of magnesium sulfate,

- compensation for purchase of magnesium oxide,
- determination of the defendant's liability for losses which may arise in the future.

The claim was filed by the Parent with the Regional Court of Kraków on May 7th 2021. On October 27th 2021, a payment order was issued for Cenzin Sp. z o.o. to pay the Parent PLN 79,821 thousand. PLN 207 thousand of costs of proceedings was awarded in favour of the Parent. On November 29th 2021, the Parent filed a request to supplement the payment order by issuing a ruling on interest relating to one of the claims covered by the lawsuit. On April 20th 2022, the Parent received an objection against the payment order from Cenzin Sp. z o.o., to which it replied on May 4th 2022. The proceedings are pending.

Parent's branches

The Parent does not operate non-local branches or establishments.

Shares, share issues

In the three months ended March 31st 2023, the Parent did not issue, redeem or repay any debt or equity securities. The Parent had spent the proceeds from Public Offerings by the end of 2013. The proceeds were used in line with the original issue objectives.

There are no agreements known to the Parent which may cause future changes in the percentages of shares held by the existing shareholders and bondholders.

The Parent does not operate any employee stock option schemes.

Signatures of members of the Management Board

Tomasz Hinc
President of the Management Board

Mariusz Grab
Vice President of the Management Board

Filip Grzegorczyk
Vice President of the Management Board

Grzegorz Kądziaławski
Vice President of the Management Board

Marcin Kowalczyk
Vice President of the Management Board

Marek Wadowski
Vice President of the Management Board

Zbigniew Paprocki
Member of the Management Board Director General

Person responsible for maintaining accounting records

Marek Michalski
Head of the Corporate Finance Department

Tarnów, May 22nd 2023