



Consolidated interim report
of the Grupa Azoty Group
for Q3 2022



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Interim condensed consolidated financial statements of the
Grupa Azoty Group
for the three and nine months ended September 30th 2022,
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 – Sep 30 2022	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2022	for the period Jan 1 – Sep 30 2021
Revenue	19,550,684	10,416,755	4,170,368	2,285,128
Operating profit	2,296,295	489,435	489,824	107,368
Profit before tax	1,985,744	377,231	423,580	82,753
Net profit	1,602,607	267,690	341,853	58,723
Comprehensive income for the period	2,029,532	251,205	432,921	55,107
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per ordinary share (PLN)	15.29	2.44	3.26	0.54
Net cash from operating activities	3,623,697	2,863,694	772,973	628,210
Net cash from investing activities	(1,844,797)	(1,865,865)	(393,515)	(409,316)
Net cash from financing activities	(2,273,337)	(1,211,566)	(484,927)	(265,782)
Total net cash flows	(494,437)	(213,737)	(105,469)	(46,888)
Cash and cash equivalents at beginning of period	2,362,193	923,328	503,881	202,551
Cash and cash equivalents at end of period	1,885,390	706,675	402,174	155,024
	as at Sep 30 2022	as at Dec 31 2021	as at Sep 30 2022	as at Dec 31 2021
Non-current assets	16,631,186	14,905,836	3,415,168	3,240,822
Current assets	9,251,311	8,738,869	1,899,731	1,900,002
Non-current liabilities	6,919,075	5,951,160	1,420,813	1,293,899
Current liabilities	8,018,205	8,761,378	1,646,516	1,904,896
Equity	10,945,217	8,932,167	2,247,570	1,942,029
Share capital	495,977	495,977	101,848	107,835
Non-controlling interests	1,128,166	990,304	231,666	215,312

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 September 30th 2022 was EUR 1 = PLN 4.8698 (table No. 190/A/NBP/2022);
the exchange rate as at December 31st 2021 was EUR 1 = PLN 4.5994 (table No. 254/A/NBP/NBP/2021).
- 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-September 30th 2022, the average exchange rate was EUR 1 = PLN 4.6880;
in the period January 1st-September 30th 2021, the average exchange rate was EUR 1 = PLN 4.5585.

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 consolidated statement of comprehensive income

	for the period Jan 1 – Sep 30 2022 <i>unaudited</i>	for the period Jan 1 – Sep 30 2021 <i>unaudited</i>	for the period Jul 1 – Sep 30 2022 <i>unaudited</i>	for the period Jul 1 – Sep 30 2021 <i>unaudited</i>
Profits and losses				
Revenue	19,550,684	10,416,755	6,313,752	3,882,100
Cost of sales	(15,681,407)	(8,598,170)	(5,747,447)	(3,354,106)
Gross profit	3,869,277	1,818,585	566,305	527,994
Selling and distribution expenses	(883,843)	(763,062)	(271,564)	(270,669)
Administrative expenses	(685,394)	(601,291)	(219,685)	(193,721)
Other income	69,464	76,997	26,747	47,461
Other expenses	(73,209)	(41,794)	(19,840)	(4,171)
Operating profit	2,296,295	489,435	81,963	106,894
Finance income	94,253	62,533	77,924	1,053
Finance costs	(417,983)	(186,952)	(214,048)	(76,489)
Net finance income/(costs)	(323,730)	(124,419)	(136,124)	(75,436)
Share of profit of equity-accounted investees	13,179	12,215	5,318	4,169
Profit before tax	1,985,744	377,231	(48,843)	35,627
Income tax	(383,137)	(109,541)	(30,510)	(21,653)
Net profit	1,602,607	267,690	(79,353)	13,974
Other comprehensive income				
Actuarial gains from defined benefit plans	19,699	11,716	327	-
Losses on remeasurement of equity instruments at fair value through other comprehensive income	(2,569)	-	-	-
Tax on items that will not be reclassified to profit or loss	(3,196)	(2,252)	(62)	-
Items that will not be reclassified to profit or loss	13,934	9,464	265	-
Cash flow hedges - effective portion of fair-value change	306,211	(29,271)	35,125	(16,734)
Translation reserve	99,183	3,426	64,566	25,295
Income tax relating to items that are or will be reclassified to profit or loss	7,597	(104)	5,670	3,487
Items that are or may be reclassified to profit or loss	412,991	(25,949)	105,361	12,048
Total other comprehensive income	426,925	(16,485)	105,626	12,048
Comprehensive income for the period	2,029,532	251,205	26,273	26,022
Net profit attributable to:				
Owners of the parent	1,516,638	242,295	(52,761)	11,650
Non-controlling interests	85,969	25,395	(26,592)	2,324
Comprehensive income for period attributable to:				
Owners of the parent	1,875,072	230,943	40,068	23,375
Non-controlling interests	154,460	20,262	(13,795)	2,647
Earnings per share:				
Basic (PLN)	15.29	2.44	(0.53)	0.12
Diluted (PLN)	15.29	2.44	(0.53)	0.12

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

Interim condensed consolidated statement of financial position

	as at Sep 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Assets		
Non-current assets		
Property, plant and equipment	13,333,354	11,957,685
Right-of-use assets	804,372	804,863
Investment property	65,772	68,046
Intangible assets	1,021,619	998,614
Goodwill	337,454	319,922
Shares	10,346	12,915
Equity-accounted investees	90,357	92,658
Derivative financial instruments	287,237	-
Other financial assets	2,767	2,626
Other receivables	573,124	542,552
Deferred tax assets	104,275	105,446
Other assets	509	509
Total non-current assets	16,631,186	14,905,836
Current assets		
Inventories	3,117,519	2,313,143
Property rights	1,948,861	1,560,172
Derivative financial instruments	-	1,801
Other financial assets	2,016	1,997
Current tax assets	24,833	28,015
Trade and other receivables	2,250,344	2,453,579
Cash and cash equivalents	1,885,390	2,362,193
Other assets	22,334	17,969
Assets held for sale	14	-
Total current assets	9,251,311	8,738,869
Total assets	25,882,497	23,644,705

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

Interim condensed consolidated statement of financial position (continued)

	as at Sep 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	187,274	(58,403)
Translation reserve	154,150	54,936
Other capital reserves	(17,700)	(17,700)
Retained earnings	6,579,080	5,048,783
Equity attributable to owners of the parent	9,817,051	7,941,863
Non-controlling interests	1,128,166	990,304
Total equity	10,945,217	8,932,167
Liabilities		
Borrowings	4,571,495	3,640,671
Derivative financial instruments	-	91,072
Lease liabilities	352,821	347,159
Other financial liabilities	708,731	630,360
Employee benefit obligations	397,987	420,136
Trade and other payables	20,437	21,415
Provisions	238,832	193,381
Government grants	190,046	196,725
Deferred tax liabilities	438,726	410,241
Total non-current liabilities	6,919,075	5,951,160
Borrowings	618,273	818,475
Derivative financial instruments	11,007	6,183
Lease liabilities	59,751	60,940
Other financial liabilities	1,341,242	1,759,195
Employee benefit obligations	46,044	57,263
Current tax liabilities	295,091	120,892
Trade and other payables	5,057,685	5,827,116
Provisions	75,824	89,958
Government grants	513,288	21,356
Total current liabilities	8,018,205	8,761,378
Total liabilities	14,937,280	14,712,538
Total equity and liabilities	25,882,497	23,644,705

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

Interim condensed consolidated statement of changes in equity

For the period ended September 30th 2022 (*unaudited*)

	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 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	-	-	-	-	-	1,516,638	1,516,638	85,969	1,602,607
Other comprehensive income	-	-	245,677	99,214	-	13,543	358,434	68,491	426,925
Comprehensive income for the period	-	-	245,677	99,214	-	1,530,181	1,875,072	154,460	2,029,532
Dividends	-	-	-	-	-	-	-	(16,482)	(16,482)
Changes in the Group	-	-	-	-	-	116	116	(116)	-
Balance as at Sep 30 2022 (<i>unaudited</i>)	495,977	2,418,270	187,274	154,150	(17,700)	6,579,080	9,817,051	1,128,166	10,945,217

For the period ended September 30th 2021 (*unaudited*)

	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 2021	495,977	2,418,270	(48,540)	63,311	(17,700)	4,427,756	7,339,074	949,828	8,288,902
<i>Profit or loss and other comprehensive income</i>									
Net profit	-	-	-	-	-	242,295	242,295	25,395	267,690
Other comprehensive income	-	-	(23,507)	3,461	-	8,694	(11,352)	(5,133)	(16,485)
Comprehensive income for the period	-	-	(23,507)	3,461	-	250,989	230,943	20,262	251,205
Dividends	-	-	-	-	-	-	-	(5,651)	(5,651)
Changes in the Group	-	-	-	-	-	4,647	4,647	(4,200)	447
Other Activities	-	-	-	-	-	19	19	(13)	6
Balance as at Sep 30 2021 (<i>unaudited</i>)	495,977	2,418,270	(72,047)	66,772	(17,700)	4,683,411	7,574,683	960,226	8,534,909

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 – Sep 30 2022 <i>unaudited</i>	for the period Jan 1 – Sep 30 2021 <i>unaudited</i>
Cash flows from operating activities		
Profit before tax	1,985,744	377,231
Depreciation and amortisation	547,946	577,104
(Reversal)/Recognition of impairment losses	(2,818)	271
Gain on investing activities	(2,232)	(53,802)
Gain on disposal of financial assets	(47)	(2)
Share of profit of equity-accounted investees	(13,188)	(12,215)
Interest, foreign exchange gains or losses	130,734	34,668
Dividends	(11)	(200)
Fair value gain on financial assets	(211,784)	(101,594)
Decrease/(Increase) in trade and other receivables	207,323	(1,946,871)
(Increase)/Decrease in inventories and property rights	(1,136,903)	293,857
Increase in trade and other payables	1,836,290	3,431,517
Increase in provisions	5,767	7,341
Decrease in employee benefit obligations	(18,163)	(20,656)
Increase in grants	479,771	361,142
Other adjustments	(2,787)	4,701
Income tax paid	(181,945)	(88,798)
Net cash from operating activities	3,623,697	2,863,694
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	18,875	61,546
Purchase of property, plant and equipment, intangible assets and investment property	(1,858,362)	(1,992,385)
Dividend received	(2,588)	70,343
Purchase of other financial assets	(1,997)	(1,997)
Proceeds from sale of other financial assets	1,997	-
Interest received	2,590	-
Repayments of loans	-	9
Other cash provided by (used in) investing activities	(5,312)	(3,381)
Net cash from investing activities	(1,844,797)	(1,865,865)
Cash flows from financing activities		
Dividends paid	(16,482)	(5,651)
Proceeds from borrowings	1,360,881	1,904,829
Repayment of borrowings	(655,914)	(794,064)
Interest paid	(127,063)	(60,837)
Payment of finance lease liabilities	(51,183)	(51,544)
Payment of reverse factoring liabilities	(2,789,932)	(2,216,283)
Other cash provided by (used in) financing activities	6,356	11,984
Net cash from financing activities	(2,273,337)	(1,211,566)
Total net cash flows	(494,437)	(213,737)
Cash and cash equivalents at beginning of period	2,362,193	923,328
Effect of exchange rate fluctuations on cash held	17,634	(2,916)
Cash and cash equivalents at end of period	1,885,390	706,675

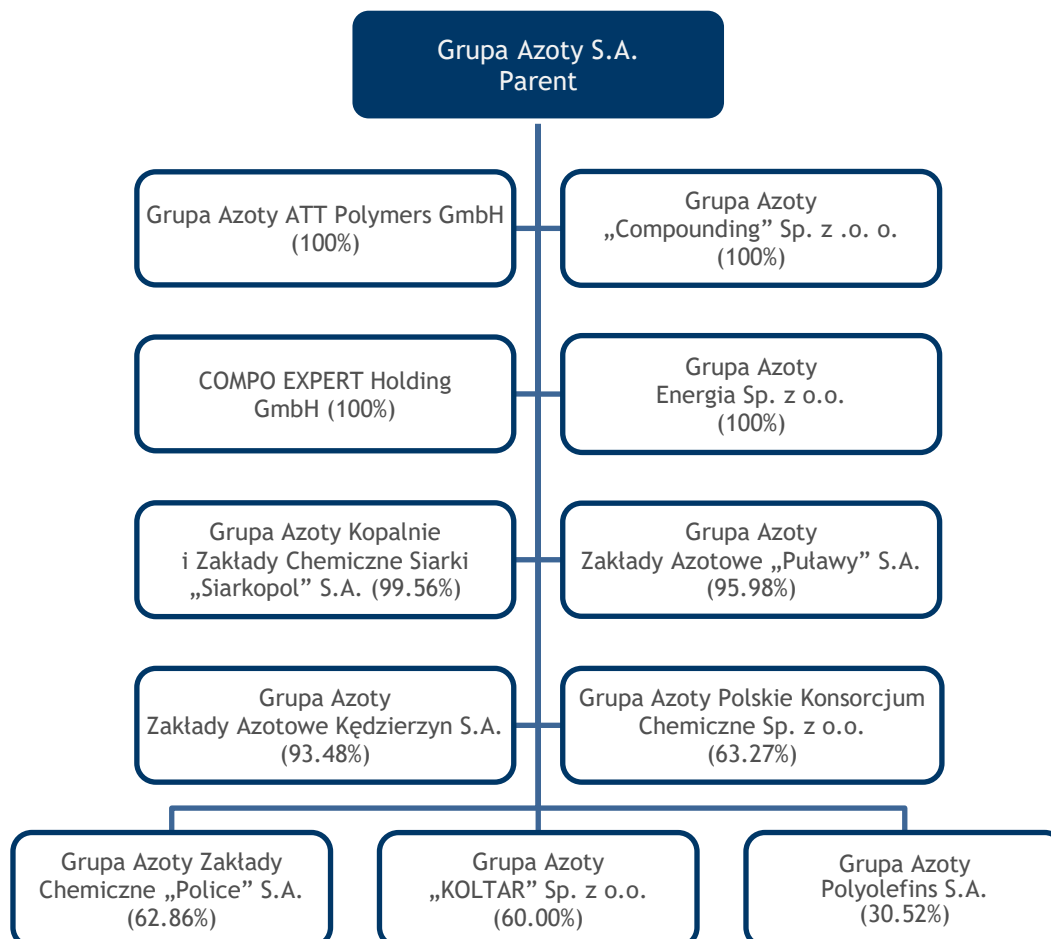
The supplementary information is an integral part of these interim condensed consolidated financial statements.

Supplementary information to the interim condensed consolidated financial statements

1. Description of the Group

1.1. The Group's organisational structure

As at September 30th 2022, the Grupa Azoty Group (the "Group") comprised: Grupa Azoty Spółka Akcyjna - the Parent, 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 ruling 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.

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 November 9th 2022.

Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY)

Company	Ownership interest (%)	Share capital
Agrochem Puławy Sp. z o.o.	100.00	PLN 68,639 thousand
SCF Natural Sp. z o.o.	99.99	PLN 15,001 thousand
Grupa Azoty Zakłady Fosforowe Gdańsk Sp. z o.o.	99.19	PLN 59,003 thousand
Remzap Sp. z o.o.	97.17	PLN 3,528 thousand
Grupa Azoty Zakłady Azotowe Chorzów S.A.	96.48	PLN 94,700 thousand
STO-ZAP Sp. z o.o.	96.15	PLN 1,117 thousand
Prozap Sp. z o.o. ¹⁾	78.86	PLN 892 thousand
Bałtycka Baza Masowa Sp. z o.o.	50.00	PLN 19,500 thousand
Grupa Azoty „KOLTAR” Sp. z o.o. ²⁾	20.00	PLN 54,600 thousand

¹⁾ Grupa Azoty Zakłady Chemiczne „Police” S.A. holds 7.35% of shares in Prozap Sp. z o.o.

²⁾ The Parent holds 60% and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. holds 20% of shares in Grupa Azoty KOLTAR Sp. z o.o.

Grupa Azoty PUŁAWY and the subsidiaries in which it holds equity interests of more than 50%, with the exception of STO-ZAP Sp. z o.o., are consolidated using the full method. STO-ZAP Sp. z o.o. is excluded from consolidation due to immateriality. Bałtycka Baza Masowa Sp. z o.o. is consolidated using the equity method.

Grupa Azoty Zakłady Chemiczne Police S.A. (Grupa Azoty POLICE)

Company	Ownership interest (%)	Share capital
Grupa Azoty Transtech Sp. z o.o.	100.00	PLN 9,783 thousand
Grupa Azoty Police Serwis Sp. z o.o.	100.00	PLN 9,618 thousand
Grupa Azoty Africa S.A. w likwidacji (in liquidation)	99.99	XOF ³⁾ 132,000 thousand
Zarząd Morskiego Portu Police Sp. z o.o.	99.91	PLN 32,642 thousand
Budchem Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankructcy)	48.96	PLN 1,201 thousand
Grupa Azoty Polyolefins S.A. ¹⁾ (Grupa Azoty POLYOLEFINS)	34.41	PLN 922,968 thousand
Kemipol Sp. z o.o.	33.99	PLN 3,445 thousand
Prozap Sp. z o.o. ²⁾	7.35	PLN 892 thousand

¹⁾ The Parent holds 30.52% of shares in Grupa Azoty POLYOLEFINS.

²⁾ Grupa Azoty PUŁAWY holds 78.86% of shares in Prozap Sp. z o.o.

³⁾ XOF is the West African CFA franc.

Kemipol Sp. z o.o. and Budchem Sp. z o.o. are accounted for using the equity method. The other subsidiaries of Grupa Azoty POLICE are fully consolidated.

Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty KĘDZIERZYN)

Company	Ownership interest (%)	Share capital
ZAKSA S.A.	92.45	PLN 6,000 thousand
Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. ¹⁾ (Grupa Azoty PKCh Sp. z o.o.)	36.73	PLN 85,631 thousand
Grupa Azoty „KOLTAR” Sp. z o.o. ²⁾	20.00	PLN 54,600 thousand

¹⁾ The Parent holds 63.27% of shares in Grupa Azoty PKCh Sp. z o.o.

²⁾ The Parent holds 60% and Grupa Azoty PUŁAWY holds 20% of shares in Grupa Azoty KOLTAR Sp. z o.o.

The subsidiary and associates of Grupa Azoty KĘDZIERZYN are fully consolidated as all of them are subsidiaries of Grupa Azoty S.A.

Grupa Azoty PKCh Sp. z o.o.

Company	Ownership interest (%)	Share capital
Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. ¹⁾	100.00	PLN 21,749 thousand
Grupa Azoty Prorem Sp. z o.o. ²⁾	100.00	PLN 11,567 thousand
Grupa Azoty Automatyka Sp. z o.o.	77.86	PLN 4,654 thousand

¹⁾ Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. holds 12% of shares in EKOTAR Sp. z o.o.

²⁾ Grupa Azoty Prorem Sp. z o.o. holds 12% of shares in EKOTAR Sp. z o.o.

All subsidiaries of Grupa Azoty PKCh Sp. z o.o. are fully consolidated.

Compo Expert Holding GmbH Group

Company	Ownership interest (%)	Share capital
COMPO EXPERT International GmbH	100	EUR 25 thousand

COMPO EXPERT International GmbH

Company	Ownership interest (%)	Share capital
COMPO EXPERT GmbH	100.00	EUR 25 thousand
COMPO EXPERT Italia S.r.l.	100.00	EUR 10 thousand
COMPO EXPERT Spain S.L.	100.00	EUR 3 thousand
COMPO EXPERT Portugal, Unipessoal Lda.	100.00	EUR 2 thousand
COMPO EXPERT France SAS	100.00	EUR 524 thousand
COMPO EXPERT Polska Sp. z o.o.	100.00	PLN 6 thousand
COMPO EXPERT Hellas S.A.	100.00	EUR 60 thousand
COMPO EXPERT UK Ltd.	100.00	GBP 1
COMPO EXPERT Techn. (Shenzen) Co. Ltd.	100.00	CNY 2,810 thousand
COMPO EXPERT Asia Pacific Sdn. Bhd.	100.00	MYR 500 thousand
COMPO EXPERT USA&CANADA Inc.	100.00	USD 1
COMPO EXPERT Brasil Fertilizantes Ltda. ¹⁾	99.99	BRL 26,199 thousand
COMPO EXPERT Chile Fertilizantes Ltda. ²⁾	99.99	CLP 1,528,560 thousand
COMPO EXPERT India Private Limited	99.99	INR 2,500 thousand
COMPO EXPERT Benelux N.V. ³⁾	99.99	EUR 7,965 thousand
COMPO EXPERT Mexico S.A. de C.V. ⁴⁾	99.99	MXN 100 thousand
COMPO EXPERT Peru SRL ⁵⁾	99.99	PLN 400 thousand
COMPO EXPERT Egypt LLC ⁶⁾	99.90	EGP 100 thousand
COMPO EXPERT Turkey Tarim Sanai ve Ticaret Ltd. Şirketi ⁷⁾	96.17	TRY 8,375 thousand
COMPO EXPERT Argentina SRL ⁸⁾	90.00	ARS 41,199 thousand

¹⁾ 0.000003% of the share capital is held by COMPO EXPERT GmbH.

²⁾ 0.01% of the share capital is held by COMPO EXPERT GmbH.

³⁾ 0.0103% of the share capital is held by COMPO EXPERT GmbH.

⁴⁾ 0.000311% of the share capital is held by COMPO EXPERT GmbH.

⁵⁾ 0.01% of the share capital is held by COMPO EXPERT GmbH.

⁶⁾ 0.1% of the share capital is held by COMPO EXPERT GmbH.

⁷⁾ 3.83% of the share capital is held by COMPO EXPERT GmbH.

⁸⁾ 10.000024% of the share capital is held by COMPO EXPERT GmbH.

In addition, COMPO EXPERT GmbH holds shares in:

Company	Ownership interest (%)	Share capital
COMPO EXPERT South Africa (Pty) Ltd.	100.00	ZAR 100
COMPO EXPERT Austria GmbH	100.00	EUR 35 thousand

All companies of the COMPO EXPERT Holding GmbH Group are fully consolidated.

1.2. Changes in the Group's structure

Changes in the structure of Group companies in the period July 1st-September 30th 2022:

Agreement to incorporate COMPO EXPERT Peru S.R.L.,

On June 20th 2022, an agreement on incorporation of COMPO EXPERT Peru S.R.L. of Lima, Peru was signed. The company's share capital amounts to PEN 400 thousand and is divided into 400,000 quotas, each with a par value of PEN 1.00. 99.99% of the share capital is held by COMPO EXPERT International GmbH (399960 quotas) and the remaining 0.01% by COMPO EXPERT GmbH (40 quotas).

On July 8th 2022, the share capital was paid up and the incorporation process was completed. On August 4th 2022, the deed concerning the incorporation of the company was confirmed by a notary public and the company commenced its legal existence as of that date.

Removal of Technochimserwis S.A. (closed joint-stock company) from the register of legal entities

In July 2022, Grupa Azoty PUŁAWY became aware that Technochimserwis Zamknięta Spółka Akcyjna of Moscow was removed from the Unified State Register of Legal Entities.

Changes in the shareholding structure of Grupa Azoty POLYOLEFINS

On August 1st 2022, the District Court for Łódź Śródmieście in Łódź, 20th Commercial Division of the National Court Register, registered the merger of Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN") and Grupa LOTOS S.A. ("Grupa LOTOS"). The merger was carried out in accordance with Art. 492.1.1 of the Commercial Companies Code by transferring all assets of Grupa LOTOS, comprising all rights and obligations (assets and liabilities) of Grupa LOTOS as the acquiree to PKN ORLEN as the acquirer, while increasing PKN ORLEN's share capital through the issue of merger shares.

Pursuant to Art. 493.2 of the Commercial Companies Code, the merger was effected on the date of its entry in the register relevant for the registered office address of PKN ORLEN. The entry results in deletion of Grupa LOTOS from the register.

On August 1st 2022, PKN ORLEN assumed all rights and obligations of Grupa LOTOS, in accordance with Art. 494.1 of the Commercial Companies Code (universal succession). As a result of the merger, on August 1st 2022 PKN ORLEN became a shareholder in Grupa Azoty POLYOLEFINS.

2. Basis of preparation of the interim condensed consolidated financial statements

2.1. Statement of compliance and general basis of preparation

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 and nine months ended September 30th 2022 and contain comparative data for the three and nine months ended September 30th 2021 and as at December 31st 2021.

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 2021, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union. The financial statements for 2021 were authorised for issue on April 27th 2022.

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 were authorised for issue by the Parent's Management Board on November 9th 2022.

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 impact of the COVID-19 pandemic on the Group's situation, see section 3.9. For information on the impact of war in Ukraine on the Group's business, see section 3.10. Considering the circumstances described in those section, the Management Board of the Parent has concluded that they do not indicate any threat to the Parent or any of the Group companies continuing as going concerns.

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 2021, except changes in data presentation discussed below in item c).

a) Amendments to International Financial Reporting Standards

The following standards effective as of 2022 have no material impact on the Group's business or its financial reporting:

Standard	Description of amendments	Effect on financial statements
<p>IFRS 3 Business Combinations IAS 16 Property, Plant and Equipment IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020 Cycle (Annual improvements)</p>	<p>The amendments were issued on May 14th 2020, and are effective for annual periods beginning on or after January 1st 2022. The amendments prohibit deducting from the cost of property, plant and equipment of any proceeds from selling test products manufactured while the entity is developing/preparing the asset for its intended use, and clarify what costs the entity takes into account when assessing whether a contract will generate losses.</p>	<p>As at January 1st 2022, the application of the new standards IFRS 3, IAS 16 and IAS 37 had no material effect on Group's financial statements.</p>
<p>IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021.</p>	<p>The amendment to IFRS 16 was issued on March 31st 2021 and is effective for annual periods beginning on or after April 1st 2021. The only purpose of the amendment is to extend by one year (until June 30th 2022) the period in which the granting of COVID-19-related rent concessions does not need to involve a modification of the lease contract. This amendment is closely related to the already effective amendment to IFRS 16, issued in May 2020.</p>	<p>The amendment to the standard has no impact on the financial statements of the Group.</p>

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:

In these financial statements, the Group has not opted to early apply any standards or interpretations which have been issued but are not yet effective.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but are not effective as at the reporting date:

Standard	Description of amendments	Effect on financial statements
<p>IFRS 17 Insurance Contracts</p>	<p>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.</p>	<p>Not applicable</p>

<p>IAS 1 Presentation of Financial Statements: <i>Classification of Liabilities as Current or Non-current</i></p>	<p>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.</p>	<p>The Group has not yet completed the analysis of the effect of this amendment on the financial statements.</p>
<p>IAS 1 Presentation of Financial Statements: <i>Disclosure of Accounting Policies</i> IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: <i>Definition of Accounting Estimates</i></p>	<p>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.</p>	<p>The Group has not yet completed the analysis of the effect of this amendment on the financial statements.</p>
<p>IAS 12 Income Taxes: <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i></p>	<p>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.</p>	<p>The Group has not yet completed the analysis of the effect of this amendment on the financial statements.</p>
<p>IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Financial Instruments <i>Comparative Information</i></p>	<p>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.</p>	<p>The Group has not yet completed the analysis of the effect of this amendment on the financial statements.</p>

c) Presentation changes

Effective January 1st 2022, the Group changed its method of accounting for general and administrative expenses by reportable segment. Previously, these expenses were accounted for based on the share of cost of individual products in the total cost of products sold. The existing allocation key takes into account the approach based on the share of margin on variable costs earned by each segment in the total margin on variable costs of the entity in which the reportable segments have been identified. The margin based on variable segment costs includes variable costs of products sold as well as selling and distribution expenses.

The change in the allocation key based on the share of general and administrative expenses in the total cost of products sold more accurately reflects the allocation of this cost to the individual segments.

The presentation of these expenses in the operating segments for the period ended September 30th 2021 was changed.

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 2021, subject to measurement revisions resulting from the passage of time or a change of market parameters, with the exception of the assumptions concerning carbon emissions planned for the financial year, which has decreased considerably as a result of the production cuts made in the second half of the year.

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 2022 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 2022 was determined at PLN 59,433 thousand based on the market prices of the allowances as at September 30th 2022.


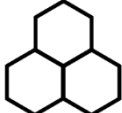



3. Selected notes and supplementary information

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 identified operating segments are presented in the table below.

Name	Scope of activities
 <p>Agro Fertilizers</p>	<p>Manufacture or sale of:</p> <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: liquid: UAN- urea-ammonium nitrate solution, urea solution and ammonium sulfate solution), • Nitrogen fertilizers, • Ammonia, • Technical-grade and concentrated nitric acid, • Industrial gases.
 <p>Plastics</p>	<p>Manufacture or sale of:</p> <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 (PA6, PPC - polypropylene, PPH, PBT - polybutylene terephthalate), • Plastic products (PA pipes, PE pipes, polyamide casings), • Production of polypropylene by Grupa Azoty POLYOLEFINS.
 <p>Chemicals</p>	<p>Manufacture or sale of:</p> <ul style="list-style-type: none"> • Melamine, • OXO products (OXO alcohols, plasticizers), • Sulfur, • Titanium white, • Iron sulfate, • technical-grade urea, solutions based on urea and ammonia
 <p>Energy</p>	<p>Production of energy carriers:</p> <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;
 <p>Other Activities</p>	<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 nine months ended September 30th 2022 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	11,811,340	1,735,104	5,197,722	561,810	244,708	19,550,684
Intersegment revenue	6,464,788	660,518	1,848,344	6,698,095	767,427	16,439,172
Total revenue	18,276,128	2,395,622	7,046,066	7,259,905	1,012,135	35,989,856
Operating expenses, including: (-)	(16,998,117)	(2,339,335)	(6,295,306)	(7,114,259)	(942,799)	(33,689,816)
<i>selling and distribution expenses (-)</i>	(667,505)	(53,220)	(161,846)	(141)	(1,131)	(883,843)
<i>administrative expenses (-)</i>	(349,008)	(95,196)	(166,418)	(21,551)	(53,221)	(685,394)
Other income	7,273	6,056	6,453	5,548	44,134	69,464
Other expenses (-)	(5,251)	(4,458)	(6,058)	(10,976)	(46,466)	(73,209)
Segment's EBIT	1,280,033	57,885	751,155	140,218	67,004	2,296,295
Finance income	-	-	-	-	-	94,253
Finance costs (-)	-	-	-	-	-	(417,983)
Share of profit of equity-accounted investees	-	-	-	-	-	13,179
Profit before tax	-	-	-	-	-	1,985,744
Income tax	-	-	-	-	-	(383,137)
Net profit	-	-	-	-	-	1,602,607
EBIT	1,280,033	57,885	751,155	140,218	67,004	2,296,295
Depreciation and amortisation	253,762	47,087	67,526	84,677	94,894	547,946
Impairment losses	101	92	711	10	(3,558)	(2,644)
EBITDA	1,533,896	105,064	819,392	224,905	158,340	2,841,597

Operating segments' income, expenses and financial results for the nine months ended September 30th 2021 (unaudited, restated*)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	5,770,416	1,352,776	2,813,405	251,632	228,526	10,416,755
Intersegment revenue	2,686,338	326,439	891,485	3,070,025	752,366	7,726,653
Total revenue	8,456,754	1,679,215	3,704,890	3,321,657	980,892	18,143,408
Operating expenses, including: (-)	(8,281,286)	(1,652,837)	(3,481,257)	(3,309,575)	(964,221)	(17,689,176)
<i>selling and distribution expenses (-)</i>	(571,306)	(52,739)	(137,330)	(142)	(1,545)	(763,062)
<i>administrative expenses (-)</i>	(281,689)	(114,536)	(159,747)	(10,681)	(34,638)	(601,291)
Other income	5,094	47,671	6,374	4,034	13,824	76,997
Other expenses (-)	(7,942)	(9,640)	(3,400)	(4,195)	(16,617)	(41,794)
Segment's EBIT	172,620	64,409	226,607	11,921	13,878	489,435
Finance income	-	-	-	-	-	62,533
Finance costs (-)	-	-	-	-	-	(186,952)
Share of profit of equity-accounted investees	-	-	-	-	-	12,215
Profit before tax	-	-	-	-	-	377,231
Income tax	-	-	-	-	-	(109,541)
Net profit	-	-	-	-	-	267,690
EBIT	172,620	64,409	226,607	11,921	13,878	489,435
Depreciation and amortisation	248,140	57,692	75,558	85,190	110,524	577,104
Impairment losses	-	-	-	-	-	-
EBITDA	420,760	122,101	302,165	97,111	124,402	1,066,539

*In accordance with the information provided in section [2.2 c](#)).

Operating segments' income, expenses and financial results for the three months ended September 30th 2022 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	3,944,971	510,313	1,453,826	299,132	105,510	6,313,752
Intersegment revenue	2,080,619	255,651	554,054	2,240,560	262,000	5,392,884
Total revenue	6,025,590	765,964	2,007,880	2,539,692	367,510	11,706,636
Operating expenses, including: (-)	(6,052,648)	(798,415)	(2,017,328)	(2,424,189)	(339,000)	(11,631,580)
<i>selling and distribution expenses (-)</i>	<i>(203,084)</i>	<i>(15,123)</i>	<i>(53,690)</i>	<i>(2)</i>	<i>335</i>	<i>(271,564)</i>
<i>administrative expenses (-)</i>	<i>(102,368)</i>	<i>(35,724)</i>	<i>(50,169)</i>	<i>(14,041)</i>	<i>(17,383)</i>	<i>(219,685)</i>
Other income	1,965	3,194	(792)	1,482	20,898	26,747
Other expenses (-)	(726)	(780)	(1,437)	(1,731)	(15,166)	(19,840)
Segment's EBIT	(25,819)	(30,037)	(11,677)	115,254	34,242	81,963
Finance income	-	-	-	-	-	77,924
Finance costs (-)	-	-	-	-	-	(214,048)
Share of profit of equity-accounted investees	-	-	-	-	-	5,318
Profit before tax	-	-	-	-	-	(48,843)
Income tax	-	-	-	-	-	(30,510)
Net profit	-	-	-	-	-	(79,353)
EBIT	(25,819)	(30,037)	(11,677)	115,254	34,242	81,963
Depreciation and amortisation	87,977	15,881	23,202	29,534	32,216	188,810
Impairment losses	66	23	(58)	-	(4,186)	(4,155)
EBITDA	62,224	(14,133)	11,467	144,788	62,272	266,618

Operating segments' income, expenses and financial results for the three months ended September 30th 2021 (unaudited, restated*)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	2,109,835	510,621	1,101,689	83,705	76,250	3,882,100
Intersegment revenue	1,076,489	134,902	299,721	1,220,077	284,933	3,016,122
Total revenue	3,186,324	645,523	1,401,410	1,303,782	361,183	6,898,222
Operating expenses, including: (-)	(3,247,351)	(635,596)	(1,305,853)	(1,293,482)	(352,336)	(6,834,618)
<i>selling and distribution expenses (-)</i>	<i>(200,985)</i>	<i>(19,374)</i>	<i>(50,037)</i>	<i>(62)</i>	<i>(211)</i>	<i>(270,669)</i>
<i>administrative expenses (-)</i>	<i>(79,078)</i>	<i>(38,987)</i>	<i>(59,130)</i>	<i>(4,192)</i>	<i>(12,334)</i>	<i>(193,721)</i>
Other income	775	44,827	2,131	1,088	(1,360)	47,461
Other expenses (-)	(3,374)	(404)	(1,229)	(1,753)	2,589	(4,171)
Segment's EBIT	(63,626)	54,350	96,459	9,635	10,076	106,894
Finance income	-	-	-	-	-	1,053
Finance costs (-)	-	-	-	-	-	(76,489)
Share of profit of equity-accounted investees	-	-	-	-	-	4,169
Profit before tax	-	-	-	-	-	35,627
Income tax	-	-	-	-	-	(21,653)
Net profit	-	-	-	-	-	13,974
EBIT	(63,626)	54,350	96,459	9,635	10,076	106,894
Depreciation and amortisation	82,600	19,247	25,273	28,699	37,487	193,306
Impairment losses	-	-	-	-	-	-
EBITDA	18,974	73,597	121,732	38,334	47,563	300,200

*In accordance with the information provided in section [2.2c](#).

Segments' assets and liabilities as at September 30th 2022 (unaudited)

as at September 30th 2022	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	9,979,436	6,135,453	1,925,485	3,465,140	1,463,650	22,969,164
Unallocated assets	-	-	-	-	-	2,822,976
Investments in associates	-	-	-	-	-	90,357
Total assets	9,979,436	6,135,453	1,925,485	3,465,140	1,463,650	25,882,497
Segment's liabilities	4,386,365	3,702,894	339,990	2,558,637	456,171	11,444,057
Unallocated liabilities	-	-	-	-	-	3,493,223
Total liabilities	4,386,365	3,702,894	339,990	2,558,637	456,171	14,937,280

Operating segments' assets and liabilities as at December 31st 2021 (audited)

as at Dec 31 2021	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	8,665,117	4,658,001	1,964,011	3,130,221	1,515,944	19,933,294
Unallocated assets	-	-	-	-	-	3,618,753
Investments in associates	-	-	-	-	-	92,658
Total assets	8,665,117	4,658,001	1,964,011	3,130,221	1,515,944	23,644,705
Segment's liabilities	5,269,655	2,507,114	354,415	3,070,824	689,302	11,891,310
Unallocated liabilities	-	-	-	-	-	2,821,228
Total liabilities	5,269,655	2,507,114	354,415	3,070,824	689,302	14,712,538

Geographical areas

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

Revenue

	for the period Jan 1 – Sep 30 2022	for the period Jan 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2022	for the period Jul 1 – Sep 30 2021
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Poland	10,974,551	4,884,169	3,972,871	1,832,909
Germany	1,711,456	1,236,880	468,905	484,934
Other EU countries	4,337,524	2,578,922	1,164,891	896,424
Asia	265,497	258,829	82,116	96,463
South America	410,488	277,742	112,407	128,018
Other countries	1,851,168	1,180,213	512,562	443,352
Total	19,550,684	10,416,755	6,313,752	3,882,100

No single trading partner accounted for more than 10% of revenue in the three months ended September 30th 2022 and in the three months ended September 30th 2021.

3.2. Impairment testing

As at September 30th 2022, two of the external impairment indicators listed in par. 12 of IAS 36 Impairment of Assets were identified,

- i.e., the carrying amount of the Parent's net assets was higher than the Parent's market capitalisation,
- market interest rates increased during the period and the increase affected the discount rate applied to calculate the value in use of cash-generating units, reducing their value.

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 adopted strategy and the key assumptions did not change,
- the definition of cash generating units (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 2021,
- the cost dynamics were to a large extent reflected on the income side,
- the production cuts at the Group's key companies in the third quarter of 2022 are temporary and have no material effect on the long-term value of the Group's non-current assets,
- for the majority of CGUs EBITDA for the first nine months of 2022 was higher than planned, as was consolidated EBITDA,
- the projected financial results for 2022 for the majority of the Group's CGUs were also higher than the planned results for the period underlying the impairment tests at the end of 2021.

The risk-free interest rate (yield on 10-year Treasury bonds) rose from 3.64% at the end of 2021 to 7.12% at the end of September 2022. This drove up the weighted average cost of capital for the Grupa Azoty Group, which amounted to:

- for the Fertilizers CGU - 12.90% for the period of detailed projections and 9.88% for the residual period,
- for the Plastics CGU - 12.16% for the period of detailed projections and 9.23% for the residual period,
- for the other CGUs - 12.24% for the period of detailed projections and 9.27% for the residual period.
- for COMPO EXPERT - 7.01%

At the same time, the discount rates for all the Group's CGUs, with the exception of COMPO EXPERT, were lower as at September 30th 2022 than as at June 30th 2022.

The lower discount rate in the residual period follows from the assumption that the current high yield on 10-year Treasury bonds is chiefly due to high inflation. Assuming that in the long term inflation rates will return to a level consistent with the inflation target of the National Bank of Poland (2.5%), the treasury bond yields will also decrease.

The increase in discount rates in the first nine months of 2022 led to a decrease in the recoverable amount of individual CGUs. A detailed analysis of the effect of changes in discount rates, as well as additional analyses and simulations, were performed for each CGU as at June 30th 2022. Their results and assumptions, together with the results of tests prepared for the Pigments CGU at Grupa Azoty POLICE, Oxoplast CGU at Grupa Azoty KĘDZIERZYN and for Grupa Azoty KOLTAR, are presented in the "Interim condensed consolidated financial statements for the six months ended June 30th 2022".

As at September 30th 2022, additional analyses of the planned EBITDA for 2022 were made based on the most recent forecasts, and it was concluded that for almost all CGUs EBITDA is higher than the EBITDA levels predicted in the forecast prepared as part of the analyses made as at June 30th 2022. In the case of CGUs with results

below those reported as at June 30th 2022, the differences were lower than the excesses based on the most recent estimates of recoverable amounts, reflecting discount rates as at September 30th 2022.

For COMPO EXPERT, the weighted average cost of capital of 7.01% was applied, calculated on the basis of financial parameters from the German market (yield on 10-year government bonds, market risk premium for Germany). The change in the approach to calculating the weighted average cost of capital relative to the calculation made as at the end of 2021 follows from the disparities between changes in financial parameters in Poland and Germany in the first nine months of 2022. It was determined that since COMPO EXPERT's activities are financed in the euro and its main manufacturing plant and key operations are based in Germany it was appropriate to adopt a discount rate calculated for the German market.

In view of the above circumstances and considering the provisions of par. 16(b) of IAS 36 *Impairment of Assets*, decision was made to not prepare a formal estimate of recoverable amounts as at September 30th 2022, considering that the estimates of recoverable amounts determined in previous tests as at December 31st 2021 or as at June 30th 2022 remained valid as at September 30th 2022 and therefore no additional impairment losses were necessary; further, none of the circumstances provided any rationale for reversing impairment losses recognised in prior periods.

Impairment test of Grupa Azoty POLYOLEFINS shares

Grupa Azoty POLYOLEFINS, the subsidiary responsible for the implementation of the strategic capex project Polimery Police, monitors the projected profitability of its investment using a financial model for the project developed in cooperation with reputable advisory firms. The key assumptions developed for the purposes of the financial model, including technological assumptions and market forecasts, are based on independent studies, such as technical documentation provided by recognised engineering companies (including technology licensors) and market advisor reports.

The model was updated in December 2021 to reflect the modification of the EPC contract schedule and value made following the General Contractor's claim submitted in the second half of 2021, which was analysed and reviewed by the subsidiary. The financial model, updated to account for the negotiated changes, was submitted to the investors and financing institutions together with documentation requiring their approval. Having obtained confirmation from the financing institutions and the required corporate approvals, on January 28th 2022 the subsidiary executed Annex No. 3 to the contract with the General Contractor.

The updated and approved financial model takes into account the provisions of Annex 3, in particular a EUR 72.48m increase in the contract price, update of the payment schedule, and extension of the project completion date by six months.

Based on the positive findings of the economic feasibility study carried out on the basis of the financial model referred to above, which Grupa Azoty POLYOLEFINS uses as a recoverable amount estimate for the purposes of asset impairment testing, the determination that assets of the Polimery Police project were not impaired was upheld as at September 30th 2022.

For detailed information on impairment tests and their results, see Note 2 to the Consolidated Financial Statements of the Grupa Azoty Group for the 12 months ended December 31st 2021.

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

The PLN 1,375,669 thousand increase in **property, plant and equipment** was attributable mainly to higher expenditure on non-current assets as part of the Polimery Police strategic project implemented by Grupa Azoty POLYOLEFINS.

The PLN 804,376 thousand increase in **inventories** was related to an increase in prices of key raw materials, leading to higher production costs.

The PLN 388,689 thousand increase in **property rights** is attributable to the performance of futures contracts for the purchase of carbon emission allowances, settlement of emissions for 2021, and receipt of free allowances for 2022, as shown in the table below.

CO₂ emission allowances held (number of units)

	as at	as at
	Sep 30 2022	Dec 31 2021
	<i>unaudited</i>	<i>audited</i>
Balance at beginning of period (units held)	5,277,013	4,742,055
Allocated	4,728,688	4,774,325
Purchased	2,799,553	2,890,048
Redeemed	(7,263,735)	(7,129,415)
Balance at end of period (units held)	5,541,519	5,277,013
Free allocation of CO ₂ emission allowances expected to be received for 2022 (recognised as receivables)	143,584	-
Emissions in the reporting period	4,680,873	7,249,936

In April 2022, most of the free CO₂ emission allowances were credited to the accounts of the Group companies' installations participating in the EU ETS. A small number of the allowances are to be returned. The allowances will be returned after the European Commission has issued a decision approving the final annual number of free emission allowances allocated to the installations for 2022.

The PLN 417,953 thousand decrease in reverse factoring liabilities presented under other current financial liabilities was attributable to the repayment of factoring liabilities contracted as at December 31st 2021 and lower use of this form of financing as at September 30th 2022. The change resulted in a decline in **cash and cash equivalents**.

The PLN 930,824 thousand increase in long-term **borrowings** was mainly attributable to the disbursement of long-term investment credit facilities to Grupa Azoty POLYOLEFINS to finance the strategic investment project Polimery Police.

The PLN 769,431 thousand decrease in **short-term trade and other payables** was, among others, a result of the anti-inflationary measures taken by the government, which included a reduction of the VAT rate on natural gas from 23% to 0% and on electricity from 23% to 5%, and a concurrent decrease in the consumption of natural gas in September 2022 relative to December 2021.

The PLN 491,932 thousand increase in **short-term grants** was mainly attributable to the recognition of free CO₂ emission allowances received or expected to be received.

In the third quarter of 2022, the Group generated consolidated revenue of PLN 6,314m, EBITDA of PLN 267m and EBITDA margin of 4.2%. Year on year, the Group recorded a drop in results. The above figures were delivered amid high uncertainty caused by soaring and volatile prices of commodities, in particular natural gas, which resulted in temporary production cuts at certain units of the Company and the subsidiaries Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN. In the Agro segment, the reporting quarter saw further increases in the prices of raw materials used in fertilizer production, in particular natural gas, being a consequence of Russia's armed aggression against Ukraine. The rapid growth in natural gas prices which began in the second half of 2021 continued to reach a peak at the end of August 2022, followed by a major correction in September. The average market price of natural gas in the third quarter of 2022 compared to the same period last year rose by more than 300%. As a consequence of the unprecedented increases in the price of natural gas, a decision was made in August 2022 to temporarily reduce production at three key companies of the Group: the Company, Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN. The Group companies were among the last producers in the European Union who decided to cut production. In the third quarter of 2022, the product demand situation and growing prices of raw materials used in production were the main determinants of the Chemicals Segment's performance. Demand on the target markets was relatively weak and European producers came under significant competitive pressure from non-EU imports. As a result of the adverse market situation, melamine production at Grupa Azoty PUŁAWY was temporarily suspended. The products for which a year-on-year growth in sales volumes was reported were sulfur and NOx. In the third quarter of 2022, the Plastics Segment reported significant volatility in prices of key raw materials: benzene and phenol. The prices climbed to record highs in July 2022 to start a steep decline in August. The high cost of raw materials prompted the decision to temporarily halt production. The Plastics segment was mainly affected by poor demand from the main markets of polyamide applications. The demand situation was additionally aggravated by the summer holiday season. The exception was the packaging sector where demand remained stable throughout the reporting period. There were no signs of any significant demand recovery in the EU automotive industry, an important customer for the Plastics segment. Moreover, the reporting period saw higher imports of more attractively priced polyamide products and derivatives into the European market.

In the third quarter of 2022, the Energy Segment reported strong performance. The improvement is largely a one-time event and results from the resale of electricity not consumed as a result of production cuts introduced during that period. Electricity contracted in previous years on the forward market was resold in the third quarter of 2022 at higher prices on the spot market.

3.4. Contingent liabilities, contingent assets, sureties and guarantees

Contingent assets

	as at Sep 30 2022	as at Dec 31 2021
	<i>unaudited</i>	<i>audited</i>
Contingent receivables	20,911	29,659

The amount of contingent receivables mainly resulted from 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 Sep 30 2022	as at Dec 31 2021
	<i>unaudited</i>	<i>audited</i>
Other contingent liabilities, including guarantees	37,271	37,697

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 33,260 thousand. The case is pending. In the opinion of the Management Board, the claims are unjustified, but resolving the dispute through amicable settlement is a possible outcome.

The balance secured a grant awarded to Grupa Azoty ATT Polymers GmbH by Investitionsbank des Landes Brandenburg (ILB) to finance a part of the expenditure on the 'Construction of a Logistics Centre' project in Guben (EUR 1,800 thousand) and claims made by other companies filed in the course of business and 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 and nine months ended September 30th 2022, 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 and nine months ended September 30th 2022, 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 are 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 – Sep 30 2022	for the period Jan 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2022	for the period Jul 1 – Sep 30 2021
	<i>Unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	620,956	331,566	622,270	331,458
Recognised	1,910	862	486	1
Reversed (-)	(3,785)	(452)	(3,782)	(449)
Used (-)	(987)	(1,040)	(880)	(74)
At end of period	618,094	330,936	618,094	330,936

Changes in inventory write-downs

	for the period Jan 1 – Sep 30 2022	for the period Jan 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2022	for the period Jul 1 – Sep 30 2021
	<i>Unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	89,217	62,619	89,226	66,826
Recognised	68,084	32,957	47,230	13,486
Acquisition	-	160	-	33
Reversed (-)	(18,697)	(7,717)	(12,258)	(4,125)
Used (-)	(24,802)	(22,025)	(9,565)	(10,569)
Exchange differences	1,385	37	554	380
At end of period	115,187	66,031	115,187	66,031

Changes in impairment losses on receivables

	for the period Jan 1 – Sep 30 2022	for the period Jan 1 – Sep 30 2021	for the period Jul 1 – Sep 30 2022	for the period Jul 1 – Sep 30 2021
	<i>Unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	87,907	86,252	89,058	85,747
Recognised	6,486	5,724	1,634	662
Reversed (-)	(10,664)	(3,638)	(7,977)	-
Used (-)	(2,708)	(2,514)	(647)	(794)
Sale	-	1,646	-	1,646
Exchange differences	830	(54)	(217)	155
At end of period	81,851	87,416	81,851	87,416

3.7. Dividend

In the third quarter of 2022 and as at the issue date of the financial statements for that period, the Parent did not pay any dividends. On June 29th 2022, the Parent's Annual General Meeting passed a resolution to allocate the entire amount of the Parent's net profit for the financial year 2021, of PLN 191,789,688.13, to the Parent's reserve funds.

3.8. Seasonality of operations

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

Mineral fertilizers

The third quarter of each year is the period when demand for fertilizers reaches the lowest level during the year due to the harvest season. A steady increase in demand is usually observed only at the end of the quarter and is related to winter crops sowing at that time. At present, due to the abnormal market situation caused by the skyrocketing gas prices demand for fertilizers was lower than in previous years and its level reflected only current needs of the agricultural sector. The Grupa Azoty Group's policy mitigates the seasonality effect on results through optimum volume allocation within the all-year-round supplies to the distribution network and by selling a part of products on geographical markets with different seasonality patterns.

Titanium white

Because of its chief application (as a component of paints and varnishes), titanium white is a seasonal product used in construction. The demand usually starts to rise at the end of the first quarter and falls as the construction season ends in autumn.

3.9. Effects 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 consider the introduced legislative changes and changes 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

Following the invasion of Ukraine by the armed forces of the Russian Federation in February 2022, a number of countries, in particular the countries of the European Union and the United States of America, provided political, military and humanitarian assistance to Ukraine and imposed a number of very extensive economic sanctions on the Russian Federation and the Republic of Belarus, from whose territory the attack on Ukraine also took place. These sanctions include a ban on the sale of materials for military application, military technology, the exclusion of some Russian banks from the SWIFT international clearing system, the freezing of the Russian Federation's foreign assets, as well as a ban on cooperation with a number of citizens and entities from the Russian Federation.

On February 25th 2022, a coordination team was appointed at the Group in view of the threat to operational safety and continuity of production in connection with Russia's aggression in Ukraine. The team comprises organisational unit directors/heads in charge of key areas of the Company's operations, in particular production, procurement, logistics, as well as support functions: safety, IT, finance, market protection, compliance management and investor relations.

The Group has identified areas of potential risk that may materially affect its future financial results. Below are presented the key areas of risk analysis and their status by the date of authorisation of these financial statements for issue.

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

In the reporting period, natural gas was supplied under a contract with Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"). As described in more detail in [3.13](#), the gas supply contract with PGNiG in force, as at the reporting date, until October 1st 2022 was on July 7th 2022 extended until September 30th 2023. As announced by PGNiG on April 27th 2022, supplies of natural gas from Russia to Poland were withheld as a result of PGNiG's refusal to make payments for gas in the Russian currency.

As at the date of authorisation of these consolidated financial statements for issue, there were no interruptions in the supply of natural gas to the Group and the production cuts in the third quarter of 2022 were made due to the high gas price making production activities unprofitable. The Group monitors the situation around gas supplies on an ongoing basis. Contingency scenarios have also been developed in case manufacturing operations would have to be curtailed in the event of a reduction in natural gas supplies, including in particular for reduction of the load on production units.

In the context of the strong growth of energy commodity prices after Russia's invasion of Ukraine in February 2022, it should be noted that since the Group purchases natural gas in transactions with fixed delivery prices entered into as part of the natural gas price hedging policy, the impact of the market turbulence on the Group in the first half of 2022 was limited and had no adverse effect on the volume of production. Since mid-June 2022, a strong upward trend in natural gas prices has been observed, from approximately EUR 80/MWh to more than EUR 200/MWh, with the prices significantly above EUR 300/MWh on several days in August 2022. One of the reasons for this increase is the reduction of supplies from the Russian Federation to Germany. High prices of natural gas in the summer season have a material effect on the ability to pass them on to selling prices in the summer season, in particular in the fertilizer segment. Therefore, on August 22nd 2022 the Parent's Management Board decided to temporarily halt or cut production on the main process lines. Similar decisions were made by the subsidiaries Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN. For more information, see Section [3.12](#). Until the date of authorisation of these interim consolidated financial statements, most of the units resumed production.

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 supply of potassium carbonate, and it may materialise due to the military hostilities in Ukraine, the economic and financial sanctions, lower availability, price increases, as well as problems in the area of logistics and financial settlements. Intensive efforts to secure supplies of raw materials from alternative sources have been undertaken and are continuing.

As regards propylene, supplies from the eastern direction were fully replaced with supplies from alternative sources. As at the date of authorisation of these financial statements for issue, the sanctions did not have any impact on deliveries to the Group companies and no production constraints were identified.

In addition, a major and growing risk is related to the availability of hard coal, which was largely imported from Russia. The imports have been suspended due to the sanctions. Companies of the Grupa Azoty Group did not import hard coal from Russia. Hard coal is the key feedstock for the plants operated by the Group's main companies, necessary to produce process steam for production purposes. The strong increase in natural gas prices triggered growth of electricity prices, which significantly increased the economic feasibility and volumes of coal-fired electricity generation in Europe, translating directly into a major rise in coal consumption. The increased

demand for hard coal and lack of coal supplies from Russia have led to a price surge, but also to logistics problems related to ensuring the supply of coal to Europe from sources alternative to Russia.

The Group monitors the situation with respect to securing hard coal supplies by negotiating deliveries with domestic coal producers and looking for alternative import sources. As a result of preventive measures being undertaken, as at the date of authorisation of these financial statements for issue there was no material risk to the continuity of coal supply to the production plants operated by the Group's main companies.

3. Potential risk to timely implementation of projects carried out at the Company and the Grupa Azoty Group due to possible issues related to unavailability or constrained availability of contractor staff following the general mobilisation order in Ukraine.

As at the date of authorisation of these consolidated financial statements for issue, the Parent and its subsidiaries did not observe any significant impact of the risk on their investment and maintenance activities. The claims raised on April 22nd 2022 by the general contractor for the "Construction of coal-fired power generating unit" project at Grupa Azoty PUŁAWY, caused, among others, by the consequences of the war in Ukraine, are still being thoroughly reviewed and assessed for validity under the contract, as well as in the light of relevant facts.

4. Higher risk of an increase in financing costs, interest rate rises 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 outbreak of war in Ukraine was the rise of concerns 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 rapid inflation growth that started before the beginning of the war brought about interest rate increases. 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. Despite a decrease in debt following repayment of working capital and term facilities and repayment of reverse factoring, financing costs rose significantly compared with the third quarter of 2021 in the wake of interest rate hikes. Due to the spikes in natural gas prices observed from the end of the second quarter of 2022, temporary production shutdowns and cuts by the Parent and its subsidiaries (Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN), as well as forecasts of economic slowdown in Poland and in the eurozone, the Group's liquidity position in subsequent periods may deteriorate, which will result in higher debt and a corresponding increase in financing costs.

It should also be noted that the Parent and its subsidiaries do not hold any material assets in Ukraine, Russia and Belarus. In the first nine months of 2022, sales to Ukraine accounted for 1.1% of the Grupa Azoty Group's consolidated revenue and were mainly sales of mineral fertilizers. Sales to Russia and Belarus did not exceed 0.03% of revenue, and until the date of Russia's attack on Ukraine deliveries were made mostly on a pre-paid basis or secured with trade credit insurance policies. Since the outbreak of war in Ukraine, sales of products by the Parent and its subsidiaries to customers in Russia and Belarus have been suspended. Sales to the Ukrainian market have been reduced due to the unavailability of trade receivables insurance and the financial condition of the buyers. 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.

The Grupa Azoty Group is monitoring the political and economic situation in connection with Russia's aggression against Ukraine, analysing the impact of these circumstances on the Parent's and Group's business and taking appropriate measures to minimise their effect on the Group's financial and economic position.

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 sanction 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.

Embargo on Russian commodities

A ban on the import of coal from the Russian Federation was introduced by the European Union on April 8th 2022 and by Poland on April 13th 2022. The Polish embargo has been in effect as of April 16th 2022 and the EU embargo as of August 10th 2022.

Those sanctions, together with the increase in coal demand due to high natural gas prices, led to a significant reduction in the availability of thermal coal and, consequently, a surge in its prices. Coal supplies from other

directions are further limited by logistics constraints related to handling capacities in ports and railway transport capacities.

In addition, the subsidiary Grupa Azoty PUŁAWY has received from Lubelski Węgiel Bogdanka S.A. a notice, dated September 29th 2022, notifying it of the occurrence of circumstances preventing the latter from performing the Long-Term Agreement for Sale of Thermal Coal, signed by the two companies on January 8th 2009. Lubelski Węgiel Bogdanka S.A. estimates that in the worst-case scenario it may fail to supply a total of approximately 160,000 tonnes of coal to Grupa Azoty PUŁAWY until the end of 2023. Lubelski Węgiel Bogdanka S.A. also pointed out in the notice that the operating forecast included therein is an estimate only, which means that there is no guarantee that the forecast will be met.

This risk may have a material effect on the Group's operations in subsequent periods. The Grupa Azoty Group has prepared analyses and action scenarios and has taken appropriate preventive measures in case of escalation of problems related to coal availability and prices in the fourth quarter of 2022 and in subsequent periods. Given the current market situation, additional purchases of thermal coal will be made at higher prices.

3.12. Production cuts and temporary shutdown of certain units

In view of the prevailing market conditions, namely growing prices of natural gas and achievable product selling prices which were not sufficient to cover costs to the required extent, the Parent and the subsidiaries Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN decided to temporarily reduce or suspend production on selected process lines.

On July 8th 2022, the Management Board of Grupa Azoty PUŁAWY decided to reduce melamine production, and on August 10th 2022, given the record-high prices of natural gas and declining demand for melamine - to suspend the production of melamine completely until further notice. Obligations to supply melamine under trade contracts, largely of a short-term nature, were performed in reliance on the accumulated stocks.

On August 22nd 2022, the Management Board of the Parent decided to temporarily shut down the units producing nitrogen fertilizers, caprolactam and polyamide 6. The Company continued to produce catalysts, polyamide casings, humic acids, thermoplastic starch and concentrated nitric acid.

During the announced temporary shutdown of production units, investment and repair work, including the scheduled overhaul of the Polyamide unit, was carried out.

On August 22nd 2022, the subsidiary Grupa Azoty PUŁAWY introduced temporary production cuts. The subsidiary reduced its ammonia output to about 10% of capacity. Production activities in the Plastics and Agro Segments has also been halted, with the exception of production of ammonium sulfate from the FGD Plant, NOXy®, Likam and PULNOX®.

During the temporary shutdown of the subsidiary's production units, investment and repair work was carried out.

On August 23rd 2022, the Management Board of the subsidiary Grupa Azoty KĘDZIERZYN decided to reduce, as of August 24th 2022, the operation of production units to a minimum, i.e., to 43% in the case of the Fertilizers Unit.

The decisions are due to the extraordinary and unprecedented increase in natural gas prices.

The current situation in the gas market, which determines the profitability of production activities, is extraordinary and completely beyond the control of the Grupa Azoty Group, and could not have been predicted.

The purpose of the production cuts on certain process lines was to optimise the Group's financial performance. To that end, intensive efforts were made to sell the existing inventories at prices sufficient to cover production costs and to reduce expenses. In addition, the Group's performance was affected by sales of products which continued to be manufactured. Also some maintenance tasks were accelerated relative to original plans, which will increase the availability of the plant's capacities in future periods.

The Group companies keep monitoring the level of natural gas prices and conditions prevailing on the buyer market. Given the seasonal nature of the fertilizer market, the production scaledown did not have any material impact on the security of supplies to the market. October 2022 saw a change in the market landscape, in particular as a result of a significant drop in natural gas prices. In effect, most of the units resumed production, as described in Section [3.14](#).

On October 10th 2022, the Act on the Rules of Implementation of Business Support Programmes in View of the Situation on the Energy Market in 2022-2024 was signed into law and took effect on October 13th 2022. Work is currently under way on a programme which will define the rules and amounts of aid granted to businesses in connection with high gas and electricity prices and to energy-intensive companies, such as the Parent and most of its subsidiaries. Since the European Commission presented in recent weeks another draft amendment to the temporary crisis framework of State aid measures to support the economy after Russia's aggression against Ukraine (basis for the national law), the Ministry decided to suspend the publication of the national programme until final solutions are submitted by the European Commission.

As a result, as at the date of issue of these financial statements it was not possible to determine the potential effect of the proposed regulations on the operations and financial performance of the Company and its subsidiaries.

3.13. Other information

Extension of Individual Contracts with PGNiG S.A.

On July 7th 2022, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN and Grupa Azoty SIARKOPOL (collectively the "Grupa Azoty Group Customers") executed an annex to the Gas Sale Framework Agreement of April 13th 2016 and annexes to Individual Contracts.

As a result of the execution of the annexes to the Individual Contracts, PGNiG will remain the strategic supplier of gas fuel for the Grupa Azoty Group Customers until September 30th 2023.

The total value of the annexes executed with the Azoty Group Customers for the term of extension of the Individual Contracts is estimated at approximately PLN 13.4bn. The pricing formula applied in the Individual Contracts is based on gas market price indices.

Execution of an agreement to negotiate potential acquisition of shares in a company developing a PV farm project

On July 20th 2022 the Parent entered into an agreement with VSB Holding GmbH of Dresden, Germany, Janusz Franciszek Siemieniec (collectively the "Sellers") and Solarfarm Brzezinka Sp. z o.o. of Wrocław ("Solarfarm") (the Parent, the Sellers and Solarfarm are collectively referred to as the "Parties") to conduct negotiations, on an exclusive basis, regarding the potential acquisition of 100% of shares in the share capital of Solarfarm Brzezinka sp. z o.o. (the "Agreement").

The Parties expressed their interest in collaborating on a project to build the Brzezinka solar PV power plant with a capacity of approximately 270 MWp that is being developed by Solarfarm, comprising preparatory, construction and installation work, grid connection, commissioning and potential operation of the power plant (the "PV Project"). Once the Parties have agreed on the target business model and technical and economic parameters and once the conditions precedent agreed upon during negotiations have been met, the PV Project may be acquired by the Parent or its subsidiary Grupa Azoty Energia Sp. z o.o. through the acquisition of 100% of the shares in Solarfarm, unless the Parties agree on a different transaction model.

The Agreement sets out the terms and conditions of the negotiations to be conducted by the Parties on an exclusive basis with a view to closing the transaction and defining the terms of the collaboration, as well as the key parameters necessary for closing the transaction and enabling the collaboration, including the financial model and technical and economic parameters of the PV Project, the purchase price of Solarfarm shares, the price payment terms and price adjustment methods, if applicable.

If the transaction is closed, it will significantly contribute to achieving the goals outlined in the part of the Grupa Azoty Strategy 2021-2030 where it provides for the acquisition of own renewable energy sources.

As at the date of authorisation of these interim consolidated financial statements for publication, analysis of the project and discussions with the Sellers were underway.

Approaching the State Treasury with a proposal regarding acquisition and integration of ZEW Niedzica S.A. into the Grupa Azoty Group

On September 12th 2022, having completed a due diligence and valuation of the business of Zespół Elektrowni Wodnych Niedzica S.A. ("ZEW Niedzica") and considering the Grupa Azoty Group's Strategy for 2021-2030 envisaging, among other things, the Group's transition towards renewable energy sources, the Management Board of the Company decided to request the Polish State Treasury, as the sole shareholder in ZEW Niedzica, to initiate a process leading to its potential acquisition and merger into the Grupa Azoty Group.

The principal business of ZEW Niedzica is the generation of renewable energy from hydropower assets - the pumped-storage hydroelectric power station in Niedzica, and the hydroelectric power plants in Sromowce Wyżne on the Dunajec River, and in Łączany and Smolice on the Vistula River. Their annual electricity output is approximately 100 GWh.

Further steps in the potential transaction and its optimal structure are subject to specific arrangements with the State Treasury.

Execution of coal purchase contract

On September 19th 2022, following a tender procedure, the Parent entered into a framework contract for the purchase of coal with the successful bidder Polska Grupa Importowa Premium Sp. z o.o.

The contract provides for the supply of imported thermal coal. Coal deliveries to be made under the contract will be complementary to other sources of coal used by the Parent for energy generation purposes.

The Contract has been concluded for an indefinite period and contains general terms and conditions of cooperation related to the supply and offtake of coal. The total value of coal to be delivered in 2022 is estimated at approximately PLN 110m, VAT-exclusive.

Framework contracts for the purchase of coal with Polska Grupa Importowa Premium Sp. z o.o. were also executed by the subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN. Coal deliveries to be made under the respective contracts will be complementary to deliveries received by the subsidiaries from their strategic suppliers. The contracts also permit the customers to redirect contracted coal supplies between themselves.

The total value of deliveries to be made by the seller to the subsidiaries in 2022 is estimated at approximately PLN 160m (exclusive of VAT).

The Group may order further deliveries under the contract in the future.

Annex 8 to the multi-purpose credit facility (MPCF) agreement with PKO BP S.A.

On September 26th 2022, the Parent and its subsidiaries signed an annex to the PLN 240m multi-purpose credit facility agreement with PKO BP S.A. Under the annex:

- the term of the MPCF agreement, originally expiring on September 30th 2022, was extended until September 30th 2025, with the option to extend it for subsequent 12-month periods,
- the credit facility limit under the MPCF agreement was increased to PLN 1bn, with an option to draw the funds in PLN, EUR or USD,
- an overdraft facility was made available within the facility limit to the Parent,
- a revolving working capital facility, bank guarantees and bank letters of credit were made available within the facility limit to the Parent and the Group companies being parties to the MPCF agreement;
- the following companies: Grupa Azoty PUŁAWY, Grupa Azoty KĘDZIERZYN and Grupa Azoty POLICE were released from their obligations under a surety agreement for the MPCF agreement of June 29th 2018.

As at the annex date, the following limits and sub-limits were set within the obtained facility limit with effect from September 30th 2022:

- limit of the overdraft facility for the Parent: up to PLN 300m;
- sub-limits of the revolving facility, guarantees and letters of credit: up to PLN 575m for the Parent, up to PLN 62m for Grupa Azoty POLICE, up to PLN 1m for Grupa Azoty PUŁAWY, up to PLN 30m for Grupa Azoty KĘDZIERZYN, and up to a total of PLN 32m for the other Group companies being borrowers under the MPCF agreement.

The annex to the MPCF agreement is part of a long-term financing package designed to finance the Group companies' general operating needs and to ensure security of financing for the Group companies through the umbrella nature of allocating limits linked to the physical cash pool mechanism.

As of September 30th 2022, the MPCF agreement as amended by the annex superseded the overdraft facility agreements for up to PLN 310m and EUR 75m (or its equivalent in USD) formerly executed with PKO BP S.A.

For detailed information on the annex to the multi-purpose credit facility agreement, refer to Current Report No. 30/2022 of September 26th 2022.

Physical cash pooling (PCP) agreement with PKO BP S.A.

On September 26th 2022, the Parent and the Group companies executed a new PLN, EUR and USD physical cash pooling agreement with PKO BP S.A. with a term running until September 30th 2025.

As of September 30th 2022, the CPR agreement superseded the PLN physical cash pooling agreement and the PLN, EUR and USD physical cash pooling agreement formerly executed with PKO BP S.A.

For detailed information on the physical cash pooling agreement, refer to Current Report No. 30/2022 of September 26th 2022.

3.14. Events after the reporting date

Production partly resumed and units relaunched after temporary shutdown

On October 12th 2022, the Management Board of the Parent announced that in view of change in the market situation a decision was made to resume production at nitrogen fertilizers, caprolactam and polyamide 6 units. The units were relaunched on October 12th 2022.

On October 12th 2022, in view of change in the market situation, the subsidiary Grupa Azoty PUŁAWY decided to increase the capacity utilisation and relaunch the nitrogen fertilizers units (PULAN®, PULAN® MACRO, SALETRZAK 27N, PULREA®, PULREA®+INu, RSM®) in the Agro Segment as of October 12th 2022.

On October 21st 2022, the subsidiary Grupa Azoty KĘDZIERZYN decided to relaunch production units at the Fertilizer Unit to 100% of their production capacity.

On October 27th 2022, the subsidiary Grupa Azoty PUŁAWY decided to resume the production of melamine (Agro Segment) by relaunching the Melamine III unit and the caprolactam unit (Plastics Segment). Production was resumed at around one third of the production capacity.

Merger of PKN ORLEN with Polskie Górnictwo Naftowe i Gazownictwo S.A.

On November 2nd 2022, the District Court for Łódź Śródmieście in Łódź, 20th Commercial Division of the National Court Register, registered the merger of PKN ORLEN and Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"). The merger was carried out in accordance with Art. 492.1.1 of the Commercial Companies Code by transferring all assets of PGNiG, comprising all rights and obligations (assets and liabilities) of PGNiG as the acquiree to PKN ORLEN as the acquirer, while increasing PKN ORLEN's share capital through the issue of merger shares.

Pursuant to Art. 493.2 of the Commercial Companies Code, the merger was effected on the date of its entry in the register relevant for the registered office address of PKN ORLEN. The entry results in deletion of PGNiG from the register.

On November 2nd 2022, PKN ORLEN assumed all rights and obligations of PGNiG, in accordance with Art. 494.1 of the Commercial Companies Code (universal succession). As a result of the merger, on November 2nd 2022 PKN ORLEN became a strategic supplier of natural gas to the Grupa Azoty Group companies.



Interim condensed financial statements of
Grupa Azoty Spółka Akcyjna
for the three and nine months ended September 30th 2022,
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 – Sep 30 2022	for the period Jan 1 – Sep 30 2021	for the period Jan 1 – Sep 30 2022	for the period Jan 1 – Sep 30 2021
Revenue	3,164,844	1,682,630	675,095	369,119
Operating profit	265,869	43,448	56,713	9,531
Profit before tax	597,304	137,764	127,411	30,221
Net profit	555,570	130,155	118,509	28,552
Comprehensive income for the period	529,622	134,292	112,974	29,460
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per ordinary share (PLN)	5.60	1.31	1.19	0.29
Net cash from operating activities	611,156	629,792	130,366	138,158
Net cash from investing activities	310,857	82,423	66,309	18,081
Net cash from financing activities	(922,499)	(412,535)	(196,779)	(90,498)
Total net cash flows	(486)	299,680	(104)	65,741
Cash and cash equivalents at beginning of period	1,816,416	464,174	387,461	101,826
Cash and cash equivalents at end of period	1,815,462	763,836	387,257	167,563
	as at Sep 30 2022	as at Dec 31 2021	as at Sep 30 2022	as at Dec 31 2021
Non-current assets	8,766,371	8,672,145	1,800,150	1,885,495
Current assets	3,031,321	2,995,716	622,473	651,328
Non-current liabilities	2,677,877	2,996,495	549,895	651,497
Current liabilities	3,468,777	3,549,950	712,304	771,829
Equity	5,651,038	5,121,416	1,160,425	1,113,497
Share capital	495,977	495,977	101,848	107,835

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 September 30th 2022 was EUR 1 = PLN 4.8698 (table No. 190/A/NBP/2022);
the exchange rate as at December 31st 2021 was EUR 1 = PLN 4.5994 (table No. 254/A/NBP/NBP/2021).
- 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-September 30th 2022, the average exchange rate was EUR 1 = PLN 4.6880;
in the period January 1st-September 30th 2021, the average exchange rate was EUR 1 = PLN 4.5585.

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 – Sep 30 2022 unaudited	for the period Jan 1 – Sep 30 2021 unaudited	for the period Jul 1 – Sep 30 2022 unaudited	for the period Jul 1 – Sep 30 2021 unaudited
Profits and losses				
Revenue	3,164,844	1,682,630	1,091,647	688,403
Cost of sales	(2,626,661)	(1,455,890)	(1,025,376)	(621,245)
Gross profit	538,183	226,740	66,271	67,158
Selling and distribution expenses	(106,940)	(81,703)	(34,440)	(32,789)
Administrative expenses	(157,082)	(144,125)	(49,684)	(45,073)
Other income	16,407	54,237	9,630	46,938
Other expenses	(24,699)	(11,701)	(5,665)	(2,856)
Operating profit/(loss)	265,869	43,448	(13,888)	33,378
Finance income	477,430	148,282	114,943	4,311
Finance costs	(145,995)	(53,966)	(64,551)	(24,012)
Net finance income/(costs)	331,435	94,316	50,392	(19,701)
Profit before tax	597,304	137,764	36,504	13,677
Income tax	(41,734)	(7,609)	6,089	(1,882)
Net profit	555,570	130,155	42,593	11,795
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Actuarial gains from defined benefit plans	10,518	4,562	-	-
Losses on remeasurement of equity instruments at fair value through other comprehensive income	(2,569)	-	-	-
Tax on items that will not be reclassified to profit or loss	(1,510)	(867)	-	-
Total items that will not be reclassified to profit or loss	6,439	3,695	-	-
Items that are or may be reclassified to profit or loss				
Cash flow hedges - effective portion of fair-value change	(39,984)	546	(29,841)	(18,355)
Income tax relating to items that are or will be reclassified to profit or loss	7,597	(104)	5,670	3,487
Total items that are or may be reclassified to profit or loss	(32,387)	442	(24,171)	(14,868)
Total other comprehensive income	(25,948)	4,137	(24,171)	(14,868)
Comprehensive income for the period	529,622	134,292	18,422	(3,073)
Earnings per share:				
Basic (PLN)	5.60	1.31	0.43	0.12
Diluted (PLN)	5.60	1.31	0.43	0.12

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

Interim condensed statement of financial position

	as at Sep 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Assets		
Non-current assets		
Property, plant and equipment	1,779,798	1,745,022
Right-of-use assets	50,165	33,285
Investment property	19,967	20,179
Intangible assets	44,590	47,869
Shares	5,719,609	5,710,173
Other financial assets	1,143,084	1,090,218
Other receivables	9,158	25,399
Total non-current assets	8,766,371	8,672,145
Current assets		
Inventories	354,519	332,205
Property rights	225,648	203,075
Other financial assets	139,697	186,962
Trade and other receivables	495,995	457,058
Cash and cash equivalents	1,815,462	1,816,416
Total current assets	3,031,321	2,995,716
Total assets	11,797,692	11,667,861
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	(71,655)	(39,268)
Retained earnings	2,808,446	2,246,437
Total equity	5,651,038	5,121,416
Liabilities		
Borrowings	2,487,583	2,810,252
Lease liabilities	40,934	30,522
Other financial liabilities	21,523	29,834
Employee benefit obligations	44,529	55,839
Provisions	26,696	18,224
Government grants	49,343	49,699
Deferred tax liabilities	7,269	2,125
Total non-current liabilities	2,677,877	2,996,495
Borrowings	2,522,176	2,297,455
Lease liabilities	14,873	7,580
Derivative financial instruments	1,336	1,310
Other financial liabilities	199,575	409,366
Employee benefit obligations	5,409	5,025
Current tax liabilities	28,760	16,941
Trade and other payables	615,269	779,150
Provisions	25,521	30,598
Government grants	55,858	2,525
Total current liabilities	3,468,777	3,549,950
Total liabilities	6,146,654	6,546,445
Total equity and liabilities	11,797,692	11,667,861

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

Interim condensed statement of changes in equity

For the period ended September 30th 2022 (*unaudited*)

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
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	-	-	-	555,570	555,570
Other comprehensive income	-	-	(32,387)	6,439	(25,948)
Comprehensive income for the period	-	-	(32,387)	562,009	529,622
Balance as at Sep 30 2022 (<i>unaudited</i>)	495,977	2,418,270	(71,655)	2,808,446	5,651,038

for the period ended September 30th 2021 (*unaudited*)

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
As at Jan 1 2021	495,977	2,418,270	(47,487)	2,042,406	4,909,166
<i>Profit or loss and other comprehensive income</i>					
Net profit	-	-	-	130,155	130,155
Other comprehensive income	-	-	442	3,695	4,137
Comprehensive income for the period	-	-	442	133,850	134,292
Balance as at Sep 30 2021 (<i>unaudited</i>)	495,977	2,418,270	(47,045)	2,176,256	5,043,458

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

Interim condensed statement of cash flows

	for the period Jan 1 – Sep 30 2022 <i>unaudited</i>	for the period Jan 1 – Sep 30 2021 <i>unaudited</i>
Cash flows from operating activities		
Profit before tax	597,304	137,764
Depreciation and amortisation	104,808	106,578
Impairment losses	502	478
Loss/(gain) from investing activities	1,047	(43,643)
Interest, foreign exchange gains or losses	89,202	10,319
Dividends	(340,542)	(99,452)
Fair value gain on financial assets	(51,796)	(16,138)
Increase in trade and other receivables	(39,131)	(379,278)
(Increase)/Decrease in inventories and property rights	(44,887)	1,272
Increase in trade and other payables	261,485	868,523
Increase in provisions	3,396	1,181
Decrease in employee benefit obligations	(408)	(382)
Increase in grants	51,459	36,452
Other adjustments	(2,599)	(3,500)
Income tax paid/(refunded)	(18,684)	9,618
Net cash from operating activities	611,156	629,792
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	1,384	45,156
Purchase of property, plant and equipment, intangible assets and investment property	(128,452)	(132,628)
Dividend received	340,344	70,138
Purchase of other financial assets	(12,005)	-
Interest received	34,667	11,295
Loans	(50,000)	-
Repayments of loans	126,840	89,879
Other cash provided by (used in) investing activities	(1,921)	(1,417)
Net cash from investing activities	310,857	82,423
Cash flows from financing activities		
Proceeds from borrowings	247,264	1,607,054
Repayment of borrowings	(424,353)	(1,247,898)
Interest paid	(122,508)	(36,961)
Commission fees on bank borrowings	(2,798)	(3,663)
Payment of lease liabilities	(9,188)	(9,833)
Payment of reverse factoring liabilities	(611,533)	(729,511)
Other cash provided by (used in) financing activities	617	8,277
Net cash from financing activities	(922,499)	(412,535)
Total net cash flows	(486)	299,680
Cash and cash equivalents at beginning of period	1,816,416	464,174
Effect of exchange rate fluctuations on cash held	(468)	(18)
Cash and cash equivalents at end of period	1,815,462	763,836

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

Notes to the interim condensed financial statements

1. Basis of preparation of the interim condensed financial statements

1.1. Statement of compliance and general basis of preparation

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 and nine months ended September 30th 2022 and contain comparative data for the three and nine months ended September 30th 2021 and as at December 31st 2021.

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 term.

Grupa Azoty's business includes in particular:

- Manufacture of basic chemicals,
- Manufacture of fertilizers and nitrogen compounds,
- Manufacture of plastics in primary forms,
- Manufacture of plastics.

These interim condensed financial statements of the Company for the three and nine months ended September 30th 2022 were authorised for issue by the Management Board on November 9th 2022.

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 2021, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union and authorised for issue on April 27th 2022.

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 impact of the COVID-19 pandemic on the Company's situation, see section [3.9 Effects of the COVID-19 pandemic](#). For information on the impact of the war in Ukraine on the Company's business, see section [2.3](#). Considering the circumstances described in those sections, 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 2021.

a) Amendments to International Financial Reporting Standards

The following standards effective as of 2021 have no material impact on the Company's operations or its financial reporting:

Standard	Description of amendments	Effect on financial statements
IFRS 3 Business Combinations IAS 16 Property, Plant and Equipment IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020 Cycle (Annual improvements)	<p>The amendments were issued on May 14th 2020, and are effective for annual periods beginning on or after January 1st 2022. The amendments prohibit deducting from the cost of property, plant and equipment of any proceeds from selling test products manufactured while the entity is developing/preparing the asset for its intended use, and clarify what costs the entity takes into account when assessing whether a contract will generate losses.</p>	<p>As at January 1st 2022, the application of the new standards IFRS 3, IAS 16 and IAS 37 had no material effect on Company's financial statements. There was no need to make any adjustments to data for the previous reporting periods.</p>
IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021.	<p>The amendment to IFRS 16 was issued on March 31st 2021 and is effective for annual periods beginning on or after April 1st 2021. The only purpose of the amendment is to extend by one year (until June 30th 2022) the period in which the granting of COVID-19-related rent concessions does not need to involve a modification of the lease contract. This amendment is closely related to the already effective amendment to IFRS 16, issued in May 2020.</p>	<p>The amendment to the standard has no impact on the financial statements of Company.</p>

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:

In these financial statements, the Company has not opted to early apply any standards or interpretations which have been issued but are not yet effective.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but are not effective as at the reporting date:

Standard	Description of amendments	Effect on financial statements
IFRS 17 Insurance Contracts	<p>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.</p>	<p>Not applicable</p>

<p>IAS 1 Presentation of Financial Statements: <i>Classification of Liabilities as Current or Non-current</i></p>	<p>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.</p> <p>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.</p>	<p>The Company has not yet completed the analysis of the effect of this amendment on the financial statements.</p>
<p>IAS 1 Presentation of Financial Statements: <i>Disclosure of Accounting Policies</i> IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: <i>Definition of Accounting Estimates</i></p>	<p>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.</p>	<p>The Company has not yet completed the analysis of the effect of this amendment on the financial statements.</p>
<p>IAS 12 Income Taxes: <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i></p>	<p>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.</p>	<p>The Company has not yet completed the analysis of the effect of this amendment on the financial statements.</p>
<p>IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Financial Instruments <i>Comparative Information</i></p>	<p>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.</p>	<p>The Company has not yet completed the analysis of the effect of this amendment on the financial statements.</p>

2. Supplementary information

2.1. Impairment testing

As at September 30th 2022, two of the external impairment indicators listed in par. 12 of IAS 36 Impairment of Assets were identified,

- i.e., the carrying amount of the Company's net assets was higher than its market capitalisation,
- market interest rates increased during the period and the increase affected the discount rate applied to calculate the value in use of cash-generating units, reducing their value.

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 adopted strategy and the key assumptions did not change,
- the definition of cash generating units (CGUs) at the Company and the value of assets of each CGU did not change materially relative to the respective amounts as at December 31st 2021,
- the cost dynamics were to a large extent reflected on the income side,
- the production cuts introduced by the Company in the third quarter of 2022 are temporary and have no material effect on the long-term value of the Company's non-current assets,
- for CGUs identified at the Company, EBITDA for the first nine months of 2022 was higher than planned,
- the projected financial results for 2022 for the Company's CGUs were also higher than the planned results for the period underlying the impairment tests at the end of 2021.

The risk-free interest rate (yield on 10-year Treasury bonds) rose from 3.64% at the end of 2021 to 7.12% at the end of September 2022. This drove up the weighted average cost of capital for the Company, which amounted to:

- for the Fertilizers CGU - 12.90% for the period of detailed projections and 9.88% for the residual period,
- for the Plastics CGU - 12.16% for the period of detailed projections and 9.23% for the residual period.

At the same time, the discount rates for both CGUs of the Company were lower as at September 30th 2022 than as at June 30th 2022.

The lower discount rate in the residual period follows from the assumption that the current high yield on 10-year Treasury bonds is chiefly due to high inflation. Assuming that in the long term inflation rates will return to a level consistent with the inflation target of the National Bank of Poland (2.5%), the treasury bond yields will also decrease.

The increase in discount rates in the first nine months of 2022 led to a decrease in the recoverable amount of individual CGUs. A detailed analysis of the effect of changes in discount rates, as well as additional analyses and simulations, were performed for both CGUs as at June 30th 2022. Their results and assumptions are presented in the "Interim condensed consolidated financial statements for the six months ended June 30th 2022".

As at September 30th 2022, additional analyses of EBITDA for 2022 were made based on the most recent forecasts, and it was concluded that for both CGUs EBITDA is higher than the EBITDA levels predicted in the forecast prepared as part of the analyses made as at June 30th 2022.

In view of the above circumstances and considering the provisions of par. 16(b) of IAS 36 Impairment of Assets, decision was made to not prepare a formal estimate of recoverable amounts as at September 30th 2022, considering that the estimates of recoverable amounts determined in previous tests as at December 31st 2021 remained valid as at September 30th 2022 and therefore no additional impairment losses were necessary; further, none of the circumstances provided any rationale for reversing impairment losses recognised in prior periods.

Impairment test of Grupa Azoty POLYOLEFINS shares

Grupa Azoty POLYOLEFINS, the subsidiary responsible for the implementation of the strategic capex project Polimery Police, monitors the projected profitability of its investment using a financial model for the project developed in cooperation with reputable advisory firms. The key assumptions developed for the purposes of the financial model, including technological assumptions and market forecasts, are based on independent studies, such as technical documentation provided by recognised engineering companies (including technology licensors) and market advisor reports.

The model was updated in December 2021 to reflect the modification of the EPC contract schedule and value made following the General Contractor's claim submitted in the second half of 2021, which was analysed and reviewed by the subsidiary. The financial model, updated to account for the negotiated changes, was submitted to the investors and financing institutions together with documentation requiring their approval. Having obtained confirmation from the financing institutions and the required corporate approvals, on January 28th 2022 the subsidiary executed Annex No. 3 to the contract with the General Contractor.

The updated and approved financial model takes into account the provisions of Annex No. 3, in particular a EUR 72.48m increase in the contract price, update of the payment schedule, and extension of the project completion date by six months.

Based on the positive findings of the economic feasibility study carried out on the basis of the financial model referred to above, which Grupa Azoty POLYOLEFINS uses as a recoverable amount estimate for the purposes of asset impairment testing, the determination that assets of the Polimery Police project were not impaired was upheld as at September 30th 2022, which warrants the conclusion that no impairment has occurred in respect of the shares in Grupa Azoty POLYOLEFINS held by the Company or loans advanced by the Company to Grupa Azoty POLYOLEFINS.

For detailed information on the impairment tests and the results thereof, see Note 2 to the Company's financial statements for the 12 months ended December 31st 2021.

2.2. Effects 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 of the interim condensed consolidated financial statements of the of the Grupa Azoty Group for the three and nine months ended September 30th 2022.

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 Note 3.10 3.10 of the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2022.

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 Note 3.11 of the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2022.

2.5. Additional information

In the third quarter of 2022, the Company generated revenue of PLN 1,092 million, an increase of 63% (or PLN 404 million) year on year. The increase is attributable to higher product prices (PLN 571m) reflecting growing prices of raw materials and energy. In the quarter under analysis, the Company's cost of sales amounted to PLN 1,025 million, an increase of 65% (PLN 404 million) year on year. The main cost drivers were prices of key raw materials (PLN 494 million), including prices of natural gas and ammonia (PLN 408 million, petrochemical feedstocks - PLN 68 million).

As at September 30th 2022, grants increased following the recognition by the Company of the outstanding grant of CO₂ emission allowances of PLN 53,336 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 September 30th 2022 was as follows:

Instrument	Total valuation	Company's interest (47%)	Grupa Azoty POLICE's interest (53%)
Call option (financial asset)	170,747	80,251	90,496
Put option (financial liability)	26,770	12,582	14,188

The effect of measurement of the financial instruments referred to above on the Company's profit before tax in the third quarter of 2022 was PLN 5,436 thousand, and from the beginning of the year - PLN 33,158 thousand.



Management's discussion and analysis of Grupa Azoty Spółka Akcyjna's performance in Q3 2022

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 September 30th 2022, the Grupa Azoty Group (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 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 GmgH

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) and distributes PA6 produced by the Parent.

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"). Its objective is 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 shareholdings in subsidiaries as at September 30th 2022

(in relevant currency)

Company	Registered office/address	Share capital	Equity interest (%)
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

The Parent and its subsidiaries as at September 30th 2022



Parent

Grupa Azoty COMPOUNDING
100%

Grupa Azoty ENERGIA
100%

Grupa Azoty PKCh
63.27%

Grupa Azoty KOLTAR
60%

2 Grupa Azoty PUŁAWY
95.98%

3 Grupa Azoty POLICE
62.86%

4 Grupa Azoty KĘDZIERZYN
93.48%

5 Grupa Azoty SIARKOPOL
99.56%

6 Grupa Azoty ATT POLYMERS
100%

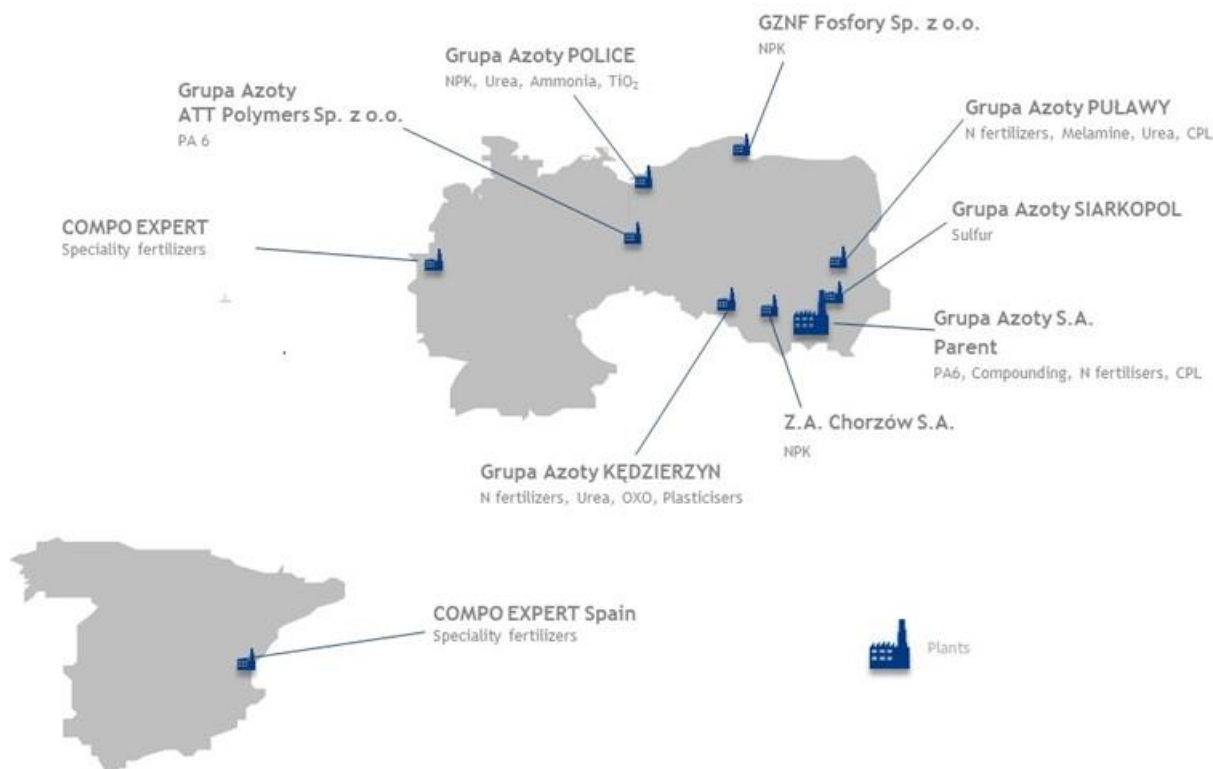
7 COMPO EXPERT
100%

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 companies' 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 containing 46% nitrogen; it is produced in Puławy (as PULREA®), Police (as mocznik.pl®), 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, which 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% 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 Group's current offering includes more than 40 grades of compound fertilizers, which are marketed under the following trade names: Polifoska®, Polidap®, Polimag® 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 Azoplón Nutri, Azoplón Opti, Fertiplon, 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 tiles 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 balance 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 deficit. The Group secures phenol supplies for its own needs under long-term contracts concluded directly with Europe's largest producers. In 2019, the Grupa Azoty Group increased its internal storage capacities, thus optimising the phenol supply chain.

Phosphate rock

Phosphate rock is purchased under annual 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. 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 annual 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.

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

Exchange rates

The third quarter of 2022 saw strong volatility in the currency market, driven by persistent geopolitical tensions, the war in Ukraine and high uncertainty as to the pace and extent of monetary tightening in the US, EU and Poland, and as to the economic activity worldwide. Strong exchange rate fluctuations are affecting currencies in the emerging markets basket and peripheral currencies as well as reserve currencies: the Japanese yen (JPY) and the pound sterling (GBP), as well as the Chinese yuan (CNY), a currency with a reputation for stability. The US dollar remains the world's strongest currency. Its value relative to the US Dollar Index (a basket of six main currencies of the world) reached a 20-year high. Under these circumstances, the zloty is failing to attract strong demand.

Another factor that has adversely affected the zloty is a negative current account balance, estimated by the National Bank of Poland at PLN 18.7bn in August, compared with PLN 8.4bn in the corresponding period of 2021. Due to high prices of energy commodities, the negative trade balance will continue into the coming quarters.

In the third quarter of 2022, the Monetary Policy Council (RPP) continued to tighten its monetary policy. In September, it raised the interest rates by 25 basis points, to 6.75% in the case of the reference rate. In October 2022, contrary to the expectations of most economics, the interest rates did not change. The Monetary Policy Council cited the latest macroeconomic projections to be published in November as a reason for the pause in rate hikes. The difference between the domestic interest rates and the rates in the euro area and the US is expected to decrease by the end of the year (75 basis-point hikes by the Fed and the ECB at the end of October and beginning of November are being discussed). Real interest rates in PLN will remain strongly negative due to persistent high domestic inflation.

In the reporting period, the Polish zloty was also adversely affected by growing fears of economic downturn and the increasingly distant prospects of disbursement of funds under the National Recovery Plan. Since mid-year, the national currency has been subject to further strong depreciation pressure, which may continue into the following months.

Overall, in the three months ended September 30th 2022 the zloty depreciated relative to both euro and US dollar by 4.0% and 10.5%, respectively, versus the levels recorded at the end of June 2022. The average PLN/EUR exchange rate weakened by 2.2% quarter on quarter and the average PLN/USD exchange rate - by 8.1%.

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 Group's performance in the third quarter of 2022 in terms of the Group's partly-offset EUR exposure and limited USD exposure. At the same time, due to the interest rate hikes, the Group's finance costs rose gradually in the reporting period.

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 that allows its companies to use the Group's global liquidity limit in these currencies, which further reduces exposure to the currency risk in the euro and the US dollar by correcting potential mismatches in revenue and expenses over time.

In the third quarter of 2022, the Group settled FX forward contracts for the sale of EUR and USD and entered into new transactions hedging its currency exposure, albeit to a very limited extent given the increased volatility of its currency exposure during the period.

The net result on settled hedging transactions of the Group (excluding Grupa Azoty POLYOLEFINS) in the three months ended September 30th 2022 was negative at PLN -7,015 thousand. This was accompanied by a negative net result on remeasurement of hedging instruments, at PLN -1,674 thousand, caused by the significant appreciation of the euro against the zloty in the third quarter of 2022.

The overall net result of the Group (excluding Grupa Azoty POLYOLEFINS) on the settlement and remeasurement of FX hedges in the three months ended September 30th 2022 was PLN -8,689 thousand.

Grupa Azoty POLYOLEFINS's exposure to currency risk

In the period under analysis, Grupa Azoty POLYOLEFINS held and entered into FX forward contracts to buy EUR and PLN for USD to hedge the 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.

During the period, Grupa Azoty POLYOLEFINS replaced with FX forward contracts some of its call options for the purchase of EUR for USD, securing a planned increase in the Polimery Police project costs to be covered with proceeds from the term facility.

As at September 30th 2022, Grupa Azoty POLYOLEFINS had the following open contracts:

- FX forward to buy approximately EUR 155m for USD (hedging expenditure planned to be financed with proceeds from the USD-denominated term facility available under the Credit Facilities Agreement),
- FX forward to buy approximately PLN 120m 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 September 30th 2022, the total result on the measurement of the company's FX hedges was PLN -204,172 thousand, including PLN -37,938 thousand attributable to the measurement of transactions designated for hedge accounting purposes.

Interest rate risk

With the exception of fixed-rate credit facilities, the Grupa Azoty Group companies, excluding Grupa Azoty POLYOLEFINS, were not parties to any interest rate hedging transactions.

In the period under analysis, 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 September 30th 2022, Grupa Azoty POLYOLEFINS had the following open contracts:

- IRS with a zero floor on EURIBOR for a maximum notional amount of approximately EUR 370m (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 approximately USD 408m (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 September 2022, the notional amount of the transactions hedging interest rate risk was higher than the actual amount of debt outstanding under the term facility due to shifts in the timing of incurring credit liabilities relative to the original schedule. Therefore, 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 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 September 30th 2022, the total result on the measurement of open IRSs with a zero floor executed by the Company was PLN 491,409 thousand, including PLN 360,542 thousand attributable to the measurement of transactions designated for hedge accounting purposes.

Commodity risk - natural gas prices

In August 2022, natural gas prices at Europe's largest hub TTF (Title Transfer Facility) hit a record level of EUR 345/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 prices down to EUR 190/MWh at the end of September. Given increased LNG imports into Europe, further price declines at the largest European gas hubs should be expected in the coming months. 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 September 30th 2022, the notional amount of the Group's open foreign currency derivatives (FX Forward) was EUR 41m (maturing in 2022 and 2023) and EUR 3.5m under options, maturing in the period October to December 2022, entered into by Grupa Azoty POLICE.

The total value of the Group's open currency derivatives amounted to EUR 44.5m.

In the case of USD, the notional amount of the Group's open FX forwards was USD 8m (with maturities in 2022).

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 July 2022 to March 2029. The hedging covers currency risk. The hedge are two euro-denominated credit facilities of:

- EUR 54,486 thousand as at September 30th 2022, repayable in the period from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each;
- EUR 119,000 thousand as at September 30th 2022, 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 September 30th 2022, the carrying amount of the two credit facilities was PLN 844,546 thousand. As at September 30th 2022, the hedging reserve included PLN -88,464 thousand on account of effective hedge. In the reporting period, the Group reclassified PLN 7,752 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 September 30th 2022, PLN -37,938 thousand on the measurement of FX hedging transactions and PLN 360,542 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

Economic conditions in agriculture

In the three months to September 30th 2022, the situation in agriculture improved year on year. The synthetic economic index for agricultural production (SWKR) rose 0.7pp, to 101.6pp. Compared with the previous period, the situation deteriorated in the reporting period, with the SWKR index down 0.4pp.

In the three months to September 30th 2022, the prices of main agricultural produce in Poland were far higher than in the first half of 2021 and significantly exceeded their historical highs. The average price of milling wheat was PLN 1,559 per tonne, up by 64% year on year. Prices of milling rye, maize and rapeseed were also high (PLN 1,235 per tonne, up 66% year on year; PLN 1,422 per tonne, up 36% year on year; and PLN 3,295 per tonne, up 45% year on year, respectively).

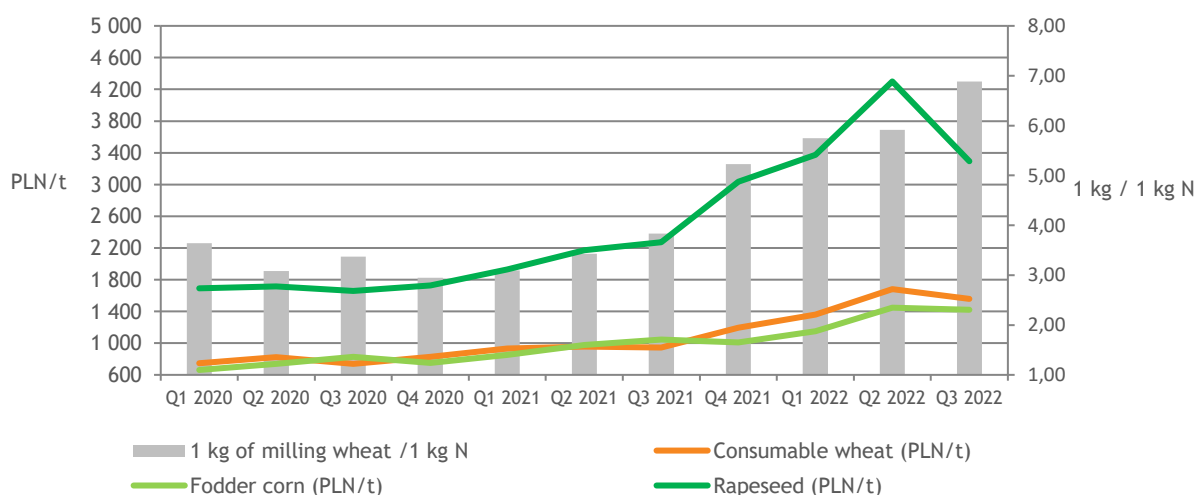
Russia's ongoing aggression against Ukraine makes the situation on the cereals market dynamic, with forecasts predicting no major change in this respect until the end of the year. Prices of agricultural produce are expected to remain relatively high despite the periodic fluctuations observed during the harvest season. The total volume of grain yields, including maize, buckwheat and millet, may reach 36 million tonnes in 2022, compared with 34.6m tonnes in 2021, an increase of 4%.

Strategie Grains' mid-September 2022 forecasts for the 2022/2023 season predict production in Poland will slightly increase compared with the previous season despite a number of adverse factors (including drought). While a slight increase to around 11.7m tonnes (up 1.7%) is expected for wheat, a much faster rise to 7.5m tonnes (up 3.3%) is forecast for maize. Barley stands out in this forecast as the sole crop for which an 8.2% drop, to 2.7m tonnes, is expected.

A slightly different trend is predicted for the EU as a whole in the current season. The current forecasts put crop volumes at 264.6m tonnes, down 25.8m tonnes, or 8.8%, on the previous season. The overall crop yield volumes in the 2022/2023 season will be affected by the expected decline in the production of wheat (down 4.7% season on season), maize (down 24.4% season on season) and barley (down 1.5%). The grains balance in the region will be key to the development of grain prices in Poland and abroad going forward. While the preliminary data on crop yields in Poland are optimistic in terms of volume and quality, grain prices are likely to remain high or keep rising given the decline in production reported for the EU. Further developments in Ukraine and the question of whether the grains supply from the country can be maintained or increased will be the main sources of uncertainty.

Despite the continued high prices of agricultural produce, the economic situation in the domestic agricultural sector has not improved due to high production costs, chiefly reflecting high prices of energy, fuels and agricultural inputs. Given the current market situation, no significant changes in this respect are expected in the coming months. Despite the lack of prospects for improvement in the agricultural sector, the financial condition of domestic agricultural holdings will be substantially supported by the direct payments and area payments scheme under the Rural Development Programme (RDP). According to the Agency for Restructuring and Modernisation of Agriculture (ARiMR), on September 30th 2022 the European Central Bank set the EUR/PLN exchange rate for 2022 direct payments at PLN 4.8483, compared with PLN 4.6197 the year before. As a result, the payments total approximately PLN 17.0bn, up PLN 1.3bn on 2021. The payments were launched on October 17th 2022.

Prices of wheat, maize and rapeseed



Source: Company data; 1 kg milling wheat/1 kg N ratio for the third quarter based on two-month data due to low sales of technical rather than agricultural grade AN (lack of representative data).

Market of nitrogen fertilizers

In the third quarter of 2022, the prices of nitrate fertilizers were much higher than in the corresponding period of the previous year. The average price of ammonium nitrate (AN) in France reached EUR 891 per tonne, having increased year on year by 124%. In Germany, the prices (CIF Inland) of calcium ammonium nitrate (CAN) rose by a steep 157% year on year to an average level of nearly EUR 763 per tonne. The key reason for the persistently high prices in the period was the continuation of the increase in natural gas prices which started in the first half of 2022, driven mainly by the impact of Russia's attack on Ukraine. This had a material adverse effect on the cost side of fertilizer production. Among negative effects of continuing high gas prices were also shutdowns of many fertilizer plants both in Poland and across the EU. In order to continue fertilizer production and supply to the EU market, some producers sought to contain the surge in production costs by purchasing cheaper ammonia from non-European markets. As a result of production constraints, the availability of nitrate fertilizers was low. Coupled with the sales policy of certain market players, this led to a sharp rise in prices of nitrate fertilizers in late August and early September.

The third quarter of each year, and especially the first half of the third quarter, sees the lowest demand for fertilizer products in the calendar year, which is due to agricultural production technologies. This period is the harvest time in the agricultural sector. Financial resources held by farmers are typically used to buy materials and consumables that make it possible to grow crops and harvest. Continuing high prices of fertilizer products and considerable uncertainty about how they will develop reduced the agricultural sector's demand for fertilizers to the bare minimum. The situation was made even worse by the anticipation of a rise in prices of agricultural produce. As a result, the agricultural sector postponed the sale of this year's grains, which further eroded its purchasing power as the funds for the purchase of fertilizers were 'frozen' in stored grains.

Market forecasts do not warrant the claim that the situation in the fertilizer segment will change significantly in the coming months. The continuing war in Ukraine will significantly destabilise the situation in this sector, keeping the prices of raw materials, mainly natural gas, at high levels. Prices will be the main reason why the agricultural sector will keep postponing purchases of fertilizers for future applications in expectation of crisis de-escalation and further price correction. Negative consequences may include another series of fast-moving changes in the distribution of demand, especially before spring applications, and looking for savings in agricultural production, a trend that has already been seen for some time, resulting in lower demand for nitrate fertilizers.

Urea

In the three months ended September 30th 2022, FOB Baltic urea prices rose 19% year on year, driven mainly by strong growth in the prices of gas and electricity. Quarter on quarter, the prices fell by 11%.

At the beginning of the quarter, all eyes were set on India. The country announced a urea tender, which was expected to set direction for the market. India announced two purchasing campaigns for a total of 1.4 million tonnes of the product. Market participants believe that India's decision to purchase lower volumes as part of two campaigns was a deliberate move to reduce urea prices. In the first six months of 2022, India's imports slightly exceeded 4.6 million tonnes of urea, an increase of 83% year on year. Demand from the United States, Brazil and Europe was expected to grow in September, but this scenario did not materialise. In Brazil, the availability of sanctioned products was high. The market remained slack until the end of the reporting period, although some activity or geopolitical developments were expected. Prices in future Indian tenders, seasonal demand worldwide, European production volumes and lack of exports from China are the factors that continue to drive the market.

In Europe, the key factor behind the slowdown in the urea segment in the third quarter of the year was the ongoing harvest season. Due to the situation on the gas market, the beginning of July saw reports of reduced or suspended production at certain plants in Europe. Urea output in Europe fell by approximately 300,000 tonnes per month. Because of logistics issues, it is unlikely that such a large shortfall will be met. Although the plant stoppages are temporary, future remains uncertain in the long-term. Cheaper imports may temporarily and only partially replace production. The fourth quarter of 2022 is not unlikely to see a severe shortage of fertilizers if local production remains low and farmers resume purchases as the weather improves. The fast-changing situation in the gas market will continue to affect the fertilizer segment.

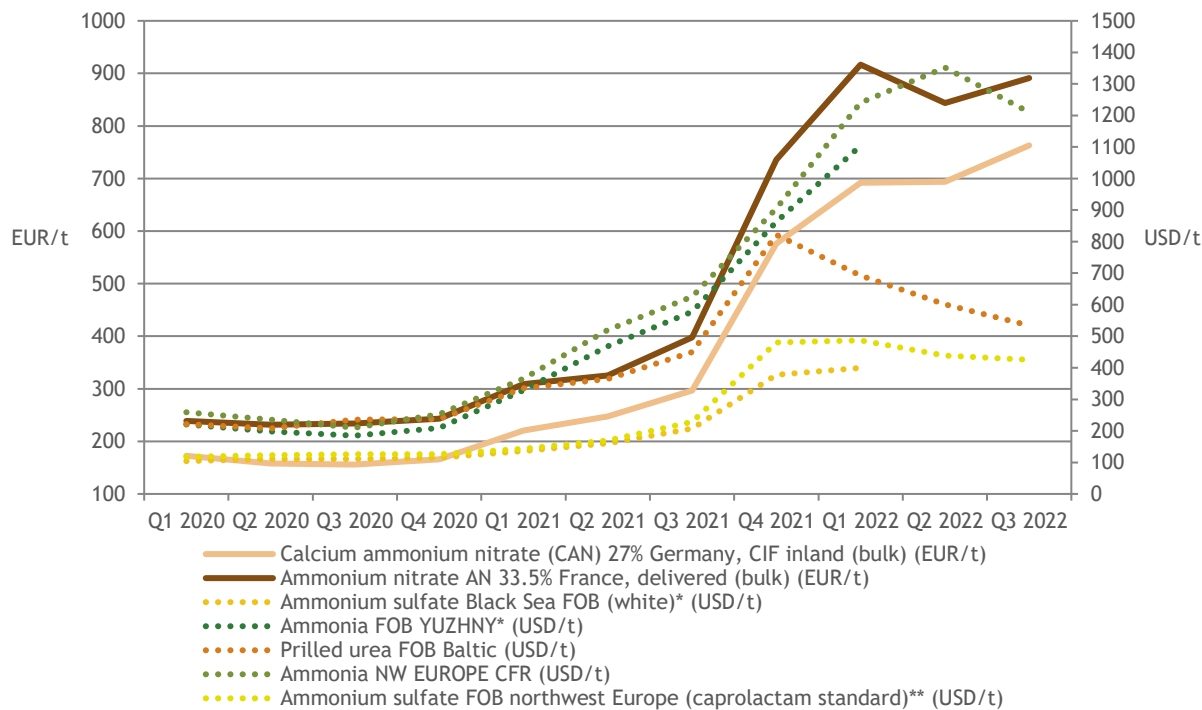
Ammonia

In the third quarter of 2022, ammonia prices in Europe remained high. Year on year, the price of ammonia rose 93%, but quarter on quarter the price fell 11% on average.

In the third quarter of 2022, the global, and especially the European, ammonia market was immersed in uncertainty. To ensure the continuity of production and supply to the local market, European fertilizer producers sought to satisfy short-term demand for ammonia with imports, mainly from Asia, the Persian Gulf and the US, because they either halted or reduced their ammonia and urea production volumes due to growing prices of gas

and electricity. In the reporting quarter, ammonia imports to Europe exceeded 1 million tonnes. Demand from Europe declined only in September, partly because of buyers making purchases to cover short-term demand. The market is currently sufficiently supplied to meet the needs of European buyers. Additional support comes from the lack of demand from Asia, which creates an oversupply of the product. According to forecasts for the coming months, the global ammonia supply and demand balance will remain tight, significantly boosting ammonia prices in Europe and worldwide.

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



* Ammonia FOB YUZHNY in connection with the situation in Ukraine - average for the quarter based on two months of 2022, no price quotations in March.

** Ammonium sulfate FOB Black Sea in connection with the situation in Ukraine - average for the quarter based on two months of 2022, no price quotations in March.

Source: Company data.

Market of compound fertilizers

In the three months to September 30th 2022, the average price of NPK 3x16 exceeded USD 590/tonne (FOB Baltic/Black Sea), having increased 40% year on year and decreased 10% quarter on quarter.

Prices of NPK fertilizers were closely correlated with the situation observed on the commodity markets. Purchases of compound fertilizers in Europe were low, which was attributable to several factors, including the season of the year, high prices and uncertainty regarding their future levels, as well as the regional market's focus on simple nitrogen fertilizers. The prices were under a downward pressure due to low demand while high costs of local production and tight supply had a stabilising effect on their levels.

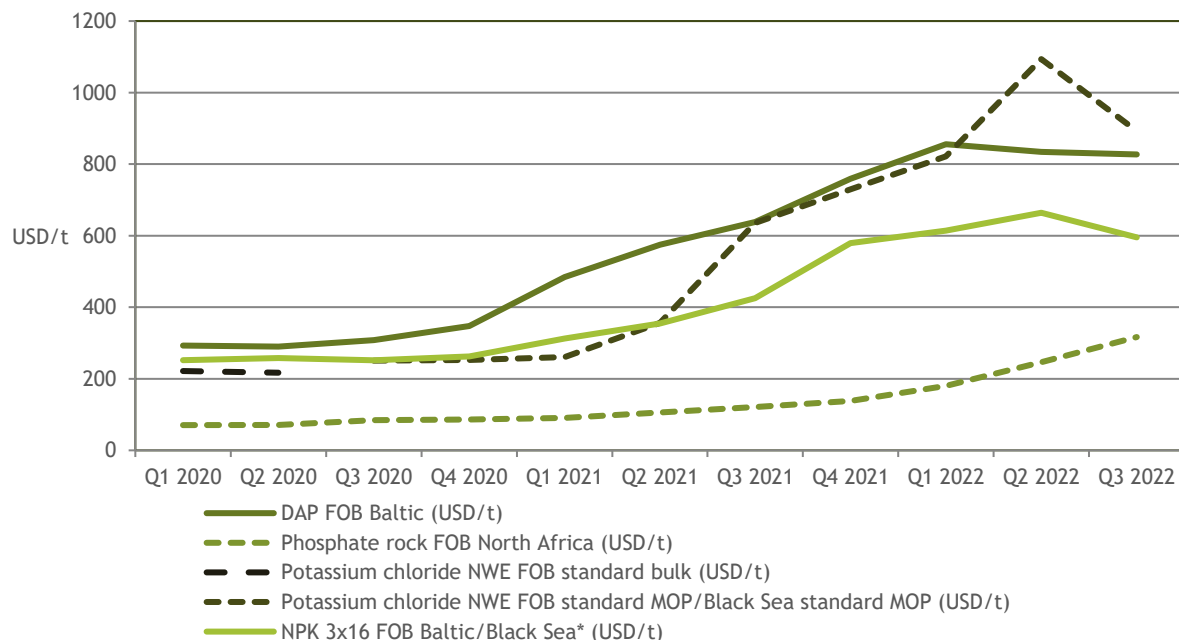
In the three months to September 30th 2022, the average price of diammonium phosphate (DAP) reached USD 830/tonne (FOB Baltic), and was up 30% year on year and down 1% quarter on quarter.

Insufficient demand for phosphate fertilizers globally had a negative effect on market sentiment. Asia, and especially the Indian subcontinent, was the centre of purchasing activity. Asian imports offered some liquidity to the largest suppliers. However, gradual price erosion was also seen on those markets. Demand for DAP in Europe was limited and trade was slow. High volumes of DAP offered in the region did not spur demand, either.

China, one of the key players, continued its restrictive approach to exports of phosphate fertilizers, thus reducing their availability on the global market.

The increase in natural gas prices in recent months translated into higher operating costs at European plants, leading to cuts in the production of fertilizers, including compound ones.

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

Following Russia's military invasion of Ukraine and the imposition of sanctions on the aggressor, DAP and MAP fertilizer prices spiked across global phosphate fertilizer markets. Significant increases mainly affected the South American and US markets. Potential supply constraints pushed both DAP and MAP prices up above USD 1,000 per tonne in a space of a little more than ten days. The increase was a panic effect on the part of main buyers, especially Brazil, which in the first few days of the war pointed to a risk of significant shortages on global fertilizer markets.

As a result of significantly higher prices of phosphate fertilizers, the prices of raw materials used in their production (phosphoric acid and phosphate rock) also grew considerably. In mid-May 2022, the growth rate of phosphate fertilizer prices started to slow down and fall. This trend continued throughout the third quarter and the prices fell by more than 20% quarter on quarter. Had it not been for India's massive purchases of DAP in the third quarter of the year, the DAP market would have likely been dealt as strong a blow as the sulfur market. Customers from markets other than Asia, i.e., from Brazil, the US and Europe, showed little or hardly any interest in purchasing fertilizers. Brazil, typically among major fertilizer buyers in the third quarter of the year, showed little purchasing activity this year.

Despite lower DAP and MAP prices in the three months ended September 30th 2022, response from the commodity markets was significantly delayed as usual, and only the end of September saw reports of expected reductions in prices of phosphoric acid and phosphate rock. In the third quarter of 2022, the benchmark price of phosphate rock (FOB North Africa) and phosphoric acid for Western Europe went up 160% and 53%, respectively, year on year. In the reporting period, the relation between the prices of DAP and MAP phosphate fertilizers and the price of phosphoric acid was very unfavourable, causing serious problems for manufacturers who relied on imported acid in the production of phosphate fertilizers. It was not until the end of the third and the beginning of the fourth quarter of 2022 that significant (up to USD 500/tonne) reductions of phosphoric acid prices for India and Western Europe were confirmed. Markets expect significant phosphate rock price cuts in the short term, triggered by phosphoric acid price reductions.

Market forecasts for the next two quarters suggest a further decline in the prices of phosphate fertilizers (DAP, MAP). The market activity remains weak with no developments likely to bolster the prices. The situation in China is also relevant, as continued export restrictions in the country are affecting supply regionally, which is one of the factors that will prevent any major drop in prices on the markets. Should these restrictions be lifted, the prices of phosphate fertilizers are more than likely to slump not only in the region, but also globally, as there would be price competition between China and Morocco, the United States and Russia. Amid rising inflation and high fertilizer prices, no upturn in demand is likely in the near term. These factors will also affect the prices of

raw materials, i.e., phosphate rock and phosphoric acid, the demand for which will be significantly weaker in the fourth quarter, which should in the first place lead to substantial cuts in phosphate rock prices. Otherwise, the manufacture of standard phosphate fertilizer formulas may become unprofitable.

Potassium chloride

Russia's military aggression against Ukraine completely transformed the situation on the potassium chloride market, where Russia and Belarus had an approximately 40% share. The other producers were not able to make up for the resulting volume deficit. Brazil alone imported approximately 12.8 million tonnes in 2021, including 6 million tonnes from Russia and Belarus. The situation in the Brazilian market was the main driver behind the surge in potassium chloride prices soon after the outbreak of the war. Brazil started intensive buying of potassium chloride from other sources, mainly Canada, fearing a potential considerable shortage. As a result, its prices increased considerably not just in Brazil, but also in Europe, which faced a very difficult supply situation as it had been cut off from Russian and Belarussian supplies, and competed for potassium chloride volumes, mainly with Brazil. In the third quarter of 2022, the benchmark price of potassium chloride for Europe went up by approximately 40% year on year. The situation on the potassium chloride markets stabilised in late April and early May. In mid-May, benchmark prices started to fall and in the third quarter of 2022 they were approximately 20% lower quarter on quarter. However, the situation on the potassium chloride market should be looked at regionally. The largest price drops were seen in Asia, the US and Brazil, where mainly granulated potassium chloride is traded. According to forecasts for the third quarter, the Brazilian market should have significantly contributed to maintaining the prices, but these expectations were dashed as demand from Brazilian farmers was poor. In the third quarter, Western Europe saw much smaller price declines as it continued to struggle with the shortage of potassium chloride. The market witnessed an unprecedented situation where prices of potassium chloride in Western Europe were higher than in Brazil.

According to forecasts for the next two quarters, the prices of potassium chloride are expected to fall to the pre-war levels. Potassium chloride buyers have stocked up well and if they make any purchases now, it is usually under monthly contracts. Asia, Brazil and the US will see the prices of potassium chloride drop more sharply due to supply issues, while the situation in Western Europe should be more stable. It is not clear yet what policy will be followed by the key suppliers, namely, whether they will decide to maintain high prices at the expense of small sales volumes, or whether they will significantly slash the prices to stimulate the sluggish demand.

PLASTICS

Polyamide 6 chain

In the third quarter of 2022, the European plastics market was affected by the unstable geopolitical situation, challenging macroeconomic conditions, fears of a global recession, and changes in consumers' buying sentiment due to high inflation and unemployment.

In the three months to September 30th 2022, European contract prices of benzene were highly volatile. In July, they hit another record high of over EUR 1,700 per tonne on the back of strong demand from the US market. In the following months, especially in August, prices slumped on the back of a demand decline due to scheduled and unscheduled shutdowns in derivative product sectors. Additionally, high prices of natural gas and production costs affected both the production and consumption of benzene.

In the third quarter, the European phenol market continued to be affected by weak demand from derivative product sectors. Phenol prices followed those of benzene and energy utilities, which had an effect on the benzene price subsidies, and thus on the final prices of phenol. The availability of phenol in Europe was sufficient to meet the demand despite maintenance shutdowns of several plants. Producers and processors reduced capacity utilisation due to poor, also seasonally, demand, and high production costs. High costs faced by the European industry make it increasingly less competitive compared with other regions.

In the third quarter of 2022, the average quarterly price of benzene and phenol in Europe rose by, respectively, 44% (CIF NWE) and 46% (FD NWE) year on year. Compared with the second quarter of 2022, the quarterly price of benzene remained relatively unchanged while the price of phenol went up by 4%.

In the third quarter of the year, the European polyamide market saw a significant margin contraction despite correction of benzene prices, mainly due to record-high gas prices. The problems concerned both integrated and non-integrated producers. Europe was the least competitive region. Pressure was also growing from end-use markets. On the one hand, the overall slump in demand prevented the necessary price corrections and, on the other, the growing prices of natural gas and its derivatives caused price increase pressures. A particularly challenging period for caprolactam (CPL) and polyamide 6 (PA6) producers was July, when higher contract prices of benzene were not fully offset by higher prices of CPL and PA6, leading to erosion of the already tight margins. The record decline in benzene contract price in August (of more than EUR 600 per tonne) was largely offset by higher natural gas and energy prices during the month. As a result, the decline had a much lower-than-expected impact on the polyamide price settlements.

In the third quarter of 2022, the average quarterly contract price of liquid caprolactam (Liq. DDP WE) in Europe rose 43% year on year and 4% quarter on quarter. The quarterly average contract price (CFR NE Asia) of

caprolactam on the broad Asian market was 11% lower than in the third quarter of 2021, and 4% lower than in the second quarter of 2022.

Year on year, the quarterly average price (Engineering Resin Virgin DDP, WE) of PA6 was up 38%, and up 2% relative to the second quarter of 2022.

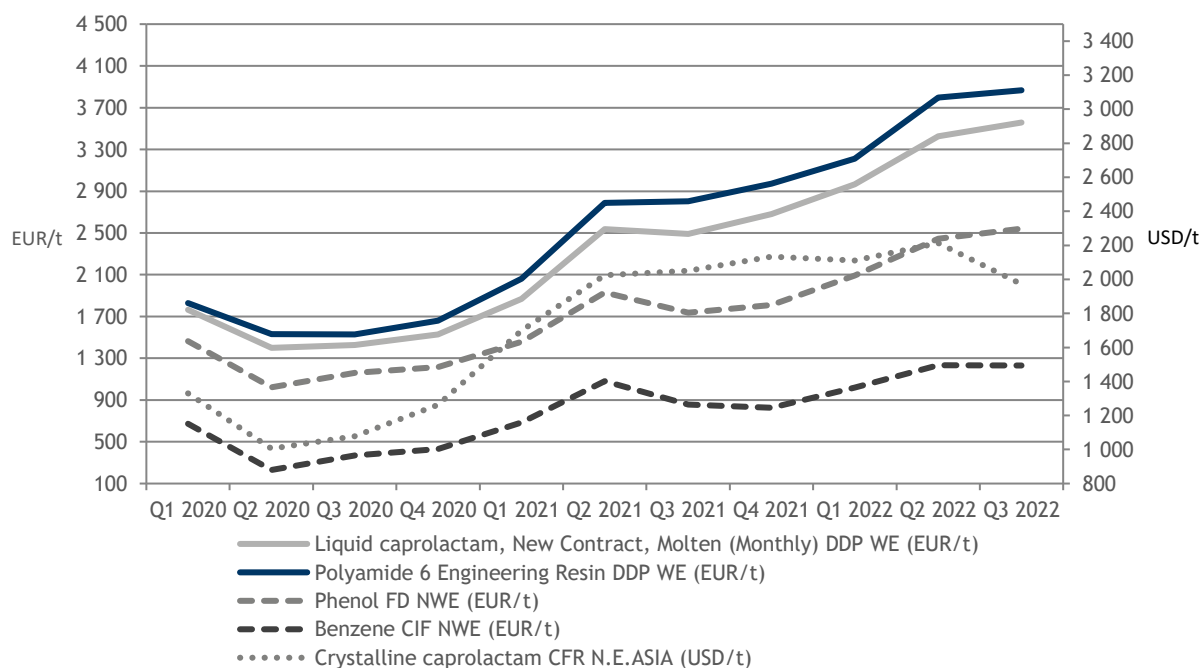
The PA6 product chain market is strongly correlated with economic cycles. In the third quarter of 2022, demand for CPL and PA6 in Europe was poor. Demand for CPL and PA6 decreases in July and August due to lower industrial activity in Europe. However, in 2022 that decline was more pronounced. Buyers from the PA6 chain clearly changed their approach to purchasing in order to minimise stock levels. They sought to import a less expensive product, mainly from Asia. Demand for engineering plastics was expected to improve after the end of the summer holiday season, but the volumes showed only an incremental increase compared with July and August. The automotive sector continues to struggle with shortages of key components. There were also reports of weaker demand for new vehicles due to an unfavourable economic outlook. Nevertheless, delays in the fulfilment of outstanding orders continue. Some analysts believe that the undersupply of chips should become less of a problem in the fourth quarter, but rising interest rates, inflation and high prices of vehicles may prevent market recovery in the near term.

Growing inflation has put a damper on customer appetite in most European countries, both in the automotive and engineering plastics industries, as well as the electrical, electronic and other consumer goods segments. September saw the first signs of reduced demand from the packaging industry, which until then had shown a stable and good level of consumption. Factors with a bearing on demand for domestic material include cheaper imports, especially of finished food packaging films, but also generally lower consumer purchases in the fast-moving goods sector.

Poor demand for polymers and growing production costs led to further corrections of the operating ratios for CPL and PA6. In the third quarter, several European CPL and PA6 producers declared force majeure and temporarily halted production due to, among other things, challenging macroeconomic conditions caused by record-high gas prices.

Demand in the broad Asian market remained affected by the economic slowdown in China as many producers are severely exposed to Chinese domestic demand, but also because some of them compete directly with the increasingly cheaper Chinese exports. Weakening local currencies, soaring inflation and fears of recession reduced customer spending and hampered production activities. CPL and PA6 prices in Asia are much lower than in Europe, improving the appeal of imports of various PA6 grades and derivatives, additionally stimulated by uncertainties around the security of gas supply in Europe and its effect on industrial production in the second half of the year.

Prices of PA6, caprolactam, benzene and phenol



Source: Company data.

Industrial output issues give rise to various uncertainties, especially due to concerns about the availability and prices of energy. Both buyers and sellers are concerned about the condition of the European industry and the loss of its competitive edge because of high production costs.

In future periods, the geopolitical developments and macroeconomic climate will continue to affect the PA6 industry. The high cost of energy has placed Europe at a disadvantage relative to PA6 chain products originating from other regions, where energy and CPL-PA6 production costs are much lower. Cheaper imports of PA6 and PA6 products will continue to grow over the coming months, posing a major threat to the operational efficiency and profitability of the European PA6 chain in the mid term. However, there are expectations of a seasonally demand recovery relative to the summer-time lows, but the market foundations for the remaining part of 2022 are unfavourable, and downstream sectors do not offer support for a strong recovery.

CHEMICALS

OXO product chain

In the three months ended September 30th 2022, the prices of 2-EH were 4% higher than in the same period of the previous year. The increase mainly stemmed from higher prices of raw materials (propylene) and energy used in its production. The prices of 2-EH fell 10% quarter on quarter due to suppressed demand caused by the economic downturn.

The availability of OXO alcohols in the third quarter of 2022 was sufficient despite certain production constraints. Demand for OXO alcohols fell towards the end of the quarter in all of their applications. Only the demand for 2-EH used in the production of fuel additives remained relatively strong. Demand for OXO alcohols, chiefly 2-EH, from non-European markets, including mainly South and North Americas and Turkey, was at a relatively good level at the beginning of the third quarter, but persistently high prices of freight remained the key factor that impacted trading. In the second half of the quarter, this demand also began to decline. Imports into the European market were very limited owing to continued logistics problems caused by high freight prices and shortages of transport containers. The market had to grapple with logistics problems due to a surge in cases of the new coronavirus variant and a serious shortage of lorry drivers.

In the reporting period, DEHT prices rose by 1% year on year and fell by 13% quarter on quarter.

The availability of plasticizers in Europe in the third quarter of 2022 was viewed as sufficient to cover the demand. Plasticizer imports from Turkey remained strong, further improving the demand and supply balance in Europe. Demand for plasticizers has remained low since the beginning of July. The main drivers of the decline in demand were higher production costs at plasticizer processing companies and inflation growth. In the second half of the quarter, some European plasticizer producers had to reduce or even halt production due to exorbitant gas and energy prices. Demand for plasticizer (mainly DINP and DOTP) exports to the US and the Middle East remained relatively high. Unfortunately, continuing high costs of freight and general logistics problems led to constraints in both plasticizer imports and exports. Logistics issues caused by a growing number of coronavirus cases continued to impact the European market.

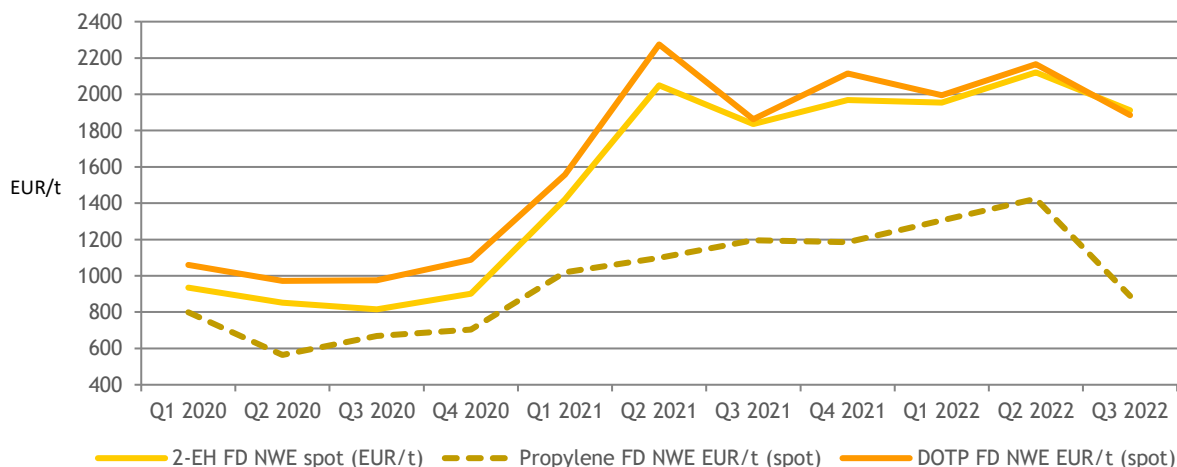
In the third quarter of 2022, spot prices of propylene went down 26% year on year and 38% quarter on quarter. Its contract prices rose 19% compared with the third quarter of 2021, but were 16% lower relative to the second quarter of 2022.

The supply and demand situation for propylene was fairly stable in the quarter under analysis. Despite unscheduled shutdowns at some manufacturers, the availability of propylene was very good also due to higher imports of the product to Europe, driven by its high price in the region. There was still a significant oversupply of propylene although its availability was limited due to production cuts caused by scheduled and unscheduled maintenance shutdowns in the second half of the reporting period. A large number of COVID-19 infections brought

about some logistics problems also in the propylene market, especially at the beginning of the third quarter. Demand for propylene (both polymer and chemical grade) remained low due to the global economic slowdown.

The coming months are likely to see further reductions in propylene prices, mainly due to the continuing low demand for this raw material. According to forecasts, it is unlikely that demand for propylene will significantly improve by the end of 2022.

Prices of 2-EH, DOTP and propylene



Source: Company data.

Sulfur

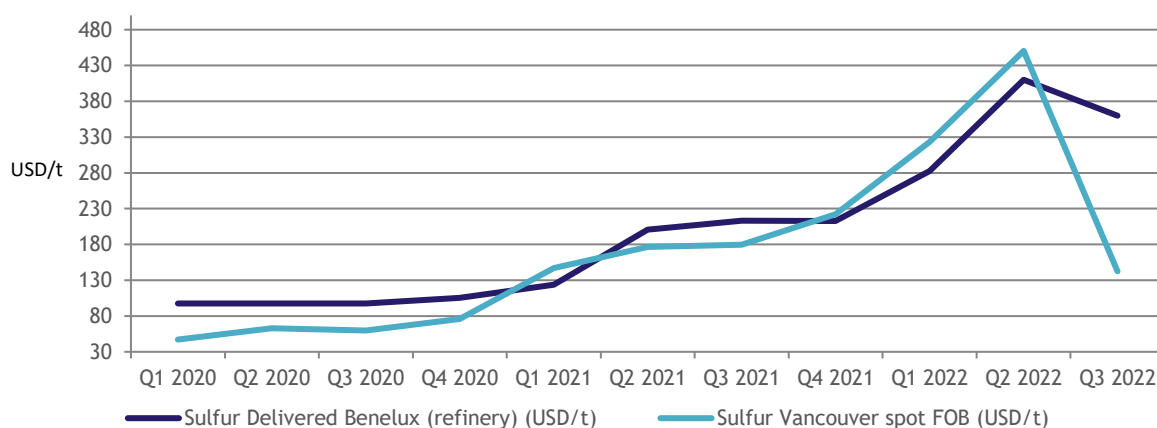
In the first quarter of 2022, prices soared in the prilled sulfur market following the outbreak of war in Ukraine. Distribution channels from Russia and Kazakhstan were cut off overnight and the largest customers were made to look for other sources of sulfur supplies, which triggered a steep rise in prices in the Middle East and other markets. In the Middle East, sulfur prices under monthly contracts rose almost every month of the first and second quarter, and in late May and early June they came close to USD 500 per tonne (FOB). Following hikes in the price of prilled sulfur, the prices of liquid sulfur for customers in Western Europe rose too. As liquid sulfur prices are settled on a quarterly basis, the first significant increase took place in January and the second in April 2022, following which liquid sulfur prices came close to those of prilled sulfur in the second quarter of 2022.

In mid-June, the sulfur market began to weaken due to a drop in orders from the phosphate fertilizers sector as leading DAP and MAP producers reduced output to keep fertilizer prices high for as long as possible. The increase in sulfur supply also resulted from the improvement of refineries' efficiency ratios after the COVID pandemic period. In the late June and early July, prices of prilled sulfur fell sharply on all markets. The prices of prilled sulfur (Vancouver SPOT FOB) fell by approximately 20% year on year. However, the quarter-on-quarter decline was approximately 60%.

In the three months to September 30th 2022, the prices of liquid sulfur were much higher than those of prilled sulfur. The disparity was mainly an effect of the pace of changes taking place in the Middle Eastern markets during the period of negotiations of liquid sulfur prices for Western Europe for the third quarter of 2022. The prices of liquid sulfur (Benelux Delivered) rose by approximately 70% year on year, but fell by about 12% quarter on quarter.

A short-term forecast for the prilled and liquid sulfur markets depends largely on developments in the phosphate fertilizer sector, which is expected to weaken in the months to come. The current prices in the Middle East (in the region of USD 100 per tonne, FOB) may go up a little, but without the support of the fertilizers industry they are rather unlikely to exceed USD 200 per tonne over the next two to three quarters. The benchmark prices of liquid sulfur sold in Western Europe are expected to plunge at the beginning of the fourth quarter by 50%-70%. This will equalise the prices of prilled and liquid sulfur. Due to reduced fertilizer output, the demand for liquid sulfur was limited in Western Europe, while developments in the global phosphate fertilizer markets are not conducive to price growth over the next two quarters.

Sulfur prices



Source: Company data.

Pigment chain

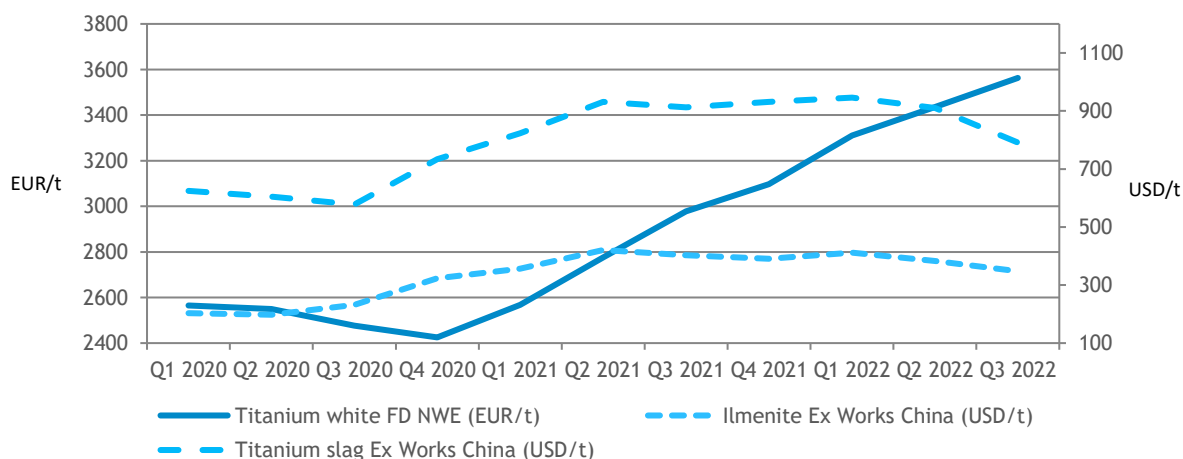
Titanium white

In the third quarter of 2022, the average price of titanium white in Europe rose by approximately 20% year on year. Initially, the upward trend commenced in the first quarter of 2021 persisted. Prices reached a new high, mainly due to growing energy costs, although compared with previous quarters there was some room for negotiation, mainly due to the macroeconomic conditions present across Europe.

Demand started to deteriorate sharply in the second quarter, when Russia's military aggression against Ukraine led to an energy crisis. The contraction in demand in the third quarter of 2022 was further aggravated by the summer holiday season. At the end of the quarter, demand shrank across all segments, in particular DIY, plastics, paints and coatings, and consumer confidence in the euro area and the EU in September was the lowest on record. Consumption is estimated to have fallen by approximately 10-15%, and in some cases even by 20-30%, year on year. Customers adopted a more cautious approach. Most buyers tapered down their purchases, focusing mainly on reducing expensive inventories. Despite certain production cuts, the availability of titanium white remained high enough to satisfy market needs as demand in Europe was low and the competitiveness of Chinese imports grew. The pressure caused by natural gas prices continued to increase. In response to adverse macroeconomic factors, some leading manufacturers made tough decisions to reduce capacity utilisation. The pressure to reduce prices in Europe is very strong due to the growing competitiveness of Chinese exports, but high production costs in Europe make it difficult for local manufacturers to offer any significant price cuts.

The declining demand in China gives rise to a growing interest among Asian producers in exports to Europe. The price of Chinese titanium white on the spot market is much lower than the contract prices for the third quarter in Europe also due to reduced freight rates on the route from Asia to Europe. However, due to the continuing numerous logistical constraints and further local outbreaks of the coronavirus pandemic, the Chinese market is increasingly viewed by market players as unpredictable.

Prices of titanium white, ilmenite and titanium slag



Source: Company data.

Ilmenite and titanium slag

Prices of ilmenite available in Europe have been growing ever since the beginning of 2021 due to sharp increases in the prices of titanium white and its limited availability. The third quarter of 2022 saw less trading activity and declining demand in the titanium white market. In Europe, prices of titanium-bearing minerals used in the manufacture of sulfate titanium white remained high. Ilmenite prices grew 3% quarter on quarter and 33% year on year. The price of titanium slag rose 13% year on year. Prices of titanium-bearing minerals in China declined from record-high levels, mainly due to the market downturn. The Chinese construction market is going through a slow-down, further aggravated by lockdowns introduced in major cities in connection with COVID-19 outbreaks. In the third quarter of 2022, prices of Chinese ilmenite and titanium slag fell by 14% and 13% year on year.

It is expected that in the following quarters falling demand, economic concerns and growing interest in Chinese exports will continue to constrain market activity. Growing import pressures from Asia, higher energy costs in Europe in the wake of the prolonged military aggression of Russia against Ukraine, and an increased risk related to energy supply, especially in winter, are likely to put an end, for a longer time, to growing prices of titanium white in Europe. The ongoing energy crisis poses a genuine threat for demand and supply, as it has a strong impact on production costs, which force European manufacturers of titanium white to take drastic decisions to cut production. This situation is a major issue for the market, especially as regards maintaining a production rate that will satisfy market needs in the future. Energy costs are still a critical issue for European players and place them at a competitive disadvantage compared to other regions, while also creating the greatest challenge for the European titanium white market in the next quarter.

The coming months are highly likely to see growing imports from China to the European market, but long delivery times in sea shipping and exchange rates remain the key issue that will continue to play an important role in making final purchasing decisions. Declines in titanium white prices can be expected to continue at least until the next reporting period. It should be noted, however, that the prices of titanium white will remain high despite the declines. The coming quarter is likely to see relative stabilisation and unchanged price levels.

The abovementioned reduction in the supply of titanium white by some manufacturers is likely to reduce demand for titanium-bearing minerals. If the situation persists, prices of titanium-bearing minerals in Europe are expected to fall and China will see a continuation of the price declines.

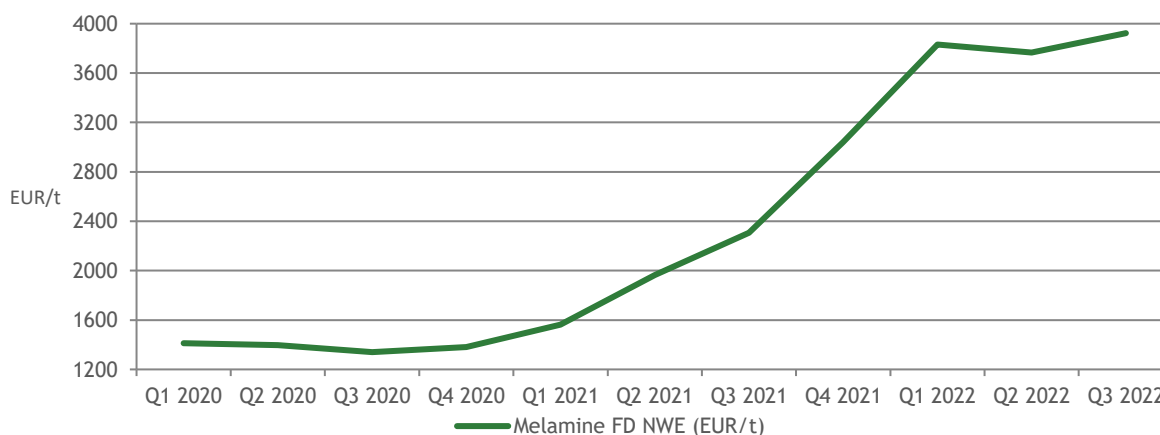
Melamine

In the third quarter of 2022, contract prices of melamine in Europe rose 70% year on year and 4% quarter on quarter. Spot prices went down 7% year on year and 11% quarter on quarter.

In the reporting period, the melamine market remained affected by the geopolitical situation caused by Russia's invasion of Ukraine. In February, the situation led to an increase in prices of natural gas, impacting production costs and producers' margins. The situation continued throughout the third quarter. Some producers were forced to significantly reduce output or shut down their melamine units, which sparked growing interest in imports, mainly from China, Japan and the Middle East. Demand in Europe was below expectations, especially in the furniture and flooring sector.

In the US market, supply constraints persisted after a manufacturer declared force majeure due to market conditions. Market participants believe that high demand and low availability of the product will make the US market dependent on imports even until the end of the year. In Asia, the decrease in supply was due to lower interest in melamine, leading to a drop in spot prices.

Prices of melamine



Source: Company data.

ENERGY

Natural gas

Before Russia's aggression against Ukraine, gas prices in Europe fluctuated around EUR 80/MWh and were subject to strong daily movements as part of a slow downward trend. After February 24th 2022, gas prices in Europe peaked sharply. The possibility of Gazprom reducing gas supplies and the potential need to increase gas withdrawal from the heavily depleted storage facilities lessened the importance of fundamental factors and shifted the weight towards geopolitical ones. The market was affected by reports from the east and concerns about the scope of sanctions, which were initially also to include natural gas. On March 7th, spot gas prices on TTF hit a new all-time high of EUR 345/MWh.

In the second quarter, gas prices fell. The market got used to the volatile conditions, which led to a lower risk premium in European gas prices. Due to favourable weather conditions and high LNG supplies, gas stocks increased faster than the long-term average, supported by the EC work on regulations requiring EU Member States to fill their storage facilities before the winter season. In mid-June, when the price of gas fell again below EUR 80/MWh, the market was rocked by news of explosion at the Freeport LNG terminal, which reduced the US gas export capacity by about 20%. The price pressure was further heightened by Russia when it reduced the supplies via Nord Stream 1 to 40% of transmission capacity, citing problems with an overhaul of compressors due to Western sanctions. When Russia pointed to the possibility of reducing or totally halting supplies after the Nord Stream 1 maintenance shutdown scheduled for the middle of July, prices soared and closed the quarter at EUR 140/MWh.

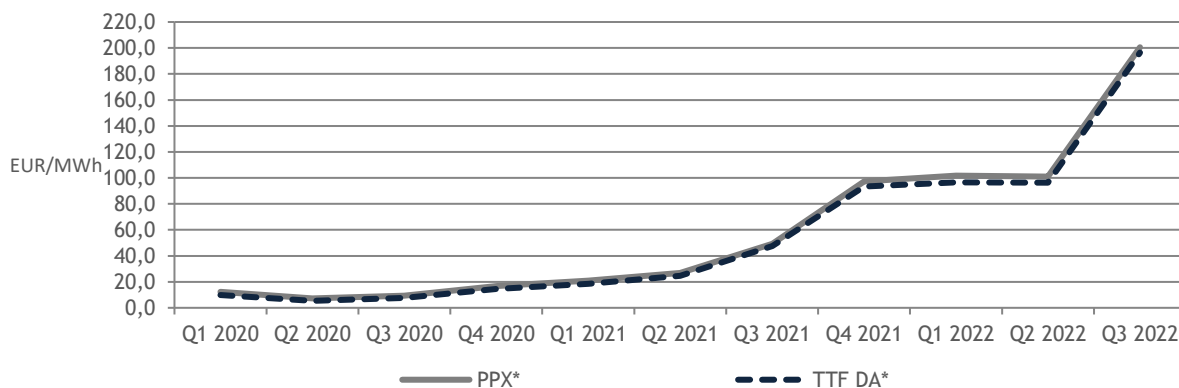
In July 2022, gas prices continued to increase when Norwegian oil rig workers went on strike amid the supply side pressures connected with the approaching shutdown of Nord Stream 1. This created a risk of the supply of North Sea gas decreasing even by 60%. Moreover, a wave of heat swept across Southern Europe, increasing the demand for air conditioning power and driving up the prices. Following an intervention by the Norwegian Government, supplies from Norway went up, and a high level of LNG regasification combined with strong, above-average generation from renewable sources started to put a downward pressure on gas prices. At the end of July, gas prices surged to EUR 200/MWh after Gazprom announced the stoppage of one more turbine in Nord Stream 1 and reduction of gas supplies to Western Europe to 20% of the pipeline's maximum capacity. The purpose of Russia's efforts to force political concessions concerning the sanctions, launch Nord Stream 2 and weaken the alliance with Ukraine was to do maximum damage to Europe while maintaining the largest possible stream of revenue from gas supply. In response, EU Member States signed an agreement on a reduction of natural gas demand. It envisages a voluntary reduction of demand for this commodity by 15% between August 2022 and March 2023.

August 2022 saw another spike in prices, when the supply constraints due to the overhaul carried out during the entire month on the Norwegian infrastructure coincided with a decline in wind power generation and an increase in demand amid a heat wave that affected Europe. Compounded by Gazprom's announcement that it would stop the supply of gas to Europe via Nord Stream 1 due to an unplanned technical downtime at the end of August and beginning of September and that the supply would be back after the downtime "provided that there are no more technical problems", this sent the prices soaring, to almost EUR 350/MWh.

When Gazprom did not resume supplies via Nord Stream 1 after the downtime, gas prices, contrary to expectations, fell instantly. The reason was the announcement that a maximum price for Russian gas would be set and mechanisms designed to lower energy prices in EU countries would be implemented. The price decline was not stopped by the damage caused to the Nord Stream 1 and 2 pipelines or by the threat of halting gas supplies via Ukraine, as Russia's share in gas supplies to the EU fell from approximately 40% to just 7.5% during the year. The price decline in both the spot and futures markets was attributable to high LNG supplies and gas stocks in the EU rising well ahead of the target levels set for this year. At the end of the third quarter of 2022, the gas price in the European market was EUR 180/MWh.

The favourable weather conditions projected for the last quarter of the year and the high stock levels warrant the expectation that the prices will stabilise at a lower level determined by the price arbitrage in relation to the Asian market, enabling the European market to attract LNG supply volumes sufficient to satisfy its needs.

Prices of natural gas



* Excluding transmission.

Source: Company data.

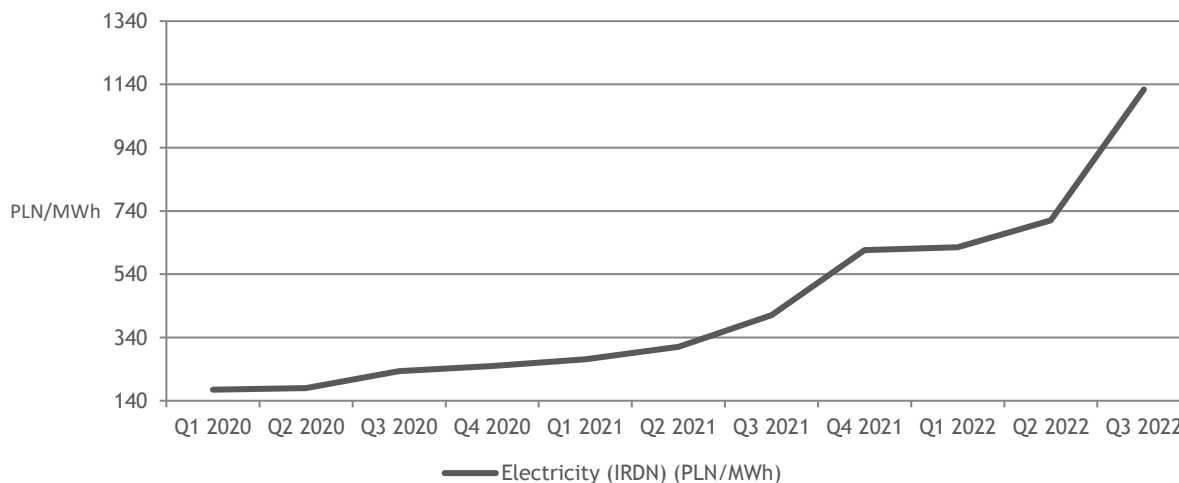
Electricity

In the third quarter of 2022, electricity prices hit record highs, having gone up 274% year on year and 60% quarter on quarter.

The prices levels were driven by such factors as windless and dry months and rising prices of main fuels: gas and coal. The uptrend in electricity prices, recorded across all European countries, was also caused mainly by:

- Overhaul shutdowns of a significant number of nuclear power plant units in France, resulting in the unavailability of more than a half of installed capacity;
- Shutdown of a significant number of nuclear power plant units in Germany in connection with the plan to abandon nuclear energy;
- Continued high prices of CO2 emission allowances as a response to, among others, the announcement of a plan to bring German coal-fired power plants back in the energy mix.

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 third quarter of 2022 saw a continued upward trend in average coal prices, but quarter on quarter the increase was only 2%. Year on year, coal prices grew 21%.

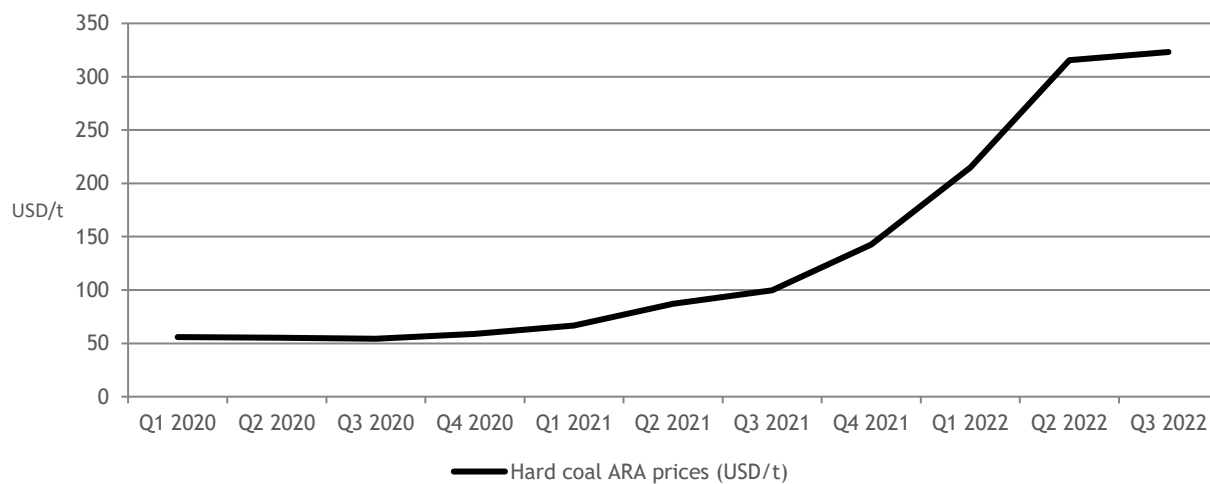
The main reason behind the price trends is the supply crisis related to the war in Ukraine and the high risk of failure to maintain uninterrupted supply of energy commodities. The situation in Europe was significantly affected by the imposition of an embargo on Russian coal supplies, which took effect on August 10th 2022,

translating into a sharp increase in demand. Energy producers in Europe have diversified their supply sources and are increasing imports from such countries as South Africa, Australia and Colombia, thus bringing various types of coal.

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

- the geopolitical situation;
- growing demand for coal in Europe;
- transport costs;
- weather conditions in the upcoming winter,
- price fluctuations in other commodity markets.

Prices of hard coal



Source: Company data.

2.3. Key financial and economic data

2.3.1. Consolidated financial information

Consolidated data

Item	Q3 2022	Q3 2021	change	% change
Revenue	6,313,752	3,882,100	2,431,652	62.6
Cost of sales	(5,747,447)	(3,354,106)	(2,393,341)	71.4
Gross profit	566,305	527,994	38,311	7.3
Selling and distribution expenses	(271,564)	(270,669)	(895)	0.3
Administrative expenses	(219,685)	(193,721)	(25,964)	13.4
Profit on sales	75,056	63,604	11,452	18.0
Net other income/(expenses)	6,907	43,290	(36,383)	(84.0)
Operating profit	81,963	106,894	(24,931)	(23.3)
Net finance income/(costs)	(136,124)	(75,436)	(60,688)	(80.4)
Share of profit of equity-accounted investees	5,318	4,169	1,149	27.6
Profit before tax	(48,843)	35,627	(84,470)	(237.1)
Income tax	(30,510)	(21,653)	(8,857)	40.9
Net profit	(79,353)	13,974	(93,327)	(667.9)
EBIT	81,963	106,894	(24,931)	(23.3)
Depreciation and amortisation	188,810	193,306	(4,496)	(2.3)
Impairment losses	(4,155)		(4,155)	
EBITDA	266,618	300,200	(33,582)	(11.2)

Source: Company data.

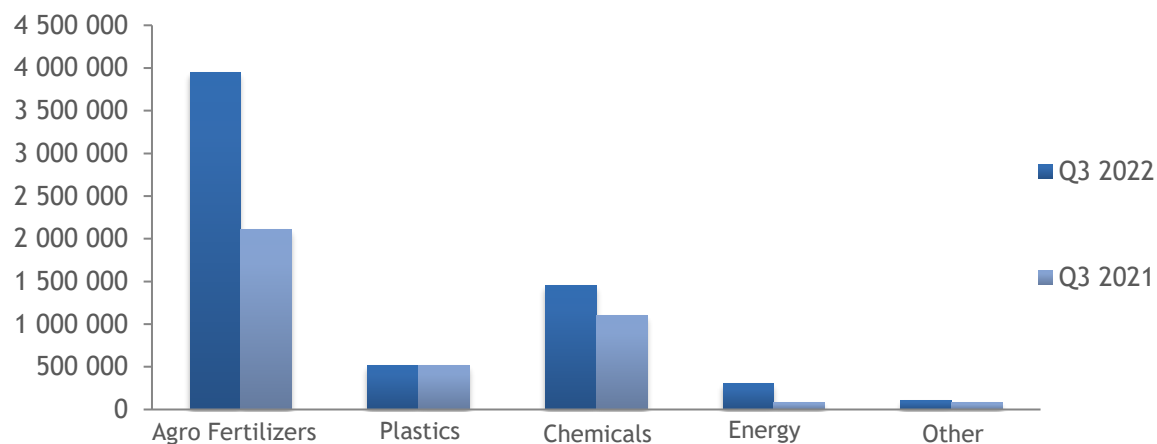
2.3.2. Segment results

EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities
External revenue	3,944,971	510,313	1,453,826	299,132	105,510
EBIT	(25,819)	(30,037)	(11,677)	115,254	34,242
EBITDA	62,224	(14,133)	11,467	144,788	62,272

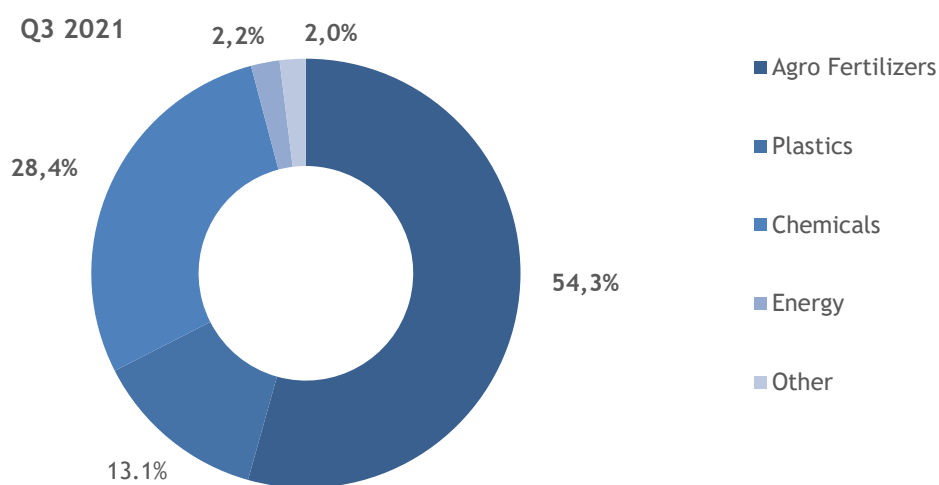
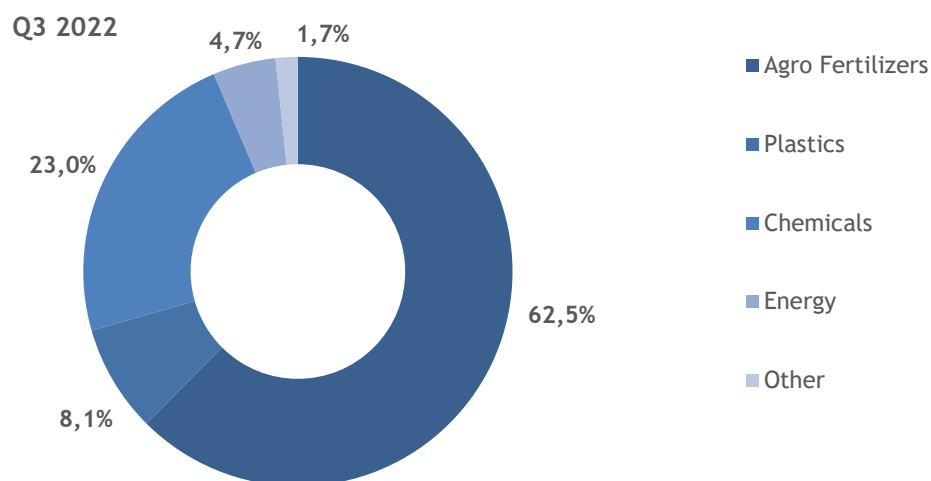
Source: Company data.

Revenue by segment



Source: Company data.

Revenue by segment



Source: Company data.

Agro Fertilizers

In the three months ended September 30th 2022, revenue in the Agro segment came in at PLN 3,944,971 thousand and accounted for 62.5% of the Group's total revenue. The segment's revenue went up 87.0% year on year, and its share in the Group's total expanded by 8.2 pp.

The Agro segment reported negative EBIT of PLN 25,819 thousand and a positive EBITDA.

Domestic market accounted for 70% of the segment's total sales.

Plastics

In the three months ended September 30th 2022, revenue in the Plastics segment was PLN 510,313 thousand and accounted for 8.1% of the Group's total revenue. Year on year, the segment's revenue remained unchanged. The segment delivered an operating loss of PLN 30,037 thousand and a negative EBITDA.

Foreign markets accounted for 89% of the segment's total revenue.

Chemicals

In the third quarter of 2022, revenue in the Chemicals segment amounted to PLN 1,453,826 thousand, having increased 32.0% year on year. The segment's revenue accounted for 23.0% of the Group's total revenue. The segment delivered an operating loss of PLN 11,677 thousand and a positive EBITDA.

Foreign markets accounted for 47% of the segment's total sales.

Energy

In the three months ended September 30th 2022, revenue in the Energy segment was PLN 299,132 thousand and accounted for approximately 4.7% of the Group's total. Year on year, the segment's revenue increased by 257.4%. EBIT was positive, at PLN 115,254 thousand.

Other Activities

In the three months ended September 30th 2022, the Other Activities segment reported revenue of PLN 105,510 thousand, up 38.4% year on year, accounting for 1.7% of the Group's total revenue. The segment's operations generated a profit on sales and positive EBIT of PLN 34,242 thousand.

Structure of operating expenses

Operating expenses by nature of expense

	Q3 2022	Q3 2021	y/y change	% change
Depreciation and amortisation	187,773	192,108	(4,335)	(2.3)
Raw materials and consumables used	4,958,186	2,654,192	2,303,994	86.8
Services	390,635	428,961	(38,326)	(8.9)
Salaries and wages, including surcharges, and other benefits	506,074	449,248	56,826	12.6
Taxes and charges	48,610	161,956	(113,346)	(70.0)
Other	39,528	22,140	17,388	78.5
Total	6,130,806	3,908,605	2,222,201	56.9

Source: Company data.

Structure of operating expenses [%]

	Q3 2022	Q3 2021
Depreciation and amortisation	3.1	4.9
Raw materials and consumables used	80.9	67.9

	Q3 2022	Q3 2021
Services	6.4	11.0
Salaries and wages, including surcharges, and other benefits	8.2	11.5
Taxes and charges	0.8	4.1
Other	0.6	0.6
Total	100.0	100.0

Source: Company data.

2.3.3. Assets, equity and liabilities

Structure of assets

	Q3 2022	Q3 2021	y/y change	% change
Non-current assets, including:	16,631,186	14,832,104	1,799,082	12.1
Property, plant and equipment	13,333,354	11,902,598	1,430,756	12.0
Intangible assets	1,021,619	1,019,785	1,834	0.2
Right-of-use assets	804,372	806,680	(2,308)	(0.3)
Other receivables	573,124	512,537	60,587	11.8
Goodwill	337,454	327,889	9,565	2.9
Current assets, including:	9,251,311	6,061,333	3,189,978	52.6
Inventories	3,117,519	1,683,772	1,433,747	85.2
Trade and other receivables	2,250,344	3,534,138	(1,283,794)	(36.3)
Cash and cash equivalents	1,885,390	706,675	1,178,715	166.8
Property rights	1,948,861	86,139	1,862,722	2,162.5
Total assets	25,882,497	20,893,437	4,989,060	23.9

Source: Company data.

Structure of equity and liabilities

	Q3 2022	Q3 2021	y/y change	% change
Equity	10,945,217	8,534,909	2,410,308	28.2
Non-current liabilities, including:	6,919,075	6,488,874	430,201	6.6
Borrowings	4,571,495	4,010,890	560,605	14.0
Other financial liabilities	708,731	609,914	98,817	16.2
Deferred tax liabilities	438,726	535,009	(96,283)	(18.0)
Employee benefit obligations	397,987	477,954	(79,967)	(16.7)
Lease liabilities	352,821	333,260	19,561	5.9
Provisions	238,832	213,469	25,363	11.9
Government grants	190,046	194,530	(4,484)	(2.3)
Current liabilities, including:	8,018,205	5,869,654	2,148,551	36.6
Trade and other payables	5,057,685	3,818,852	1,238,833	32.4
Other financial liabilities	1,341,242	852,695	488,547	57.3
Borrowings	618,273	574,476	43,797	7.6
Provisions	75,824	45,537	30,287	66.5
Government grants	513,288	382,855	130,433	34.1
Total equity and liabilities	25,882,497	20,893,437	4,989,060	23.9

Source: Company data.

2.3.4. Financial ratios

Profitability ratios [%]

	Q3 2022	Q3 2021
Gross profit margin	9.0	13.6
EBIT margin	1.3	2.8
EBITDA margin	4.2	7.7
Net profit margin	-1.3	0.4
ROA	-0.3	0.1
ROCE	0.5	0.7
ROE	-0.7	0.2
Return on non-current assets	-0.5	0.1

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 / net 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

	Q3 2022	Q3 2021
Current ratio	1.2	1.0
Quick ratio	0.8	0.7
Cash ratio	0.2	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

Profitability ratios

	Q3 2022	Q3 2021
Inventory turnover	49	45
Average collection period	32	82
Average payment period	80	103
Cash conversion cycle	1	24

Source: Company data.

Ratio formulas:

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

*Average collection period = trade and other receivables * 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 [%]

	Q3 2022	Q3 2021
Total debt ratio	57.7	59.2
Long-term debt ratio	26.7	31.1
Short-term debt ratio	31.0	28.1

	Q3 2022	Q3 2021
Equity-to-debt ratio	73.3	69.1
Interest cover ratio	9.0	276.7

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 are fully solvent, with a sound credit standing. In the third quarter of 2022, the Group paid all of its borrowing-related and other financial liabilities when due, and there is no threat to its ability to continue servicing its debt as scheduled.

The liquidity management policy operated 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 2,744m. 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 war in Ukraine and the resulting extraordinary and highly volatile prices of 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 September 30th 2022, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt as scheduled. The Group has access to umbrella limits under PLN-, EUR- and USD- overdraft facilities covered by 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 September 30th 2022 was PLN 1,151m. At the same time, the Group had undrawn limits under corporate credit facilities of PLN 1,095m and PLN 18m 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 4,413m.

As at September 30th 2022, under the agreements specified above the Group had access to total credit limits of approximately PLN 6,677m (of which limits under Grupa Azoty POLYOLEFINS special purpose credit facilities for the financing of the Polimery Police project were PLN 4,413m, and other limits available to the Group amounted to PLN 2,264m).

The Group's financial standing is sound, and there are no material threats or risks of its deterioration in the future, also taking into account the brief shutdown of some production units during the period of exceptionally high gas prices.

The Group complies with the uniform covenants of its facility agreements which enable it to significantly increase financial debt when and as needed.

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.

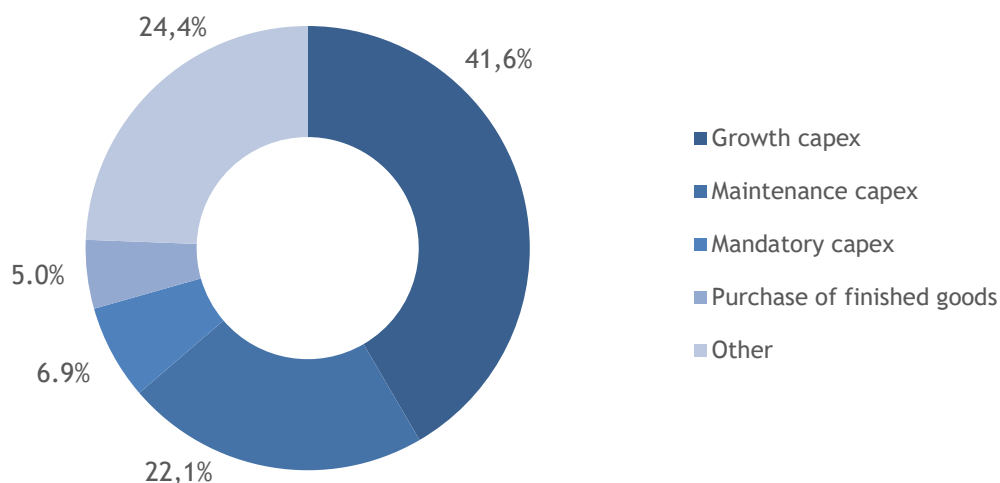
2.7. Key investment projects

In the third quarter of 2022, the Group incurred expenditure of PLN 436,277 thousand to purchase intangible assets and property, plant and equipment.

Structure of capital expenditure:

• Growth capex	PLN 181,306 thousand
• Maintenance capex	PLN 96,404 thousand
• Mandatory capex	PLN 29,975 thousand
• Purchase of finished goods	PLN 21,834 thousand
• Other (major overhauls, components, catalysts, etc.)	PLN 106,526 thousand

Structure of the Grupa Azoty Group's capital expenditure in the third quarter of 2022



Source: Company data.

Below is presented Grupa Azoty Group's capital expenditure in the three months ended September 30th 2022:

• Parent	PLN 31,107 thousand
• Grupa Azoty POLYOLEFINS	PLN 122,273 thousand
• Grupa Azoty PUŁAWY Group	PLN 126,195 thousand
• Grupa Azoty KĘDZIERZYN Group	PLN 65,152 thousand
• Grupa Azoty POLICE Group	PLN 47,623 thousand
• COMPO EXPERT	PLN 21,982 thousand
• Grupa Azoty KOLTAR	PLN 7,563 thousand
• Grupa Azoty SIARKOPOL	PLN 9,704 thousand
• Grupa Azoty PKCH	PLN 2,484 thousand
• Grupa Azoty COMPOUNDING	PLN 1,938 thousand

• Grupa Azoty ATT POLYMERS

PLN 24 thousand

Key investment projects implemented by the Group as at September 30th 2022 (PLN '000)

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q3 2022	Project purpose	Scheduled completion date
Parent					
Neutralisation unit (for ammonium nitrate)	130,000	3,594	790	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.	2024
Grupa Azoty POLYOLEFINS					
Polimery Police	7 210 957*	4,147,011	122,273	The project is to build an on-purpose propylene dehydrogenation plant (PDH) and a polypropylene production plant with associated infrastructure, including the 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	108,000	103,555	2,065	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 Oder river as the only supply source. The project will also secure the supply of demineralised water to Grupa Azoty POLYOLEFINS units.	2022
Grupa Azoty PUŁAWY					
Construction of coal-fired power generation unit	1,200,000	966,703	771	Bringing Grupa 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
Upgrade of existing nitric acid production units and construction of new nitric acid production and neutralisation units and units for production of new	695,000	404,114	7,223	Increase in the efficiency of nitric acid production and the economics of production of nitric acid-based fertilizers. Any excess of nitric acid will be processed on the new line for the production of speciality fertilizers: magnesium nitrate, calcium nitrate and potassium nitrate.	2028

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q3 2022	Project purpose	Scheduled completion date
fertilizers based on nitric acid					
Facility for production of granulated fertilizers based on ammonium nitrate	430,000	421,001	1,145	Improvement of the quality of fertilizers by applying modern mechanical granulation. The key element of the complex is two lines for manufacturing granulated fertilizers based on ammonium nitrate melt as the feedstock for granulated ammonium nitrate and calcium ammonium nitrate.	2022
Upgrade of steam generator OP-215 No. 2 to reduce NO _x emissions	145,000	122,349	10,876	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
Grupa Azoty KĘDZIERZYN					
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	180,000	123,446	10,722	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	50,618	13,201	The peak-load/reserve boiler house as a peak-load source will operate in conjunction with steam generators in 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	72,800	62,947	2,842	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.	2023
2-ethylhexanoic acid unit	120,000	2,886	0	Enabling the production of 20,000 tonnes of 2-EHA per year.	2024
Upgrade of the urea production line	172,447	3,185	1,945	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.

Source: Company data.

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

Exchange rates

Given the current situation in financial markets driven by the ongoing armed aggression of Russia against Ukraine, the global inflationary pressures and the monetary policy tightening by central banks, the prospects of Europe plunging into an energy crisis if supplies from Russia continue to be limited or are stopped altogether, give rise to fear of a global recession. Unrest in the financial markets will adversely affect the Polish currency. The Polish currency is also internally weak, which is linked to the rising negative real interest rate in Poland, the growing risk of non-payment of EU funds under the National Recovery Plan and divergence in national monetary and fiscal policies. The Polish currency may remain weak until the end of 2022 because of the growing interest rate disparity between Poland on the one side and the euro area and the United States on the other side, being a consequence of interest rate increases by the National Bank of Poland not keeping pace with those made by the Fed and the ECB.

Grupa Azoty expects that until the end of 2022 the exchange rate of the Polish zloty will remain at the currently observed low levels, with strong market volatility bound to continue.

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 the first half of 2023.

Before the end of 2022, a further depreciation of the zloty in relation to both the euro and the US dollar may be seen. The weakening of the zloty in relation to EUR and USD should not have any significant impact on the Group's planned performance in terms of its foreign currency exposure.

Interest rates in Poland

In the three months to September 30th 2022, domestic interest rates increased to 6.75%. The National Bank of Poland's monetary policy tightening cycle is nearing its end. Financial markets expect to see a maximum of three further interest rate increases in Poland and the series of reference rate increases ending at 7.0-7.5%. Based on forward rate contracts currently executed in Poland, the 3M WIBOR rate is estimated to rise to approximately 7.5% over the next six months. At the same time, given the still high inflation rate, a scenario where interest rates grow even up to 8% cannot be ruled out, but this is not a base case scenario. In the base case scenario, the Grupa Azoty Group assumes that the current interest rates will increase by the end of 2022 with respect to the currencies in which the Group finances its operations. 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 high level in PLN, EUR and USD.

In the United States, interest rates are expected to rise further in the fourth quarter of 2022, by 75-125 basis points (to 3.75%-4.25%) and continue to rise at a slower rate in the first three months of 2023. Similarly, in the eurozone the ECB will likely increase interest rates at both its meetings held in the fourth quarter of 2022, by 100-150 basis points in total. The war in Ukraine has a stronger negative impact on the European than on the US economy. As a result, the euro (and the zloty) will remain under pressure, while for the US dollar there is a further opportunity to strengthen.

Inflation remains a key economic problem in Poland and globally. Financial markets are increasingly concerned by the slowdown of economic growth and the possibility of recession. In the euro area, the economy is already probably in stagnation or has been recording declines in GDP. Poland has seen a marked decrease in the GDP growth rate. At the end of 2022 and beginning of 2023, we may see a negative GDP growth. This trend is likely to continue at least until the second quarter of 2023.

Prices of CO₂ emission allowances

According to forecasts by the largest financial institutions, the market for carbon allowances will be marked by strong volatility until the end of the year. At present, the Group notices two key drivers of EUA prices. On the one hand, concerns over the imminent recession in Europe and the ongoing correction in the commodity markets should exert a downward pressure on the EUA prices but, on the other hand, the current and anticipated increase in energy produced by burning coal in 2022-2023 compared to energy produced by burning gas will drive up the prices. The EUA market should remain in a broad consolidation range of EUR 60-90 until the end of the year. If the recession scenario materialises, a temporary bearish breakout from the above area is possible.

Based on the adopted joint model for managing CO₂ emission allowances and approved purchase plans, Grupa Azoty Group companies captured the opportunity created by the downward correction in the first half of 2022 to purchase allowances to secure a significant part of the required EUA volumes for 2023. At the same time, the Group companies have secured all EUAs required for 2022, which were purchased earlier and paid for much less than the current market prices.

Regulatory area

New EU Fertilising Products Regulation (Regulation (EU) 2019/1009 of the European Parliament and of the Council of June 5th 2019)

The Regulation applies from July 16th 2022 and opens the single market to, in addition to mineral fertilizers, fertilizing products which have not yet been covered by harmonised regulations: organic fertilizers, organic and mineral fertilizers, soil improvers, inhibitors, biostimulants, growing media and mixtures. The EC is continuing its efforts to draw up delegated acts to supplement the Regulation.

Common Agricultural Policy (CAP)

Following the reform of the CAP for 2023-2027, EU Member States are required to submit national strategic plans to the European Commission. On August 31st 2022, the EC approved the first seven strategic plans of Denmark, Ireland, Spain, France, Poland, Portugal and Finland, and afterwards of Luxembourg and Austria. The plans were updated following the comments submitted by the EC on the initial proposals. The plan proposed by Poland provides for increased spending on climate, environment and animal welfare, and introduces a new type of direct payments, referred to as eco-schemes. The support proposed in the plan will be provided using EU funds, including EUR 17.3 billion under Pillar I of the CAP and EUR 4.7 billion under Pillar II of the CAP.

Farm to Fork strategy

Until July 21st 2022, the EC held consultations on the sustainable EU food system. The initiative aims to set up a sustainable EU food system and include sustainable development in all aspects of food policy. The strategy will lay down rules on the labelling of compliance of food products with the principles of sustainable development, the minimum criteria for the award of sustainable public procurement for food management and monitoring. The strategy is planned to be adopted in the fourth quarter of 2023.

In July, the Agriculture and Fisheries Council adopted conclusions in which it called for a balanced, resilient and competitive marine and freshwater aquaculture sector in the EU.

On August 26th, the EC concluded public consultation on an action plan for better management of nutrients (nitrogen and phosphorus). According to the EC, nutrient pollution and inefficiencies in the nutrient cycle require additional action at EU level to improve food security, protect human health and preserve the ecosystem. The plan is to be adopted in the fourth quarter of 2022.

Fit for 55

The EC continues to analyse the proposed amendments to the draft regulations published on July 14th 2021 under the Fit for 55 framework. The individual acts making up the Fit for 55 package are either being discussed by EU bodies or negotiated by the European Commission, the European Parliament and the Council of the European Union (the "trilogues"). The following acts are among those that have entered the trilogues phase: the amendment to Directive 2003/87/EC (ETS Directive), the regulation on establishing a carbon border adjustment mechanism (CBAM) and amendment to Directive 2018/2001 (RED), 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, revision of benchmarks for 2026-2030 for products covered by the ETS, and increasing the use of renewables in industry and the share of renewable fuels of non-biological origin in sectors using hydrogen for energy and non-energy purposes.

Taxonomy

On July 6th 2022, the European Parliament did not object to the EC Complementary Delegated Act of February 2022 on EU's classification system establishing a list of environmentally sustainable economic activities to combat climate change, referred to as taxonomy. In the Act, the EC proposed to include, under strict conditions, the role of gas and nuclear energy in energy transition. The European Commission included gas and nuclear energy activities in the second category of activities, i.e. transitional activities covered by Article 10(2) of the Taxonomy Regulation. This means that gas and nuclear energy activities are in line with EU climate and environmental objectives and will help accelerating the shift towards a climate-neutral future. This is critical to the Grupa Azoty Group's business, taking into account the decarbonisation strategy, and especially projects whose completion is necessary to achieve climate neutrality by 2050.

Other consultations

- From August 1st to October 24th 2022, the EC held consultations on soil health (soil protection, sustainable soil management and restoration in the EU) with a view to specifying the conditions for a healthy soil, options for monitoring soil and rules conducive to sustainable soil use and restoration;
- Since June 23rd 2022, the EC has held consultations on the end-of-waste criteria for plastic waste in order to prepare a report on defining the end-of-waste criteria for such waste;
- Since July 1st 2022, the EC has held consultations on waste management and early warning of EU Member States at risk of non-compliance with recycling targets - the EC has introduced the concept of an "early warning report" to be prepared by Member States in order to achieve the recycling targets for municipal and packaging waste and the waste storage target by 2035;

- Since July 27th 2022, the EC has held consultations on the Directive on the reduction of the impact of certain plastic products on the environment (SUP) - the EC has made available an amended draft Act on Entrepreneurs' Obligations with respect to Management of Certain Waste and on the Product Charge, submitted for a review by the Committee on Legal Affairs;
- Since September 2nd 2022, the EC has held consultations on ecodesign requirements for sustainable products - the draft concerns product specifications, Digital Product Passport, labelling and other requirements for consumer information;
- In the period September 2nd-October 17th 2022, the EC held consultations on identifying melamine as a substance of very high concern (SVHC) - the proposal to identify melamine as SVHC was put forward by Germany, which drew up documentation in accordance with the requirements of Annex XV to the Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH);
- On September 5th 2022, the EC launched consultations on microplastics pollution and measures to reduce impacts on the environment - the EC has published a proposal to reduce the release of microplastics into the environment;
- From September 12th to October 10th 2022, the EC held consultations on a basic regulation for the European Chemicals Agency (ECHA) to strengthen the management of ECHA, adapt it to its future role, improve the methods of operation of ECHA's bodies and make their financing more sustainable;
- Between September 20th and October 18th 2022, the EC held consultations on hazardous chemicals - the purpose was to update the Regulation on classification, labelling and packaging (CLP), include new hazard classes and their criteria in the CLP Regulation to adapt it to technical and scientific progress.

Other initiatives

- On July 20th 2022, the EC published the "Save Gas for a Safe Winter" communication. The document calls on EU Member States to take steps to purchase natural gas from sources other than Russia and to voluntarily reduce gas consumption by 15% in the period August 1st 2022-March 31st 2023 compared with the average consumption in 2016-2021. Measures were proposed to achieve the targets, including the possibility of introducing a mandatory reduction of natural gas consumption should the demand and supply situation deteriorate, leading to a risk of a severe gas shortage and a significant deterioration in the security of supply.
- On September 30th 2022, the Council of the European Union presented a proposal for a regulation on an emergency intervention to address high electricity prices. The purpose of the regulation is to reduce EU Member States' gross electricity consumption by 10% (voluntary reduction). The Council also agreed to a mandatory reduction target of at least 5% of the electricity consumption in peak hours. The Council also agreed to cap the market revenues at EUR 180/MWh for electricity generators that use inframarginal technologies to produce electricity. Member States may set a price for the supply of electricity to small and medium-sized enterprises. Member States also agreed to set a mandatory temporary solidarity contribution on the profits of businesses active in the crude petroleum, natural gas, coal, and refinery sectors.

Polish Regulatory Area

- From July 11th to August 1st 2022, the Ministry of Infrastructure held consultations on the draft update of the action programme to reduce pollution of water with agricultural nitrate and to prevent further pollution, along with an environmental impact forecast (the Nitrate Programme);
- Since July 22nd 2022, the Ministry of Climate and Environment has held consultations on the draft Act on large-scale degraded areas - the purpose was to identify, prepare and assess the scale of problems related to the reduction of large-scale degraded areas' impact on the environment and human health, as well as to remove or reduce large-scale degraded areas' negative impact on the environment and human health;
- Since July 28th 2022, the Ministry of Infrastructure has held consultations on the draft schedule and work programme for the preparation of the third update of the river basin management plans - the draft involves a planning cycle for 2022-2027;
- In August 2022, the Ministry of Climate and Environment held consultations on three draft laws concerning the monitoring of quality of hydrogen used as a fuel - regulations on the method of sampling hydrogen by an accredited laboratory, methods of testing hydrogen quality by an accredited laboratory, quality requirements for hydrogen;
- Since September 6th 2022, the Ministry of Climate and Environment has held consultations concerning the draft regulation on the detailed scope of information to be included in the report on emissions of greenhouse gases and other substances and the method of its introduction into the national database on emissions of greenhouse gases and other substances - the purpose is to switch to electronic operation of the national database system in order to simplify its use both for the National Centre for Emissions Management and the system users;
- Since September 19th 2022, consultations have been held on the draft regulation to determine the form of information on the emissions charge - the regulation sets out the form of information on the emissions charge;
- Since September 21st 2022, consultations have been held on a draft law on the rules of implementation of business support programmes in view of the situation on the energy market in 2022-2024. The purpose is to allow the Council of Ministers to adopt aid schemes for groups of businesses exposed to negative effects of

growing energy prices. Depending on the consequences for their economic activity, individual businesses will be able to apply for support in the amount of EUR 2 million, EUR 25 million or EUR 50 million. On September 29th 2022, the Act was adopted by the Sejm (lower chamber of the Polish Parliament) and submitted to further legislative procedure;

- On September 29th 2022, the Sejm adopted a draft Act Amending the Act on Fertilizers and Fertilization - the draft provides for no changes to the marketing of products governed by national law.

Actions taken

- On July 20th 2022, the EC adopted a revision of the Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia, which in its original version applied from March 23rd 2022 - Communication: C(2022) 1890. The amendment complements the “winter preparedness package”, adopted on July 20th 2022. The temporary crisis framework was expanded to include types of aid measures in line with the REPowerEU plan, i.e., measures to accelerate the roll-out of renewable energy, storage of energy and heat from renewable sources, as well as measures to facilitate reduction of emissions from industrial processes to accelerate diversification of energy supplies.
- In October 2022, European Commission Directorate-General for Energy established the EU Energy Platform Industry Advisory Group, whose membership also included a representative of the Grupa Azoty Group. The IAG will primarily focus on the security of gas supplies, while its mission and task will be to assist the EC in meeting the objectives set out in the Commission Communication on the RePowerEU Plan, including in the preparation of legislative proposals and policy initiatives.
- The Grupa Azoty Group held consultations with the Ministry of Climate and Environment to prepare a position for a kick-off meeting on drawing up a Reference Document on Best Available Techniques for the Manufacture of Large Volume Inorganic Chemicals (BREF LVIC). The kick-off meeting took place in Seville on October 24th-October 28th 2022.
- As a member of Fertilizers Europe, Grupa Azoty participated in the work of the working group appointed for the purpose of developing a low-carbon ammonia certification scheme. The key element of the scheme will be to meet a specific requirement for carbon footprint reduction in the production process, taking into account direct and indirect emissions.
- As a member of Fertilizers Europe, Grupa Azoty participated in the preparation of the Roadmap for the European Fertilizer Industry report defining the challenges facing the European fertilizers sector until 2050 on its way towards climate-neutral production.

International trade policy

- In Mexico, antidumping duties on ammonium sulfate imports from China and the US were introduced on May 25th 2022 for a period of six months. The duties are suspended until November 25th to control inflation in the country. Once the suspension period ends, the duties will be reinstated and will remain in force until October 2025.
- On July 18th, the US International Trade Commission (ITC) determined that the US industry was not materially injured or threatened with material injury because of UAN imports from Russia and Trinidad and Tobago. As a result of ITC's final determination, the US Department of Commerce did not issue countervailing and anti-dumping duty orders on UAN imports from the countries referred to above. These decisions followed an anti-dumping and countervailing duties investigation initiated on June 30th 2021 by the US International Trade Commission at the request of CF Industries Nitrogen LLC, Terra Nitrogen Limited Partnership and Terra International (Oklahoma) LLC.
- On July 25th 2022, the EC decided to reject the request for suspension of anti-dumping duties on UAN imports from Russia, the US and Trinidad and Tobago imposed by Commission Implementing Regulation 2019/1688 of October 8th 2019.
- On September 14th 2022, the General Court of the European Union rejected the claim of EuroChem Group and Methanol Holding (Trinidad) Ltd challenging the Commission's decision to impose, by virtue of Commission Implementing Regulation 2019/1688 of 8 October 2019, anti-dumping duty on imports of UAN from Russia, Trinidad and Tobago and the US.
- On September 11th 2022, anti-dumping duties on imports of ammonium nitrate from Russia, Iran and Georgia, in force from September 2017, expired in India. The procedure to extend the anti-dumping duties on imports of ammonium nitrate from Russia, Iran and Georgia in India was initiated in June 2021. In the end, the Ministry of Finance of India did not accept the recommendation of the Trade Protection Directorate of the Ministry of Commerce to extend the import duties by two years, issued following an investigation.
- The restrictions on phosphate exports imposed by the National Reform Development Commission continue to apply in China. The restrictions were originally to expire in June 2022, but were extended to cover the second half of 2022.
- Export quotas for nitrogen and compound fertilizers continue to apply in Russia. At the end of May, Russia's government signed a decree to extend nitrogen and compound fertilizer export quotas from July to December 2022. Export quotas for nitrogen fertilizers and compound fertilizers amount to, respectively, 8.3m tonnes

and 5.9m tonnes. The limits do not apply to exports to South Ossetia, Abkhazia, as well as the Donetsk and Luhansk areas.

- On July 7th 2022, the EU and Uzbekistan formally initialled the Enhanced Partnership and Cooperation Agreement (EPCA). The new agreement creates a fully legal mechanism for comprehensive cooperation between Uzbekistan and the EU, including trade and economic cooperation.
- On July 22nd 2022, the EC launched four new infringement procedures against the United Kingdom for failure to comply with the significant parts of the Protocol on Ireland/Northern Ireland. This is in addition to the infringement procedures previously launched on June 15th 2022. The proceedings may result in the imposition of a fine by the European Court of Justice.
- On July 26th 2022, the Ukrainian government decided to lift the export ban (zero quotas) on nitrogen, phosphorus, potassium and compound fertilizers imposed by a decision of March 12th 2022, and introduced licensing.
- In the United Kingdom, the zero-rate tariffs on Ukrainian goods, introduced by the United Kingdom Department of Commerce on April 25th 2022, continue to apply for a period of at least 12 months.
- The 12-month suspension of tariffs on Ukrainian goods, which entered into force on June 4th, continues to apply in the EU.
- Tariffs of 35% for 570 groups of Russian products have been in force in the US since July 28th 2022. The increase in tariffs was announced in a Presidential Proclamation signed by the US President on June 27th 2022. The products include sulfuric acid and propylene.
- In early August 2022, the Russian government introduced a sulfur export quota of 1.1m tonnes applicable from August 10th to December 31st 2022. The quota does not apply to exports to the Luhansk, Donetsk, Abkhazia and South Ossetia areas. Also, the Russian Ministry of Industry and Trade is to develop a sulfur exports and procurement plan for 2022.
- The EU continues to negotiate its trade agreements with third countries, including India, Australia and Indonesia.
- No significant progress has been made in ratifying the trade agreement with MERCOSUR countries. Negotiations on the agreement ended in 2019. The European Commission expects MERCOSUR to become involved in the Paris Agreement and to tackle the problem of deforestation in the Amazon rainforest.

EU and US sanctions imposed on Russia and Belarus

On July 21st 2022, the Council of the European Union adopted the seventh sanctions package, prohibiting direct or indirect imports, purchases or transfers of Russian gold. The existing port access ban was extended to include locks in order to ensure full implementation of the measure and avoid the circumvention of sanctions.

On August 4th 2022, the Council of the European Union added former pro-Russian Ukrainian President Viktor Yanukovich and his son Oleksandr in the sanctions list annexed to Decision 2014/145/CFSP. The list includes persons, entities and bodies that have been sanctioned for actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine and the state's stability and security.

On September 9th 2022, the Council of the European Union decided to fully suspend its visa facilitation agreement with Russia. Consequently, the general rules of the Visa Code apply by default to Russian nationals. The decision was published in the Official Journal on September 9th 2022 and started to apply on September 12th 2022.

On September 15th 2022, the Council of the European Union prolonged sanctions against persons and entities responsible for undermining or threatening the territorial integrity, sovereignty and independence of Ukraine for a further six months until March 15th 2023. The sanctions continue to apply to 1,206 persons and 108 entities.

On September 19th 2022, the European Commission issued new guidelines on sanctions against Russia, concerning mainly coal but also transfer of fertilizers to third countries as well as financing and financial assistance related to such transfer carried out by EU operators or via the EU territory. The EU made a commitment to avoiding that its sanctions impact food and energy security in third countries around the globe, in particular of the least developed ones. In the light of that commitment, the transfer of certain goods to third countries should be allowed "to combat food and energy insecurity around the world" and "in order to avoid any potential negative consequences therefor" in third countries. This applies to the transfer to third countries, as well as financing or financial assistance related to such transfer, carried out by EU operators or via the EU territory (including in transit), of fertilizers falling under CN codes 310420, 310520, 310560, ex31059020 and ex31059080, animal feed, certain hydrocarbons, coal and related products.

On October 6th 2022, the Council of the European Union imposed the eighth package of sanctions against Russia, introducing into the EU legislation the basis to put in place a price cap related to the maritime transport of Russian oil for third countries and further restrictions on the maritime transport of crude oil and petroleum products to third countries. It is prohibited to provide maritime transport and technical assistance, brokering services, financing and financial assistance related to maritime transport to third countries of crude oil (from December 2022) or petroleum products (from February 2023) originating in or exported from Russia. The EU also extended the import ban to include steel products originating in or exported from Russia. Further import

restrictions have also been imposed on wood pulp and paper, cigarettes, plastics and cosmetics as well as elements used in the jewellery industry, such as precious stones and metals. The sale, transfer or export of additional goods used in the aviation sector is also restricted.

The package also adds certain electronic components, additional goods and chemicals to the list of items which may contribute to Russia's military and technological enhancement or the development of its defence and security sectors. The import of polyamides (code: CN 3908) from Russia is prohibited. Providing technical assistance, brokering services or financial assistance in such transactions is also prohibited. The measures are subject to several-month transition period. Deliveries under contracts concluded by October 6th 2022 can be made until January 8th 2023. The restricted products include inorganic acids and inorganic oxygen compounds of non-metals falling under CN code 2811 (excluding hydrogen chloride (hydrochloric acid), chlorosulphuric acid, sulphuric acid, oleum, nitric acid, sulphonitric acids, diphosphorus pentaoxide, phosphoric acid, polyphosphoric acids, boron oxides and boric acids), polyethylene (CN 3901), polystyrene (CN 3903), PVC (CN 3904) and certain polyacetals (CN 3907).

The sanctions include a prohibition to sell, supply, transfer or export civilian firearms and their essential components and ammunition, military vehicles and equipment, paramilitary equipment, and spare parts. The Council of the European Union also decided to broaden the listing criteria on which specific designations can be based, in order to include the possibility to target those who facilitate the circumvention of EU sanctions. There is also a ban on EU nationals to hold any posts on the governing bodies of certain Russian state-owned or controlled legal persons, entities or bodies, a full ban on the provision of crypto-asset services to Russian persons and residents, regardless of the total value of those crypto-assets, and a ban on the provision of architectural and engineering services as well as IT consultancy services and legal advisory services to Russia.

The Council further decided that the geographical scope of the restrictions introduced on February 23rd, including the import ban on goods from the non-government controlled areas of the Donetsk and Luhansk oblasts, will be extended to cover also the non-controlled areas of the oblasts of Zaporizhzhia and Kherson.

Polish sanctions against Russia and Belarus

On September 29th 2022, Gazprom Export was entered in the sanctions list in Poland. The Minister of Internal Affairs and Administration of the Republic of Poland decided to freeze the company's assets in Poland, including the shares of the owner of the Yamal gas pipeline, Europol Gaz.

Russian retaliatory sanctions

The President's Decree of September 29th 2022 on international road freight transport imposing retaliatory sanctions introduced a ban on inbound road cargo transport that applies to both bilateral and transit goods transport as well as cargo transport to or from the territory of a third state. Vehicles registered in those states which carried out transport and transit operations in Russia had to leave Russia by October 17th 2022. The ban does not apply to transport operations to the Kaliningrad Oblast, or postal and other services listed in the annex. The exemptions include live animals, meat and meat products, fish, plants, chemicals, cleaning and hygiene products, paper, cardboard, glass and glass products, piping, nuclear reactors, boilers, electrical machinery, road transport equipment except rolling stock.

Foreign carriers subject to the restrictive measures will be allowed to deliver cargo to reloading areas near border crossings in Russia's oblasts of Pskov, Kaliningrad, Leningrad, Murmansk, Republic of Karelia and St. Petersburg. The ban came into force on October 10th 2022. It will remain in effect until December 31st 2022 and covers 'unfriendly' states, namely the EU member countries, UK, Norway, and Ukraine.

3. Other information

3.1. Other significant events

Implementation of the Polimery Police project

In the three months to September 30th 2022, 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.

Impact of the COVID-19 pandemic on the Project implementation

Given the impact the COVID-19 pandemic had on the Project execution, the General Contractor notified Grupa Azoty POLYOLEFINS of the opening of the procedure to amend the EPC Contract. Following the formal and business assessment of the amendments to the EPC Contract, proposed on August 27th 2021 and covering an increase in Hyundai's fee, a change in the Project execution schedule as well as technical changes, Grupa Azoty POLYOLEFINS entered into negotiations with the General Contractor. On January 28th 2022, having obtained the required corporate approvals, Grupa Azoty POLYOLEFINS executed Annex 3 to the EPC Contract, providing for:

- A EUR 72.5m increase in the General Contractor's fee;
- A six-month extension of the time limit to complete the Project;
- An amendment of the appendix to the EPC Contract relating to the scope of work under the EPC Contract.

The execution of Annex 3 did not change the budget of the Polimery Police project (USD 1,838m), and the increase in the General Contractor's fee will be financed from the project contingency reserve. With COVID-19 subsiding and certain restrictions being lifted, the chances of materialisation of the risk related to the continuing impact of coronavirus on the financing and completion of the Project diminished.

Impact of war in Ukraine on the Project

In early March 2022, the General Contractor notified Grupa Azoty POLYOLEFINS that some of its Ukrainian employees had left the construction site without stating any reasons for doing so. However, the most probable reason was their willingness to fight for their country. In a letter of June 27th 2022, the General Contractor stated that the worker shortage caused by Ukrainian employees who abandoned the site following the outbreak of war was partly solved and that, in the opinion of the General Contractor, the number of workers was sufficient to continue the construction work.

In addition, to mitigate the risk of reduced supply of strategic raw materials, Grupa Azoty POLYOLEFINS plans to diversify its supply sources.

Commodity, energy and product markets

Due to a recent increase in LPG prices that pushed up propane prices and given lower activity in the polypropylene market reflecting fears of a global recession, the current market spreads are lower than in previous years. It is important to note, however, that the market situation is dynamic. It should also 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 expectations as to strong and stable propane-polypropylene spreads remain unchanged.

Stage of completion

As at September 30th 2022, the overall stage of completion under the EPC Contract was 96.97%. The overall stage of completion is understood as comprising design, procurement and supply, construction, acceptance, commissioning and start-up.

Deliveries of plant and equipment continued during the three months to September 30th 2022. Installation work and hydrotesting of ground and underground pipelines, wiring, electrical equipment, automation systems and steel structures continued on all subprojects. Road construction work was performed and deliveries of laboratory equipment were made in the reporting period. As at the end of September, deliveries were 99.99% complete.

Handling and storage terminal (marine gas terminal)

Painting and insulation work was completed on propane and ethylene storage tanks. Finishing work continued on the Main Terminal Building. Power generators providing power supply for key systems in case of a power outage were delivered. Finishing work in security buildings and work on road construction and concreting of the wharf continued.

Fire-fighting work at HST facilities and drinking water and sanitary sewage service lines are planned to be completed soon. Finishing work in technical buildings and work on the water discharge system will be continued.

Propane dehydrogenation unit (PDH), polypropylene unit (PP) with logistics base (PPL), auxiliary systems (AUX)

In September 2022, a heater required for regeneration of the batch dryings was installed. Its installation at the construction site was necessary to complete a milestone in the block schedule. The assembly of 185 internal trays in the propane separation column (PP splitter) was completed. In addition, work is under way to install a service elevator in the continuous catalyst regeneration module structure.

The milestone comprising fire-resistance and insulation work is planned to be completed in 80%. Subsequently, other process pipelines are to be built, the remaining hydro tests for the entire piping are to be performed, and all electrical works are to be completed.

Work continued on applying a fire protection layer on steel structure components on the PP subproject. Pressure testing and cleaning work on pipelines continued as part of provisional acceptance. Checking of the automation

loop and test supply of power to motors of electric pumps began. The yards and roads were levelled and preparatory work started to lay bitumen road surface. Plans for the coming period include continuation of work on subsystem start-up relating to the availability of utilities from AUX facilities, as well as work to prepare PPL facilities for product pre-marketing.

As regards the PPL subproject, installation of the power supply station and electrical switchgear in the packaging station building and the construction of a power service line from the S03 power substation were completed. Subsystem circuits to confirm the completion of construction and assembly work were completed, and completion of remedy of identified defects and faults began. Work relating to the operation of measurement loops was commenced and work relating to a palletizer package continued. An analysis of the construction and assembly documentation started. Tasks to be performed in the near future include work on fire protection of steel structures, horizontal insulation work, completion of tests checking the operation of measurement loops, and launch of I&C functional testing. Plans also include the continuation of work to install the I&C and fittings on the piping and I&C connections.

As regards the AUX subproject, work on the installation of I&C components, pipeline pressure tests, and final acceptance of apparatus and equipment such as boiler water pumps, chemical dosing packages, air compressors and a demi water tank, continued. A test run of equipment, including cooling water pumps, clean water pumps, circulation water pumps, pumps for dosing C-polymer to the centrifuge, oil pumps for the turbine and lye dosing pumps, was carried out. Work planned for the near future includes the start-up of air compressors, passivation of the cooling water circulation system, and continuation of mediator release testing for pumps. Final inspections of other apparatus and equipment have been scheduled.

Administrative decisions

On September 23rd 2022, Grupa Azoty POLYOLEFINS obtained a permit for the use of the wharf, including a reinforced underwater embankment, and a loading platform along with an access platform, connecting bridge and technical infrastructure.

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.

In accordance with the subordinated loan agreements signed on May 31st 2020 between Grupa Azoty POLYOLEFINS and the Parent, Grupa Azoty POLICE, Grupa LOTOS (currently PKN ORLEN S.A.) and Korea Overseas Infrastructure & Urban Development Corporation, the company signs annexes to loan agreements with these entities concerning compounding of interest and commission fees for subsequent interest periods.

For the interest period ended December 31st 2021, annexes to the loan agreements between Grupa Azoty POLYOLEFINS and the Parent and Grupa Azoty POLICE were signed on January 5th 2022. In the case of Grupa LOTOS 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 on January 20th and January 24th 2022, respectively.

In connection with the interest period ended June 29th 2022, annexes to the loan agreements between Grupa Azoty POLYOLEFINS and the Parent and Grupa Azoty POLICE were signed on July 1st 2022. In the case of Grupa LOTOS and Korea Overseas Infrastructure & Urban Development Corporation, annexes concerning capitalisation of interest and commission fees for the interest period ended July 14th 2022 were signed on July 19th and July 18th 2022, respectively.

Production cuts at the Parent and its subsidiaries

On August 22nd 2022, in view of the extraordinary and unprecedented spike in natural gas prices:

- the Management Board of the Parent decided to temporarily shut down, as of August 23rd 2022, the units producing nitrogen fertilizers, caprolactam and polyamide 6. The Company continues to produce catalysts, polyamide casings, humic acids, thermoplastic starch and concentrated nitric acid.
- The Management Board of Grupa Azoty PUŁAWY also decided to temporarily scale down production of ammonia, to about 10% of the capacity, as of August 22nd 2022, and to halt production activities in the Plastics and Agro Segments, with the exception of production of ammonium sulfate from the FGD Plant, NOx[®], Likam and PULNOX[®].
- The Management Board of Grupa Azoty KĘDZIERZYN decided to reduce, as of August 24th 2022, the operation of production units to a minimum, i.e., to 43% in the case of the Fertilizers Unit.

During the announced temporary shutdowns of production units at the Parent and Grupa Azoty PUŁAWY, investment and repair work will be carried out, including the scheduled overhaul of the Parent's Polyamide unit.

The current situation in the gas market, which determines the profitability of production activities, is extraordinary and completely beyond the control of the Grupa Azoty Group, and could not have been predicted.

Resumption and ramp-up of production at the Parent and its subsidiaries

In view of a change in market conditions:

- The Management Board of the Parent decided to resume, as of October 12th 2022, production on the units producing nitrogen fertilizers, caprolactam and polyamide 6.
- On October 12th 2022, the Management Board of Grupa Azoty PUŁAWY decided to launch and increase the load of units producing nitrogen fertilizers (PULAN®, PULAN® MACRO, SALETRZAK 27N, PULREA®, PULREA®+INu, RSM®) in the Agro Segment.
- The Management Board of Grupa Azoty KĘDZIERZYN decided to relaunch, on October 21st 2022, production units at the Fertilizer Unit to 100% of their production capacity.
- The Management Board of Grupa Azoty PUŁAWY decided to resume, as of October 27th 2022, melamine production at approximately one third of production capacity and to resume caprolactam production.

Approaching State Treasury with proposal regarding acquisition and integration of ZEW Niedzica S.A. into Grupa Azoty Group

On September 12th 2022, having completed a due diligence and valuation of the business of Zespół Elektrowni Wodnych Niedzica S.A. ("ZEW Niedzica") and considering the Grupa Azoty Group's Strategy for 2021-2030 envisaging, among other things, the Group's transition towards renewable energy sources, the Management Board of the Parent decided to request the Polish State Treasury, as the sole shareholder in ZEW Niedzica, to initiate a process leading to its potential acquisition and merger into the Grupa Azoty Group. The principal business of ZEW Niedzica is the generation of renewable energy from hydropower assets - the pumped-storage hydroelectric power station in Niedzica, and the hydroelectric power plants in Sromowce Wyżne on the Dunajec River, and in Łączany and Smolice on the Vistula River. Their annual electricity output is approximately 100 GWh.

Further steps in the potential transaction and its optimal structure are subject to specific arrangements with the State Treasury - Minister of State Assets.

Precommissioning and commissioning of the second line for mechanical granulation of nitrate at Grupa Azoty PUŁAWY

The first half of October 2022 saw precommissioning and commissioning of the second line for mechanical granulation of nitrate at Grupa Azoty PUŁAWY. It marks another phase in the execution of one of the largest fertilizer projects in Poland. The first line was put in operation on June 11th 2021.

The assumed capacity of each of the two mechanical granulation lines is 1,200 tonnes/day of mechanically granulated nitrate or 1,400 tonnes/day of calcium nitrate. The project aims primarily to:

- expand the fertilizer product range to meet farmers' needs,
- enhance the quality of ammonium nitrate in terms of mechanical strength of the granules,
- improve the safety of ammonium nitrate fertilizer production and transport,
- prepare to meet requirements related to the risk of potential restrictions on trading in fertilizers with high ammonium nitrate content.

Other material events

For information on other - not listed above - material events in the reporting period and subsequent to the reporting date, including the effect of the war in Ukraine on the Grupa Azoty Group's operations, see the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2022.

3.2. Significant agreements

Trade contracts

Extension of Individual Contracts with Polskie Górnictwo Naftowe i Gazownictwo S.A.

On July 7th 2022, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN and Grupa Azoty SIARKOPOL (collectively the "Grupa Azoty Group Customers") executed an annex to the Gas Sale Framework Agreement of April 13th 2016 and annexes to Individual Contracts.

As a result of the execution of the annexes to the Individual Contracts, PGNiG will remain the strategic supplier of gas fuel for the Grupa Azoty Group Customers until September 30th 2023.

The total value of the annexes executed with the Grupa Azoty Group Customers for the term of extension of the Individual Contracts is estimated at PLN 13.4 billion. The pricing formula applied in the Individual Contracts is based on gas market price indices.

Execution of coal purchase contract

On September 19th 2022, following a tender procedure, the Parent entered into a framework contract for the purchase of coal with the successful bidder Polska Grupa Importowa Premium Sp. z o.o. of Katowice. The contract provides for the supply of imported thermal coal. Coal deliveries to be made under the contract are complementary to other sources of coal used by the Parent for energy generation purposes. The contract has been concluded for an indefinite period and contains general terms and conditions of cooperation related to the supply and offtake of coal. The total value of coal to be delivered in 2022 is estimated at approximately PLN 110m.

Framework contracts for the purchase of coal with Polska Grupa Importowa Premium Sp. z o.o. were also executed by the subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN. Coal deliveries to be made under the contracts will be complementary to deliveries received by the Group companies from their strategic suppliers. The contracts also permit the customers to redirect contracted coal supplies between themselves.

The total value of coal to be delivered by Polska Grupa Importowa Premium Sp. z o.o. to the Group companies in 2022 is estimated at approximately PLN 160m. The Parent may order further deliveries under the contract in the future.

Financing agreements

Annex 8 to the multi-purpose credit facility (MPCF) agreement with PKO BP S.A.

On September 26th 2022, the Parent and its subsidiaries signed an annex to the PLN 240m multi-purpose credit facility agreement with PKO BP S.A. Under the annex:

- the term of the MPCF agreement, originally expiring on September 30th 2022, was extended until September 30th 2025, with the option to extend it for subsequent 12-month periods,
- the credit limit under the MPCF agreement was increased to PLN 1bn,
- an overdraft facility was made available within the facility limit to the Parent,
- a revolving working capital facility, bank guarantees and bank letters of credit were made available within the facility limit to the Parent and the Group companies being parties to the MPCF agreement;
- the following companies: Grupa Azoty PUŁAWY, Grupa Azoty KĘDZIERZYN and Grupa Azoty POLICE were released from their obligations under a surety agreement for the MPCF agreement of June 29th 2018.

As at the annex date, the following limits and sub-limits were set within the facility limit with effect from September 30th 2022:

- limit of the overdraft facility for the Parent: up to PLN 300m;
- sub-limits of the revolving facility, bank guarantees and bank letters of credit: up to PLN 575m for the Parent, up to PLN 62m for Grupa Azoty POLICE, up to PLN 1m for Grupa Azoty PUŁAWY, up to PLN 30m for Grupa Azoty KĘDZIERZYN, and up to a total of PLN 32m for the other Group companies being borrowers under the MPCF agreement.

The annex to the MPCF agreement is part of a long-term financing package designed to finance general corporate needs and to ensure security of financing for the Group companies through the umbrella nature of limit allocation and actual intra-Group redistribution.

The MPCF agreement as amended by the annex supersedes and consolidates the existing overdraft facility agreements for up to PLN 310m and up to EUR 75m (or its equivalent in USD), both executed with PKO BP S.A., expiring on September 30th 2022.

Physical cash pooling (PCP) agreement with PKO BP S.A.

On September 26th 2022, the Parent and the Group companies executed a new PLN, EUR and USD physical cash pooling agreement with PKO BP S.A. with a term running until September 30th 2025.

The CPR agreement supersedes and consolidates the existing PLN physical cash pooling agreement and the PLN, EUR and USD physical cash pooling agreement, both executed with PKO BP S.A., expiring on September 30th 2022.

Insurance agreements

CARGO and CAR/EAR insurance

On July 1st 2022, the Group companies which are members of the Grupa Azoty Mutual Insurance Union (ZWC) received the confirmation of insurance cover for the following agreements:

- the property in national and international transit insurance (CARGO) master agreement, renewed with TUW PZUW for a period of three years (from July 1st 2022 to June 30th 2025), under which a policy for the first annual insurance period has been issued,
- the contractors/erection all risks (CAR/EAR) insurance master agreement, transferred from TUW PZUW to InterRisk for a period of three years (from July 1st 2022 to June 30th 2025).

Business and property third-party liability insurance

On July 28th 2022, a business and property third-party liability insurance policy was issued for a second annual period (from August 1st 2022 to July 31st 2023), reflecting the terms of the Master Agreement made with TUW PZUW for a period of two years (from August 1st 2021 to July 31st 2023).

Insurance of environmental risks

On September 28th 2022, Colonnade Insurance Societe Anonyme, Polish Branch, issued an environmental liability insurance policy, confirming the extension of the existing insurance cover, for the period from September 16th 2022 to September 15th 2023, in favour of the key Group companies: the Parent, Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE and Grupa Azoty PUŁAWY.

Directors and officers (D&O) liability insurance

On September 16th 2022, Powszechny Zakład Ubezpieczeń S.A. issued D&O insurance policies for the Parent's directors and officers, providing insurance cover also to the other Group companies in Poland. This is a continuation of the basic policy and renewal of the excess liability policy for a period from September 17th 2022 to September 16th 2023.

Project co-financing agreements

In the third quarter of 2022, no material amounts under project co-financing were received by the Group companies.

On September 30th 2022, Grupa Azoty PUŁAWY signed Annex 3 to the loan agreement with the National Fund for Environmental Protection and Water Management in Warsaw of September 12th 2018 on the PLN 52.5m co-financing for the project to upgrade steam generator OP-215 No. 2 to reduce NOx emissions. The annex extends the deadline for completion of the project from December 31st 2022 to June 30th 2023 and changes the loan interest from preferential to market rate.

In the three months to September 30th 2022, Grupa Azoty POLICE, the leader of a consortium with Grupa Azoty PUŁAWY, continued to work on the POIR.01.01.01-00-0476/18 research and development project. The project budget is PLN 14.9m and the maximum amount of co-financing represents 49.9% of total eligible expenditure.

In the third quarter of 2022, Grupa Azoty POLICE, as a consortium member, worked on the POIR.01.01.01-00-1495/19 project. The project budget is PLN 5.8m and the maximum amount of co-financing represents 66.2% of total eligible expenditure.

In the third quarter of 2022, Grupa Azoty POLICE continued research work under the POIR.01.01.01-00-1313/20 project. The project budget is PLN 3.5m and the maximum amount of co-financing represents 56.2% of total eligible expenditure.

Other contracts

Execution of agreement to negotiate acquisition of shares in Solarfarm Brzezinka Sp. z o.o.

On July 20th 2022, the Parent entered into an agreement with VSB Holding GmbH of Dresden, Germany, Janusz Franciszek Siemieniec (collectively the "Sellers") and Solarfarm Brzezinka Sp. z o.o. of Wrocław ("Solarfarm") to conduct negotiations, on an exclusive basis, regarding the potential acquisition of 100% of shares in the share capital of Solarfarm.

The Parties expressed their interest in collaborating on a project to build the Brzezinka solar PV power plant with a capacity of approximately 270 MWp which is being developed by Solarfarm, comprising preparatory, construction and installation work, grid connection, commissioning and potential operation of the power plant (the "PV Project"). Once the parties have agreed on the target business model and technical and economic parameters and once the conditions precedent agreed upon during negotiations have been met, the PV Project may be acquired by the Parent or its subsidiary through acquisition of shares in Solarfarm, unless the parties agree on a different transaction model.

The Agreement sets out the terms and conditions of the negotiations to be conducted by the parties on an exclusive basis with a view to closing the transaction and defining the terms of the collaboration, as well as the key parameters necessary for closing the transaction and enabling the collaboration, including the financial model and technical and economic parameters of the PV Project, the purchase price of Solarfarm shares, the price payment terms and price adjustment methods, if applicable.

If the transaction is closed, it will significantly contribute to achieving the goals outlined in the part of the Grupa Azoty Strategy 2021-2030 where it provides for the acquisition of own renewable energy sources.

3.3. Sureties and guarantees

Guarantees

In the third quarter of 2022, the total amount of all guarantees issued at the request of the Group companies was PLN 8,189 thousand. The guarantees for the highest amounts were issued on September 30th 2022 and July 5th 2022 at the request of Grupa Azoty POLICE in favour of GAZ-SYSTEM S.A. (PLN 4,006 thousand) and PSE S.A. (PLN 3,000 thousand).

Letters of credit

On September 14th 2022, at the request of Grupa Azoty KĘDZIERZYN, PKO BP S.A. issued a USD 2,980 thousand documentary letter of credit in favour of Vinmar International LLC. The letter of credit, securing the purchase of 2-ethylhexanol, is valid until October 6th 2022.

Intragroup loans

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

In January and July 2022, Grupa Azoty POLYOLEFINS signed annexes to loan agreements of May 31st 2020:

- On January 5th 2022, with the Parent, Annex 3 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 2021 the loan principal was PLN 384,718 thousand;
- On July 1st 2022, with the Parent, Annex 4 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 June 30th 2022 the loan principal was PLN 405,325 thousand.
- On January 5th 2022, with Grupa Azoty POLICE, Annex 3 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 2021 the loan principal was PLN 433,831 thousand.
- On July 1st 2022, with Grupa Azoty POLICE, Annex 4 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 capitalisation as of June 30th 2022 the loan principal was PLN 457,068 thousand.

In the case of Grupa LOTOS 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 20th and January 24th 2022, respectively. As regards the interest period ended July 14th 2022, annexes to the subordinated loan agreements were signed on July 18th and July 19th 2022, respectively.

Disbursement by the Parent of loan tranches to Grupa Azoty POLICE

Within the limit available under the Intra-Group Financing Agreement of April 23rd 2015 (as amended), the Parent disbursed two loan tranches to Grupa Azoty POLICE, totalling PLN 100,000 thousand, including:

- PLN 50,000 thousand on September 15th 2022,
- PLN 50,000 thousand on October 14th 2022,

to finance the implementation of projects specified in the Grupa Azoty POLICE Capital Expenditure Plan for 2022, and in particular to finance the adaptation projects carried out in connection with the Polimery Police project.

Loans contracted by COMPO EXPERT Brasil

In the third quarter of 2022, COMPO EXPERT Brasil contracted a loan from Banco do Brasil, totalling BRL 20,400 thousand (equivalent of EUR 4,056 thousand), repayable between February 16th and May 2nd 2023.

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 September 28th 2022 (in accordance with the information provided in the interim report for the first half of 2022)

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury	32,734,509	33.00	32,734,509	33.00
ING 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 ^{l)}	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

^{*)} Direct subsidiaries of Norica Holding S.à r.l., which, together with that company, are related parties of Mr Vyacheslav Moshe Kantor.

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 September 28th 2022 to the issue date of this Report, the Parent was not officially notified of any changes in major holdings of its shares.

3.4.1. Sanctions imposed on a minority shareholder

On April 6th 2022, Mr Kantor was placed on the United Kingdom sanctions list, on April 8th 2022 - on the European Union sanctions list, and on April 26th 2022, together with subsidiaries of Norica Holding S.à.r.l. of Luxembourg, i.e., Opansa Enterprises Limited of Cyprus and Rainbee Holdings Limited of Cyprus, 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 activities of Grupa Azoty or the right to nominate members of the Company'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.

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

In the third quarter of 2022, there were no changes in the composition of the Company's Management Board. As at September 30th 2022, the Management Board was composed of the following persons:

- Tomasz Hinc - President of the Management Board,
- Mariusz Grab - Vice President of the Management Board,
- Filip Grzegorzczak, PhD - 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.

Powers and responsibilities of the Company's Management Board and Supervisory Board members

In the third quarter of 2022, the allocation of powers and responsibilities to members of the Company's Management Board changed in accordance with Management Board Resolution No. 663/XII/2022 of September 23rd 2022. The following changes were made:

- Tomasz Hinc - his remit was extended to include "legal services",
- Mariusz Grab - "procurement process management" was changed to "management of procurement processes (excluding gas)", and "production and sale of polypropylene" was added,
- Tomasz Hryniewicz - "management of sales" was changed to "management of sales (excluding polypropylene)", and "management of gas procurement processes" was added.

Following these changes, the powers and responsibilities of the members of the Company's Management Board as at September 30th 2022 were as follows:

- Tomasz Hinc - President of the Management Board, responsible for managing the Company Management Board's operation 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.

Division of responsibilities between the Management Board members as at September 30th 2022



Source: Company data.

Supervisory Board

In the third quarter of 2022, there were no changes in the composition of the parent's Supervisory Board. As at September 30th 2022, the Supervisory Board was composed of the following persons:

- 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,
- Michał Maziarka - Member of the Supervisory Board,
- Marcin Mauer - 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 the third quarter of 2022, the Supervisory Board had the following committees:

- the Audit Committee,
- the Strategy and Development Committee,
- the Corporate Governance Committee (formerly the Nomination and Remuneration 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.

In the third quarter of 2022, there were no changes in the composition of the Audit Committee. As at September 30th 2022, the Audit Committee was composed of the following persons:

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

In the first half of 2022, the Audit Committee operated pursuant to the Rules of Procedure for the Audit Committee adopted by the Supervisory Board under a resolution of February 11th 2021 and approved by the Supervisory Board under a resolution of March 8th 2021.

The Committee's main tasks are those provided 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 third quarter of 2022, there were no changes in the composition of the Strategy and Development Committee. As at September 30th 2022, the Strategy and Development Committee was composed of the following persons:

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

In the first half of 2022, the Strategy and Development Committee operated pursuant to the Rules of Procedure adopted by the Strategy and Development Committee under a resolution of March 2nd 2021 and approved by the Supervisory Board under a resolution of March 8th 2021.

Corporate Governance Committee

In the third quarter of 2022, there were no changes in the composition of the Corporate Governance Committee. As at September 30th 2022, the Corporate Governance Committee was composed of the following persons:

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

In the third quarter of 2022, the Corporate Governance Committee (formerly the Nomination and Remuneration Committee) operated pursuant to the Rules of Procedure adopted by the Committee under a resolution of March 24th 2021 and approved by the Supervisory Board under a resolution of April 19th 2021. The tasks, powers, rules of procedure and name of the Committee were changed after the reporting date. Following the changes, the Committee operates on the basis of the Rules of Procedure, the consolidated text of which was approved by a Supervisory Board resolution of August 23rd 2022.

4. Additional information

Management Board's position on the achievement of forecasts

As no forecasts for 2022 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 proceedings instigated by the Parent against Cenzin Sp. z o.o. - a claim for payment. The value of the claim is PLN 79,821 thousand. The case concerns a claim for payment of contractual penalty for delay, extension of CAR/EAR insurance by the Parent, 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, cost of completion of the Project, compensation for the purchase of more expensive coal, compensation for lost benefits from sale of magnesium sulfate, compensation for purchase of magnesium oxide, and determination of the defendant's liability for losses which may arise in the future. The claim was filed 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 Company PLN 79,821 thousand. PLN 207 thousand was also awarded to the Company as return of the costs of proceedings. On November 29th 2021, the Company 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 Company 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 third quarter of 2022, 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.

Distribution of profit

On June 29th 2022, the Annual General Meeting passed a resolution to allocate the entire amount of the Company's net profit for the financial year 2021, of PLN 191,789,688.13, to the Company's statutory reserve funds.

The decision was in line with the Management Board's recommendation. In its resolution of May 20th 2022, the Management Board proposed that the entire net profit generated in 2021 be retained by the Company. By retaining earnings, the Company will secure financing for the implementation of its planned investment projects, with particular focus on those related to energy transition.

On May 26th 2022, the Company's Supervisory Board gave a favourable opinion on the proposal of the Company's Management Board for the Annual General Meeting to allocate the entire net profit for the financial year 2021, of PLN 191,789,688.13, to the Company's reserve funds.

Signatures of members of the Management Board

Tomasz Hinc
President of the Management Board

Mariusz Grab
Vice President of the Management Board

Filip Grzegorzczak, PhD
Vice President of the Management Board

Tomasz Hryniewicz
Vice President of the Management Board

Grzegorz Kądziałowski, PhD
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

Piotr Kołodziej
*Head of the Corporate
Finance Department*

Tarnów, November 9th 2022