



**Consolidated interim report
of the Grupa Azoty Group for Q1 2022**

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Interim condensed consolidated financial statements of
the Grupa Azoty Group for the three months ended
March 31st 2022, prepared in accordance with IAS 34
Interim Financial Reporting as endorsed by the
European Union

Interim condensed consolidated statement of comprehensive income

	for the period Jan 1 – Mar 31 2022 <i>unaudited</i>	for the period Jan 1 – Mar 31 2021 <i>unaudited</i>
Profits and losses		
Revenue	6,827,163	3,361,982
Cost of sales	(5,155,231)	(2,693,871)
Gross profit	1,671,932	668,111
Selling and distribution expenses	(303,003)	(249,755)
Administrative expenses	(213,194)	(192,651)
Other income	14,428	8,508
Other expenses	(15,018)	(20,787)
Operating profit	1,155,145	213,426
Finance income	4,587	22,044
Finance costs	(72,401)	(106,871)
Net finance costs	(67,814)	(84,827)
Share of profit of equity-accounted investees	3,451	3,475
Profit before tax	1,090,782	132,074
Income tax	(208,412)	(46,197)
Net profit	882,370	85,877
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Cash flow hedges - effective portion of fair-value change	175,782	(18,367)
Translation reserve	28,295	11,722
Income tax relating to items that are or will be reclassified to profit or loss	1,522	1,571
	205,599	(5,074)
Total other comprehensive income	205,599	(5,074)
Comprehensive income for the period	1,087,969	80,803
Net profit attributable to:		
Owners of the parent	853,593	87,570
Non-controlling interests	28,777	(1,693)
Comprehensive income for the period attributable to:		
Owners of the parent	1,023,072	84,517
Non-controlling interests	64,897	(3,714)
Earnings per share:		
Basic (PLN)	8.61	0.88
Diluted (PLN)	8.61	0.88

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

Interim condensed consolidated statement of financial position

	as at Mar 31 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Assets		
Non-current assets		
Property, plant and equipment	12,443,006	11,957,685
Right-of-use assets	815,005	804,863
Investment property	63,461	68,046
Intangible assets	1,002,844	998,614
Goodwill	323,365	319,922
Shares	12,915	12,915
Equity-accounted investees	96,119	92,658
Derivative financial instruments	74,322	-
Other financial assets	2,764	2,626
Other receivables	563,588	542,552
Deferred tax assets	110,345	105,446
Other assets	509	509
Total non-current assets	15,508,243	14,905,836
Current assets		
Inventories	2,409,537	2,313,143
Property rights	1,758,329	1,560,172
Derivative financial instruments	1,027	1,801
Other financial assets	1,997	1,997
Current tax assets	17,690	28,015
Trade and other receivables	4,469,421	2,453,579
Cash and cash equivalents	672,092	2,362,193
Other assets	18,276	17,969
Total current assets	9,348,369	8,738,869
Total assets	24,856,612	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 Mar 31 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	82,731	(58,403)
Translation reserve	83,281	54,936
Other capital reserves	(17,700)	(17,700)
Retained earnings	5,902,452	5,048,783
Equity attributable to owners of the parent	8,965,011	7,941,863
Non-controlling interests	1,055,084	990,304
Total equity	10,020,095	8,932,167
Liabilities		
Borrowings	3,890,599	3,640,671
Derivative financial instruments	-	91,072
Lease liabilities	358,500	347,159
Other financial liabilities	642,442	630,360
Employee benefit obligations	419,700	420,136
Trade and other payables	20,841	21,415
Provisions	194,417	193,381
Government grants	195,991	196,725
Deferred tax liabilities	445,654	410,241
Total non-current liabilities	6,168,144	5,951,160
Borrowings	1,118,132	818,475
Derivative financial instruments	7,909	6,183
Lease liabilities	57,707	60,940
Other financial liabilities	631,991	1,759,195
Employee benefit obligations	51,782	57,263
Current tax liabilities	237,741	120,892
Trade and other payables	5,137,569	5,827,116
Provisions	89,146	89,958
Government grants	1,336,396	21,356
Total current liabilities	8,668,373	8,761,378
Total liabilities	14,836,517	14,712,538
Total equity and liabilities	24,856,612	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 March 31st 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	-	-	-	-	-	853,593	853,593	28,777	882,370
Other comprehensive income	-	-	141,134	28,345	-	-	169,479	36,120	205,599
Comprehensive income for the period	-	-	141,134	28,345	-	853,593	1,023,072	64,897	1,087,969
Changes in the Group	-	-	-	-	-	116	116	(116)	-
Other	-	-	-	-	-	(40)	(40)	(1)	(41)
As at Mar 31 2022 (unaudited)	495,977	2,418,270	82,731	83,281	(17,700)	5,902,452	8,965,011	1,055,084	10,020,095

For the period ended March 31st 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	-	-	-	-	-	87,570	87,570	(1,693)	85,877
Other comprehensive income	-	-	(14,809)	11,756	-	-	(3,053)	(2,021)	(5,074)
Comprehensive income for the period	-	-	(14,809)	11,756	-	87,570	84,517	(3,714)	80,803
Other	-	-	-	-	-	23	23	(14)	9
As at Mar 31 2021 (unaudited)	495,977	2,418,270	(63,349)	75,067	(17,700)	4,515,349	7,423,614	946,100	8,369,714

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

Interim condensed consolidated statement of cash flows

	for the period Jan 1 – Mar 31 2022 <i>unaudited</i>	for the period Jan 1 – Mar 31 2021 <i>unaudited</i>
Cash flows from operating activities		
Profit before tax	1,090,782	132,074
Depreciation and amortisation	178,279	191,660
Impairment losses	1,259	299
Gain on investing activities	(1,132)	(1,851)
Gain on disposal of financial assets	-	(1)
Share of profit of equity-accounted investees	(3,451)	(3,475)
Interest, foreign exchange gains or losses	29,926	8,334
Fair value (gain)/loss on financial assets	8,084	(57,414)
Increase in trade and other receivables	(2,021,096)	(547,680)
Increase in inventories and property rights	(278,048)	(88,075)
(Decrease)/Increase in trade and other payables	(79,582)	707,300
(Decrease)/Increase in provisions	(1,084)	3,706
Decrease in employee benefit obligations	(7,331)	(11,672)
Increase/(Decrease) in grants	1,310,654	(2,540)
Other adjustments	(5,476)	2,731
Income tax paid	(43,995)	(27,731)
Net cash from operating activities	177,789	305,665
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	7,327	14,594
Purchase of property, plant and equipment, intangible assets and investment property	(754,305)	(1,021,002)
Interest received	-	368
Repayments of loans	-	9
Other cash provided by (used in) investing activities	(1,083)	(1,326)
Net cash from investing activities	(748,061)	(1,007,357)
Cash flows from financing activities		
Proceeds from borrowings	663,508	873,623
Repayment of borrowings	(121,176)	(7,093)
Interest paid	(38,367)	(18,309)
Payment of finance lease liabilities	(19,300)	(17,220)
Payment of reverse factoring liabilities	(1,609,635)	(619,660)
Other cash provided by (used in) financing activities	1,577	2,703
Net cash from financing activities	(1,123,393)	214,044
Total net cash flows	(1,693,665)	(487,648)
Cash and cash equivalents at beginning of period	2,362,193	923,328
Effect of exchange rate fluctuations on cash held	3,564	(1,883)
Cash and cash equivalents at end of period	672,092	433,797

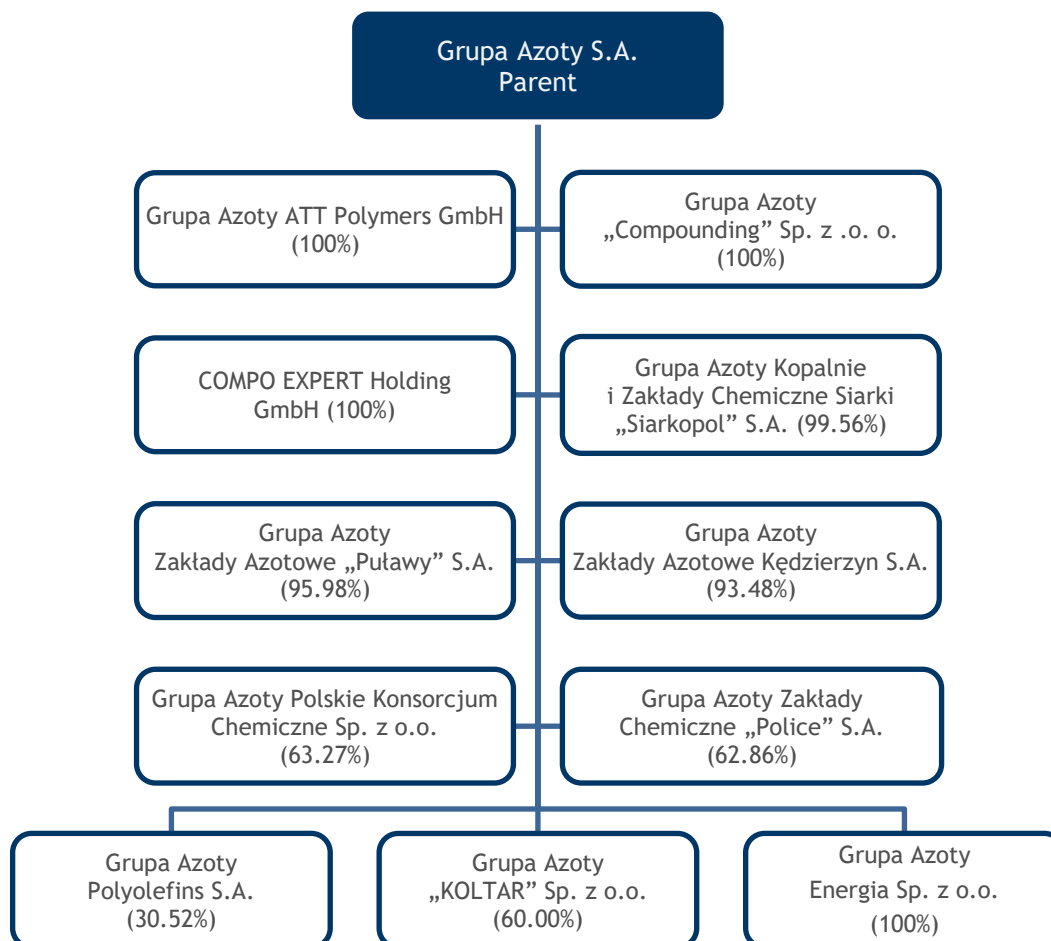
The supplementary information is an integral part of these interim condensed consolidated financial statements.

Supplementary information to the interim condensed consolidated financial statements

1. Description of the Group

1.1. The Group's organisational structure

As at March 31st 2022, the Grupa Azoty Group ("Grupa Azoty", 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 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 Group's business includes in particular:

- 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-based products.

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

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
Technochimserwis S.A. (closed joint-stock company)	25.00	RUB 800 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. and Technochimserwis S.A. (closed joint-stock company) are 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 bankruptcy)	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 Zakłady Chemiczne Police S.A. 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 Egypt LLC ⁵⁾	99.90	EGP 100 thousand
COMPO EXPERT Turkey Tarim Sanai ve Ticaret Ltd. Şirketi ⁶⁾	96.17	TRY 8,375 thousand
COMPO EXPERT Argentina SRL ⁷⁾	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⁾ 0.1% of the share capital is held by COMPO EXPERT GmbH.

⁶⁾ 3.83% of the share capital is held by COMPO EXPERT GmbH.

⁷⁾ 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 Group's structure in the three months ended March 31st 2022 are presented below.

Cancellation of Prozap Sp. z o.o. shares

In January 2022, the Management Board of PROZAP Sp. z o.o. purchased nine shares from former employees of the company, to have the shares cancelled by the Shareholders Meeting. As a result, the percentage of voting rights held by Grupa Azoty PUŁAWY at the General Meeting of PROZAP Sp. z o.o. rose from 81.89% to 82.32%.

On March 17th 2022, pursuant to a resolution of General Meeting of PROZAP Sp. z o.o. the acquired shares were cancelled.

After the reporting date, the Management Board of PROZAP Sp. z o.o. acquired successively eight company shares and then four company shares from former employees for cancellation.

As a result, the percentage of voting rights held by Grupa Azoty PUŁAWY at the General Meeting of PROZAP Sp. z o.o. rose from 82.32% to 82.71%, and then from 82.71% to 82.90%.

Purchase of shares in Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A.

On January 14th 2022, an entry was made in the register of shareholders in connection with the purchase by the Parent of 120 Series A registered shares as part of share repurchase pursuant to Article 4181 of the Commercial Companies Code.

Sale of shares in ZAKSA S.A.

On January 19th 2022, an entry was made in the shareholder register of ZAKSA S.A. reflecting the transfer of title to the shares to Grupa Azoty KĘDZIERZYN, in connection with an agreement signed on December 28th 2021 with Grupa Azoty "KOLTAR" Sp. z o.o. for the sale of 470 registered shares in ZAKSA S.A.

Establishment of Grupa Azoty Energia Spółka z ograniczoną odpowiedzialnością (Grupa Azoty ENERGIA)

On March 8th 2022, a new subsidiary Grupa Azoty Energia Sp. z o.o. was established, with the Parent acquiring 100% of shares in the company. 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).

The company's share capital is PLN 1 million. All shares in the share capital were subscribed for by Grupa Azoty S.A. as the sole shareholder and paid up in full with a cash contribution of PLN 12 million. The share premium was transferred to statutory reserve funds.

On April 25th 2022, the company was entered in the National Court Register.

Cancellation of Remzap Sp. z o.o. shares

On February 10th 2022, an increase in the share capital of REMZAP Sp. z o.o. was registered in the National Court Register. The capital was increased from PLN 1,811,670 to PLN 3,527,720, i.e., by PLN 1,716,050. The increase was effected by increasing the par value of all existing shares from PLN 70 per share to PLN 140 per share. The capital increase was covered with a transfer of PLN 1,716,050 from capital reserve (created from company's profits) to the share capital. As a result, Grupa Azoty PUŁAWY's interest in the share capital of REMZAP increased from PLN 714,020 to PLN 3,428,040, and represents 97.17% of the share capital.

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 months ended March 31st 2022 and contain comparative data for the three months ended March 31st 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 May 25th 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 Effects of the COVID-19 pandemic](#). 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 material 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 in item [c](#)).

a) Amendments to International Financial Reporting Standards

The following standards effective as of 2021 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 effect on Group's financial statements.</p>
<p>IFRS 16 Leases: <i>Covid-19-Related Rent Concessions beyond 30 June 2021.</i></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.</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 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 – <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 change in the allocation key takes into account the approach based on the 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 presentation of these expenses in the operating segments for the period ended March 31st 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.

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 in the interim condensed consolidated financial statements for the three months ended March 31st 2022. The amount of CO₂ emission allowances expected to be received for 2022 was determined at the market prices of the allowances as at March 31st 2022.


3. Selected notes and supplementary information

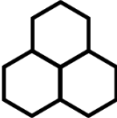



3.1. Business segment reporting

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 Group's chief operating decision maker, who 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 data-bbox="209 1839 336 1890">Agro Fertilizers</p>	<p data-bbox="368 1630 624 1659">Manufacture or sale of:</p> <ul data-bbox="368 1659 1370 1968" style="list-style-type: none"> <li data-bbox="368 1659 1370 1742">• Speciality (fertilizing/fertilizer) products (liquid fertilizers for foliar feeding and fertigation, biostimulants, SRF and CRF fertilizers for precise fertilization, dedicated NPK fertilizers), <li data-bbox="368 1742 1174 1771">• Compound fertilizers (NPK: Polifoska® and Amofoska®; NP: DAP; PK), <li data-bbox="368 1771 1370 1854">• 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), <li data-bbox="368 1854 635 1883">• Nitrogen fertilizers, <li data-bbox="368 1883 528 1912">• Ammonia, <li data-bbox="368 1912 916 1942">• Technical-grade and concentrated nitric acid, <li data-bbox="368 1942 592 1968">• 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 (PA 6, POM - polyacetal), • Modified plastics based on PA6 and other engineering resins (POM, PA66, 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, • Solutions based on urea and ammonia.
 <p>Energy</p>	<p>Power utilities:</p> <ul style="list-style-type: none"> • production of energy carriers: (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 three months ended March 31st 2022 (unaudited)

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

Operating segments' revenue, expenses and financial results for the three months ended March 31st 2021 (unaudited, restated*)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	2,018,828	386,617	815,294	84,583	56,660	3,361,982
Intersegment revenue	761,109	90,292	299,262	905,332	204,451	2,260,446
Total revenue	2,779,937	476,909	1,114,556	989,915	261,111	5,622,428
Operating expenses, including: (-)	(2,612,701)	(472,011)	(1,058,272)	(988,680)	(265,059)	(5,396,723)
<i>selling and distribution expenses (-)</i>	<i>(188,026)</i>	<i>(16,793)</i>	<i>(44,124)</i>	<i>(25)</i>	<i>(787)</i>	<i>(249,755)</i>
<i>administrative expenses (-)</i>	<i>(103,645)</i>	<i>(29,375)</i>	<i>(44,606)</i>	<i>(3,548)</i>	<i>(11,477)</i>	<i>(192,651)</i>
Other income	2,305	1,056	2,257	1,101	1,789	8,508
Other expenses (-)	(1,506)	(8,795)	(2,885)	(1,601)	(6,000)	(20,787)
Segment's EBIT	168,035	(2,841)	55,656	735	(8,159)	213,426
Finance income	-	-	-	-	-	22,044
Finance costs (-)	-	-	-	-	-	(106,871)
Share of profit of equity-accounted investees	-	-	-	-	-	3,475
Profit before tax	-	-	-	-	-	132,074
Income tax	-	-	-	-	-	(46,197)
Net profit	-	-	-	-	-	85,877
EBIT	168,035	(2,841)	55,656	735	(8,159)	213,426
Depreciation and amortisation	83,023	19,130	24,953	28,023	36,531	191,660
EBITDA	251,058	16,289	80,609	28,758	28,372	405,086

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

Operating segments' assets and liabilities as at March 31st 2022 (unaudited)

as at March 31st 2022	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	10,715,147	5,381,476	2,213,685	3,567,864	1,325,498	23,203,670
Unallocated assets	-	-	-	-	-	1,556,823
Investments in associates	-	-	-	-	96,119	96,119
Total assets	10,715,147	5,381,476	2,213,685	3,567,864	1,421,617	24,856,612
Segment's liabilities	4,958,499	2,961,789	382,968	2,010,271	451,344	10,764,871
Unallocated liabilities	-	-	-	-	-	4,071,646
Total liabilities	4,958,499	2,961,789	382,968	2,010,271	451,344	14,836,517

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

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 – Mar 31 2022	for the period Jan 1 – Mar 31 2021
	<i>unaudited</i>	<i>unaudited</i>
Poland	3,831,859	1,633,195
Germany	598,467	362,349
Other EU countries	1,502,954	850,540
Asia	91,139	87,815
South America	138,955	59,053
Other countries	663,789	369,030
Total	6,827,163	3,361,982

No single customer accounted for more than 10% of revenue in the three months ended March 31st 2022 and March 31st 2021.

3.2. Impairment testing

As of March 31st 2022, two of the external impairment indicators listed in par. 12 d) of IAS 36 Impairment of Assets were identified, i.e.,:

- the carrying amount of the Group's net assets was higher than the market capitalisation of the Parent,
- market interest rates increased during the period and the increase affected the discount rate applied to calculate the value in use of the assets and significantly reduced their recoverable amount.

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,
- for the majority of CGUs EBITDA for the three months ended March 31st 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 5.19% at the end of March 2022, driving up the weighted average cost of capital for the Grupa Azoty Group. The increase in discount rates had a material adverse effect on the recoverable amount of individual CGUs, but for most CGUs higher discount rates did not reduce recoverable amounts of their assets to below the carrying amounts.

Where the recoverable amount of a CGU's assets was lower than their carrying amount as a result of the increase in discount rates, additional analyses of the impact of those factors on the recoverable amounts were performed as at March 31st 2022 based on updated (relative to the end of 2021) financial parameters, including exchange rates, net assets and working capital, income and expense forecasts for the period April to December 2022, and long-term forecasts of product margins (for the Plastics CGU). The analyses did not identify material deficit of the recoverable amounts of assets vs their carrying amounts for any of the CGUs.

Taking into account the above circumstances, as well as the wording of par. 16(b) of IAS 36 *Impairment of Assets*, decision was made to not prepare a formal estimate of recoverable amounts as at March 31st 2022, considering that the estimates of recoverable amounts determined in previous tests remained valid as at March 31st 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.

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 March 31st 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 485,321 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 increase in the value of **property rights** by PLN 198,157 thousand was due to the settlement of futures contracts used to redeem emissions for 2021 adjusted by the redemption of these rights as part of the settlement of emissions for 2021 by some of the Group companies in March 2022, as illustrated in the table below.

CO₂ emission allowances held (number of units)

	as at	as at
	Mar 31 2022	Dec 31 2021
	<i>unaudited</i>	<i>audited</i>
Balance at beginning of period (units held)	5,277,013	4,742,055
Allocated	20,242	4,774,325
Purchased	2,799,553	2,890,048
Redeemed	(886,013)	(7,129,415)
Balance at end of period (units held)	7,210,795	5,277,013
Free allocation of CO ₂ emission allowances expected to be received for 2022 (recognised as receivables)	4,833,745	-
Emissions in the reporting period	1,786,369	7,249,936

By March 31st 2022, not all free CO₂ emission allowances due to the Group for 2022 were credited to the EU ETS accounts. In April 2022, 4,708,584 emission rights were credited to the EU ETS accounts, of which at least 17,156 will be returned. The excess emission allowances will be returned once the European Commission has approved the adjusted final annual quantity of emission allowances allocated to the installations for 2022.

The PLN 2,015,842 thousand increase in **short-term trade and other receivables** was attributable to increased sales, higher selling prices and recognition of receivables for CO₂ emission allowances to be received for 2022 for a total amount of PLN 1,719,959.

The PLN 1,690,101 thousand decrease in **cash and cash equivalents** is the cumulative effect of settlement of CO₂ emission allowances purchased in futures/forward transactions, repayment of reverse factoring liabilities, increase in trade receivables, and lower trade payables, mainly due to cumulative payment of liabilities for gas deliveries at the beginning and end of January 2022.

The PLN 549,585 thousand increase in **borrowings** was mainly attributable to the disbursement of long-term investment credit facilities to finance the Polimery Police project as well as an increase in the amounts drawn under overdraft facilities during the quarter.

Repayment of reverse factoring liabilities reduced short-term **other financial liabilities** by PLN 1,127,204 thousand.

The PLN 689,547 thousand decrease in **short-term trade and other payables** was a result of anti-inflationary measures taken by the government, including reduction of the VAT rate on the main feedstock, i.e., natural gas (from 23% to 0%) and electricity (from 23% to 5%), as well as lower consumption of natural gas in March 2022 relative to December 2021.

The PLN 1,315,040 thousand increase in **short-term grants** was mainly attributable to the recognition of CO₂ emission allowances received or expected to be received.

In the three months ended March 31st 2022, Grupa Azoty reported consolidated revenue of PLN 6,827 thousand (up by PLN 3,465 thousand year on year) and EBITDA of PLN 1,355 thousand (up by PLN 930m year on year), reaching EBITDA margin of 19.6% (up by 7.5pp year on year). Net profit earned in the three months ended March 31st 2022 was PLN 882m, having increased by PLN 796m year on year.

The principal driver of the Group's performance in the three months ended March 31st 2022 was significantly higher prices of key feedstocks, including natural gas. Importantly, given the growing demand for fertilizers on the domestic market, in the first quarter Grupa Azoty continued its efforts, initiated in the second half of 2021, to scale down supplies to foreign markets and redirect its products to the domestic market. Thanks to those

additional fertilizer volumes offered on the domestic market, Grupa Azoty was able to fully respond to the volume requirements of Polish farmers before the peak of the application season. It should be noted that in the first quarter of each year the Agro Segment typically has a larger share in the Group's consolidated results, which is attributable to the seasonality of mineral fertilizer sales. The same trends were also seen in the three months ended March 31st 2022.

In line with the growth of raw material prices, there was also an increase in the prices of fertilizers, chemicals and plastics products. Sales volumes in each of the key segments were down year on year, but this was due mainly to one-off events, i.e. electricity generation failure at the subsidiary Grupa Azoty POLICE and the discontinuation of the production of polyoxymethylene (POM) in the second half of 2021 (POM accounted for approximately 4% of the sales volumes and value in the three months ended March 31st 2021).

Given the limited time horizon of its tax budgets and the uncertainty related to the ability to generate taxable profit, the Group does not recognise all of its identifiable deferred tax assets related to its activities in Special Economic Zones. As at March 31st 2022, the amount of the unrecognised asset was PLN 240 million. Activities in the Special Economic Zones are expected to be conducted until 2026.

3.4. Contingent liabilities, contingent assets, sureties and guarantees

Contingent assets

	as at Mar 31 2022	as at Dec 31 2021
	<i>unaudited</i>	<i>audited</i>
Contingent receivables	29,667	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 Mar 31 2022	as at Dec 31 2021
	<i>unaudited</i>	<i>audited</i>
Other contingent liabilities, including guarantees	38,064	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 Group 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 32,731 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 amounts of guarantees under commercial contracts.

3.5. Related-party transactions

Significant related-party transactions

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

In the three months ended March 31st 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 months ended March 31st 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 – Mar 31 2022	for the period Jan 1 – Mar 31 2021
	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	620,956	331,566
Recognised	1,255	635
Reversed (-)	-	(3)
Used (-)	(1)	(11)
At end of period	622,210	332,187

Changes in inventory write-downs

	for the period Jan 1 – Mar 31 2022	for the period Jan 1 – Mar 31 2021
	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	89,217	62,619
Recognised	12,325	7,235
Reversed (-)	(2,936)	(1,939)
Used (-)	(9,785)	(6,109)
Exchange differences	281	151
At end of period	89,102	61,957

Changes in impairment losses on receivables

	for the period Jan 1 – Mar 31 2022	for the period Jan 1 – Mar 31 2021
	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	87,907	86,252
Recognised	2,026	1,224
Reversed (-)	(1,479)	(1,487)
Used (-)	(1,908)	(74)
Exchange differences	874	128
At end of period	87,420	86,043

3.7. Dividend

In the three months ended March 31st 2022 and as at the issue date of the financial statements for that period, the Parent did not pay any dividends. On May 20th 2022, the Management Board of the Parent passed a resolution on the appropriation of the Company's net profit and recommended that the entire net profit for the financial year 2021 be allocated to the Company's statutory reserve funds.

3.8. Seasonality of operations

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

Mineral fertilizers

The first quarter of each year is the period when demand for fertilisers, due to the start of the spring application season, typically peaks. Unfortunately, a series of unfavourable developments of a market nature (including record high prices of natural gas affecting the prices of fertiliser products) adversely affected the demand for fertilisers, bringing it to the level lower than in previous years, with sales adjusted to cover current demand by the agricultural sector. The Group follows a policy of mitigating seasonality through optimum volume allocation:

- as part of all-year supplies to the distribution network, and
- by partial sales of products on geographical markets with different seasonality patterns.

Titanium white market

Because of its chief application (as a component of paints and varnishes), titanium white is a seasonal product used in structural construction. The demand for titanium white depends on its application markets, mainly the construction sector. It usually starts to rise at the end of the first quarter and falls as the construction season ends in autumn. The first quarter is typically classified as a low season, a run-up to the slow beginning of a high season. However, in 2020 and 2021 buying patterns were slightly distorted due to the coronavirus pandemic and the related market conditions.

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

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 dual-use materials and 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 and the Group'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 consolidated financial statements for issue.

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

Natural gas is supplied under a contract with Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG). 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. 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 and acceleration of annual maintenance shutdowns.

In the context of the strong growth of energy commodity prices after Russia's invasion on Ukraine, 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 was limited and had no adverse effect on the volume of 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 propylene and 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. As at the date of authorisation of these consolidated financial statements for issue, the sanctions did not have any impact on deliveries of the raw materials to the Group companies and no related production constraints were identified. Efforts to secure supplies of raw materials from alternative sources have been undertaken and are continuing.

In addition, a major and growing risk is related to the availability of hard coal, which was largely imported from Russia. Hard coal is the key feedstock for the Group's core plants, necessary for the production of process steam. The strong increase in natural gas prices triggered growth of electricity prices, which significantly increased coal-fired electricity generation in Europe, translating directly into a major rise in coal consumption. The increased demand and lack of coal supplies from Russia 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 supply sources.

3. Potential risk to timely implementation of projects carried out at 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. For information on 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 by the consequences of the war in Ukraine, see Section [3.12](#).

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 countries, 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 Group follows its policy for the management of the currency and interest rate risks and, as at the date of authorisation of these consolidated financial statements for issue, did not identify any material threats in these areas.

At the same time it should be noted that the Parent and its subsidiaries do not hold any material assets in Ukraine, Russia and Belarus. In the first quarter of 2022, sales to Ukraine accounted for 2.0% of the Grupa Azoty Group's consolidated revenue and were mainly sales of mineral fertilizers. Sales to Russia and Belarus did not exceed 0.1% of revenue, with deliveries executed 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 as insurance of trade receivables is no longer available and a moratorium has been imposed by the National Bank of Ukraine on foreign payments other than for defence purposes. Sales have been redirected to other markets, particularly those affected by the lack of supply from Russia, Belarus and Ukraine due to the imposed sanctions or the hostilities. Accordingly, the outbreak of war in Ukraine did not have a material impact on the value of the Group's assets.

The Group monitors the political and economic situation caused by Russia's aggression against Ukraine, analyses the impact of these circumstances on the Parent's and Group's business and takes appropriate measures in response.

3.11. Information on sanctions

Sanctions imposed on a minority shareholder of the Company

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 coal

A ban on the import of coal from the Russian Federation was introduced by the European Union (under the applicable Council Regulation) on April 8th 2022 and by Poland (under the applicable act) on April 13th 2022. In both cases the relevant legal regulations entered into force. The Polish embargo has been in effect as of April 16th and the EU embargo will in fact become effective 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 a surge in its prices. Coal supplies are further limited by logistics constraints related to handling capacities in ports and railway transport capacities. This risk may have a material effect on the Group's operations in subsequent periods.

3.12. Industrial failure at Grupa Azoty POLICE

In March 2022, at Grupa Azoty POLICE, as a consequence of unforeseen technical issues in the Power Centre (failure of two OP 230 boilers), the supply of process steam to the company's key units was severely disrupted. The failure caused temporary stoppage or significant limitation of production.

On April 8th 2022, the failure was rectified. Production capacities of the key units of the Parent were restored to their pre-failure level. Negative financial effects of the incident were estimated at about PLN 60 million for Grupa Azoty POLICE and about PLN 34.2 million for the Grupa Azoty Group. They include the cost of repairing the failure and lost profits from sales of compound fertilizers, titanium white, and nitrogen products (urea and its solutions and ammonia), which in all likelihood would have been earned had the plant operated normally.

3.13. Events subsequent to the reporting date

Receipt of contract amendment request from the contractor executing the project 'Construction of coal-fired power generation unit' by Grupa Azoty PUŁAWY

On April 22nd 2022, Grupa Azoty PUŁAWY received from Polimex Mostostal S.A., the general contractor under the EPC contract for the 'Construction of coal-fired power generation unit', a request to increase the contract price by a total amount of PLN 188.7 million (VAT exclusive).

In the opinion of the contractor, the request is justified by the occurrence of force majeure events, including the COVID-19 epidemic and Russia's invasion of Ukraine. In the opinion of the contractor, these force majeure events have caused an extraordinary increase in project costs which could not have been foreseen (the increase having been caused by higher prices of materials and services and an increase in the PLN/EUR exchange rate).

The proposed amendments are being thoroughly reviewed and assessed for validity under the contract, as well as in the light of relevant facts.

Private ruling on the application of a tax credit in connection with the construction of a granulated fertilizer plant

On May 18th 2022, Grupa Azoty PUŁAWY received a private ruling from the Head of the National Revenue Information on the rules of using a tax credit resulting from the permit held by the Company in connection with the project to construct a plant for the manufacturing of granulated fertilizers based on ammonium nitrate in a Special Economic Zone. The Company is analysing the effect of this private ruling on its tax settlements and deferred tax estimates.



Interim condensed financial statements of Grupa Azoty Spółka Akcyjna for the three months ended March 31st 2022, prepared in accordance with IAS 34 *Interim Financial Reporting* as endorsed by the European Union

Interim condensed statement of comprehensive income

	for the period Jan 1 – Mar 31 2022 <i>unaudited</i>	for the period Jan 1 – Mar 31 2021 <i>unaudited</i>
Profits and losses		
Revenue	1,110,013	521,127
Cost of sales	(837,765)	(420,237)
Gross profit	272,248	100,890
Selling and distribution expenses	(35,268)	(27,338)
Administrative expenses	(48,327)	(44,271)
Other income	2,609	3,512
Other expenses	(6,238)	(4,377)
Operating profit	185,024	28,416
Finance income	42,034	22,839
Finance costs	(35,310)	(19,961)
Net finance income	6,724	2,878
Profit before tax	191,748	31,294
Income tax	(33,382)	(6,087)
Net profit	158,366	25,207
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Cash flow hedging - effective portion of change in fair value	(8,011)	(8,269)
Income tax relating to items that are or will be reclassified to profit or loss	1,522	1,571
	(6,489)	(6,698)
Total other comprehensive income	(6,489)	(6,698)
Comprehensive income for the period	151,877	18,509
Earnings per share:		
Basic (PLN)	1.60	0.25
Diluted (PLN)	1.60	0.25

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

Interim condensed statement of financial position

	as at Mar 31 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Assets		
Non-current assets		
Property, plant and equipment	1,757,631	1,745,022
Right-of-use assets	55,211	33,285
Investment property	19,815	20,179
Intangible assets	46,776	47,869
Shares	5,722,178	5,710,173
Other financial assets	1,069,442	1,090,218
Other receivables	18,539	25,399
Total non-current assets	8,689,592	8,672,145
Current assets		
Inventories	347,829	332,205
Property rights	31,574	203,075
Other financial assets	188,360	186,962
Trade and other receivables	678,840	457,058
Cash and cash equivalents	749,238	1,816,416
Total current assets	1,995,841	2,995,716
Total assets	10,685,433	11,667,861
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	(45,757)	(39,268)
Retained earnings	2,404,803	2,246,437
Total equity	5,273,293	5,121,416
Liabilities		
Borrowings	2,676,334	2,810,252
Lease liabilities	45,943	30,522
Other financial liabilities	22,484	29,834
Employee benefit obligations	55,839	55,839
Provisions	18,224	18,224
Government grants	50,396	49,699
Deferred tax liabilities	8,171	2,125
Total non-current liabilities	2,877,391	2,996,495
Borrowings	1,671,156	2,297,455
Lease liabilities	14,136	7,580
Derivative financial instruments	1,508	1,310
Other financial liabilities	131,618	409,366
Employee benefit obligations	5,025	5,025
Current tax liabilities	24,444	16,941
Trade and other payables	523,735	779,150
Provisions	29,846	30,598
Government grants	133,281	2,525
Total current liabilities	2,534,749	3,549,950
Total liabilities	5,412,140	6,546,445
Total equity and liabilities	10,685,433	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 March 31st 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	-	-	-	158,366	158,366
Other comprehensive income	-	-	(6,489)	-	(6,489)
Comprehensive income for the period	-	-	(6,489)	158,366	151,877
As at Mar 31 2022 (<i>unaudited</i>)	495,977	2,418,270	(45,757)	2,404,803	5,273,293

For the period ended March 31st 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	-	-	-	25,207	25,207
Other comprehensive income	-	-	(6,698)	-	(6,698)
Comprehensive income for the period	-	-	(6,698)	25,207	18,509
As at Mar 31 2021 (<i>unaudited</i>)	495,977	2,418,270	(54,185)	2,067,613	4,927,675

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

Interim condensed statement of cash flows

	for the period Jan 1 – Mar 31 2022 <i>unaudited</i>	for the period Jan 1 – Mar 31 2021 <i>unaudited</i>
Cash flows from operating activities		
Profit before tax	191,748	31,294
Depreciation and amortisation	33,433	35,255
Impairment losses	408	344
Loss/(gain) from investing activities	245	(649)
Interest, foreign exchange gains or losses	23,085	6,209
Fair value gain on financial assets	(26,927)	(15,768)
Increase in trade and other receivables	(221,352)	(126,134)
Decrease in inventories and property rights	155,876	52,345
(Decrease)/Increase in trade and other payables	(74,595)	178,539
Decrease in provisions	(751)	-
Decrease in employee benefit obligations	-	(215)
Increase/(Decrease) in grants	128,746	(671)
Other adjustments	(3,415)	(3,500)
Income tax paid	(18,310)	(281)
Net cash from operating activities	188,191	156,768
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	196	619
Purchase of property, plant and equipment, intangible assets and investment property	(55,881)	(21,088)
Purchase of other financial assets	(12,005)	-
Interest received	8,496	3,984
Repayments of loans	46,893	29,456
Other cash provided by (used in) investing activities	(160)	(201)
Net cash from investing activities	(12,461)	12,770
Cash flows from financing activities		
Proceeds from borrowings	225,382	350,000
Repayment of borrowings	(1,002,230)	(233,197)
Interest paid	(24,084)	(12,304)
Commission fees on bank borrowings	(1,930)	(1,112)
Payment of lease liabilities	(4,604)	(2,404)
Payment of reverse factoring liabilities	(436,632)	(249,067)
Other cash provided by (used in) financing activities	1,229	(21,074)
Net cash from financing activities	(1,242,869)	(169,158)
Total net cash flows	(1,067,139)	380
Cash and cash equivalents at beginning of period	1,816,416	464,174
Effect of exchange rate fluctuations on cash held	(39)	(328)
Cash and cash equivalents at end of period	749,238	464,226

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 months ended March 31st 2022 and contain comparative data for the three months ended March 31st 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 entry 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 months ended March 31st 2022 were authorised for issue by the Management Board on May 25th 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. As at the date of authorisation of these financial statements, no circumstances were identified which would indicate any threat to the Company continuing as a going concern.

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)	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.	As at January 1st 2022, the application of the new standards had no effect on Company's financial statements.
IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021.	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.	The amendment to the standard has no impact on the financial statements of Company.

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	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.	Not applicable

<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></p> <p>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 – <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 of March 31st 2022, two of the external impairment indicators listed in par. 12 d) 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 have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

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,
- for both CGUs EBITDA for the three months ended March 31st 2022 was higher than planned,
- the projected financial results for 2022 for both 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 5.19% at the end of March 2022, driving up the weighted average cost of capital for the Grupa Azoty Group. The increase in discount rates significantly adversely affects the recoverable amount of individual CGUs, but for the Fertilizers CGU higher discount rates did not reduce recoverable amounts of its assets to below the carrying amounts.

In the case of the Plastics CGU, where the recoverable amount of the CGU's assets was lower than their carrying amount as a result of the increase in discount rates, additional analyses of the impact of those factors on the recoverable amounts were performed as at March 31st 2022 based on updated (relative to the end of 2021) financial parameters, including exchange rates, net assets and working capital, income and expense forecasts for the period April to December 2022, and long-term forecasts of product margins. The analysis revealed an excess of the recoverable amount of the CGU over its carrying amount.

Taking into account the above circumstances, as well as the wording of par. 16(b) of IAS 36 *Impairment of Assets*, decision was made to not prepare a formal estimate of recoverable amounts as at March 31st 2022, considering that the estimates of recoverable amounts determined in previous tests remained valid as at March 31st 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.

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 March 31st 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 Note 3.9 to the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 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 months ended March 31st 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 months ended March 31st 2022.

2.5. Additional information

In the first quarter of 2022, the Company generated revenue of PLN 1,110 million, an increase of 113% (or PLN 589 million) year on year. The positive change was driven by higher product prices (PLN 586 million), a result of both higher prices of raw materials and the rising demand (caused by production constraints among European competitors) in the Fertilizers Segment and the post-COVID recovery in the Plastics Segment.

In the first quarter of 2022, the cost of sales of Grupa Azoty Group was PLN 921 million, an increase of 87% year on year, or PLN 430 million. The main cost drivers were prices of key raw materials (PLN 422 million), including prices of natural gas (PLN 322 million). There was also a significant increase in prices of petrochemical feedstocks (PLN 90 million).

As at March 31st 2022, the Company redeemed CO₂ emission allowances for 2021, which brought down the value of **property rights**.

The value of the right and obligation to repurchase Grupa Azoty POLYOLEFINS shares from non-controlling shareholders, i.e., the call and put options, as at March 31st 2022 was as follows:

Instrument	Total valuation	Company's interest (47%)	Grupa Azoty POLICE's interest (53%)
Call option (financial asset)	134,096	63,025	71,071
Put option (financial liability)	27,900	13,113	14,787

The effect of measurement of the financial instruments referred to above on the Company's profit before tax in the three months ended March 31st 2022 was PLN 15,400 thousand.



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

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

As at March 31st 2022, the Grupa Azoty Group ("Grupa Azoty", the "Group") comprised: Grupa Azoty S.A. (the Parent) and nine 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).

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"). The company will generate renewable electricity, which is to be made possible by the planned acquisition of interests in renewable energy projects and construction of solar PV systems.

Parent's equity interests in subsidiaries as at March 31st 2022

(in relevant currency)

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

The Parent and its subsidiaries as at March 31st 2022



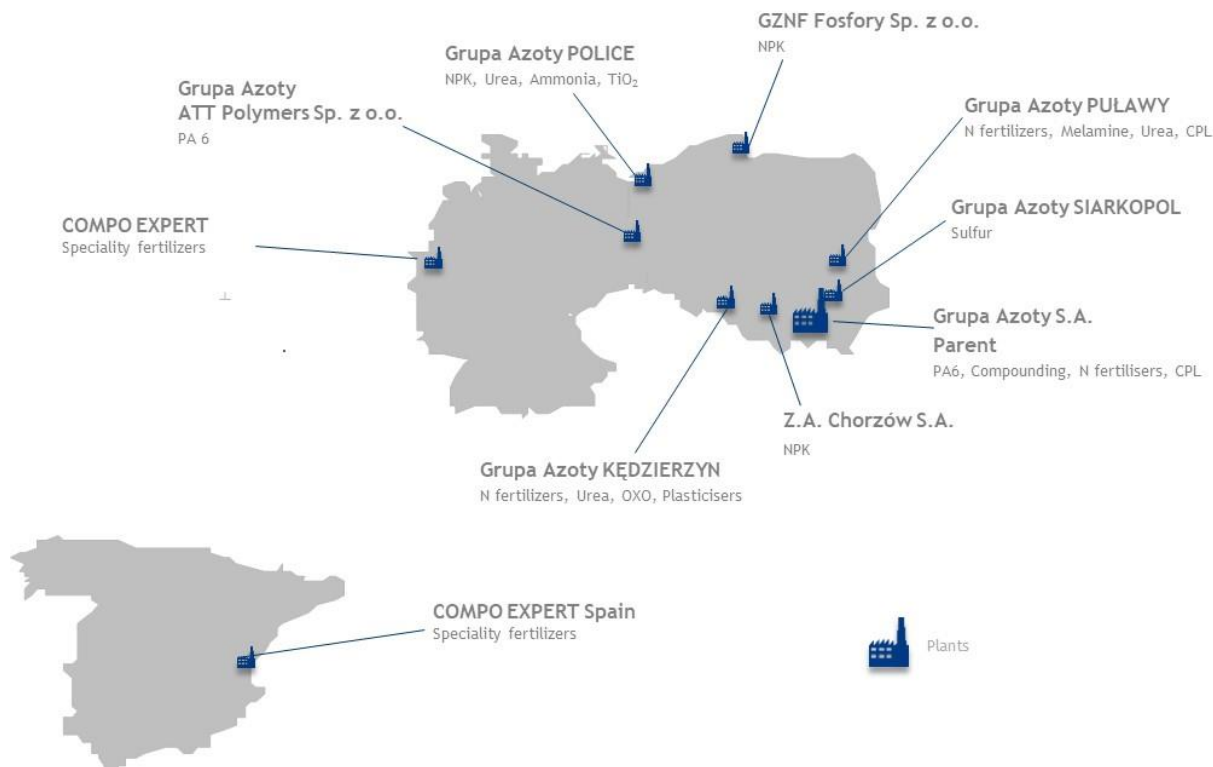
1	Parent		
	Grupa Azoty COMPOUNDING	2	Grupa Azoty PUŁAWY 95.98%
	Grupa Azoty ENERGIA	3	Grupa Azoty POLICE 62.86%
	Grupa Azoty PKCh	4	Grupa Azoty KĘDZIERZYN 93.48%
	Grupa Azoty KOLTAR	5	Grupa Azoty SIARKOPOL 99.56%
		6	Grupa Azoty ATT POLYMERS 100%
		7	COMPO EXPERT 100%

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 fertiliser 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 Azoplone Nutri, Azoplone Opti, Fertiplone, 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 Alphasol®.

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. The Group's ability to effectively secure ammonia supplies largely depends on conditions prevailing on the fertilizer market and in the natural gas sector.

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 a guaranteed price change range. Such long-term contracts cover the Group's principal coal supply requirements.

In addition, a major and growing risk is related to the availability of hard coal, which was largely imported from Russia before the outbreak of war in Ukraine, from domestic sources. For detailed information on this risk and its impact on the operations and financial performance of the Grupa Azoty Group, see Note [3.10 Impact of the war in Ukraine](#) in the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2022.

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 three months ended March 31st 2022 saw continued increased volatility in the currency market as an effect of disruptions in the supply markets caused by the COVID-19 pandemic, as well as the emergence of a speculative bubble on energy commodity markets. The volatility escalated towards the end of the first quarter of 2022, driven by the war in Ukraine, international economic sanctions imposed on Russia, and global inflationary pressures.

In the first quarter of 2022, the Polish Monetary Policy Council continued to tighten its monetary policy, both through a series of interest rate rises and a change of its stance on further tightening, as well as measures designed to stabilise the Polish zloty and combat inflation. Despite widening disparity between the domestic interest rates and the rates in the eurozone and the US, real interest rates for the zloty remain significantly negative because of the rising inflation in Poland.

As a result, the zloty strengthened until mid-February 2022, and then fell sharply after Russia's invasion of Ukraine. It partly recouped the losses by the end of March.

Overall, in the first quarter of 2022 the zloty depreciated relative to both euro and US dollar, by 1.2% and 3.0% versus the respective levels recorded at the end of 2021. At the same time, the average PLN/EUR exchange rate weakened by 0.1% quarter on quarter, while the average PLN/USD rate declined by 2.1%.

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 had no significant effect on the Group's performance in the three months ended March 31st 2022 in terms of the Group's partly balanced EUR exposure and limited USD exposure. At the same time, due to the interest rate hikes, the Group's finance costs rose to some extent in the reporting period.

In the three months to June 30th 2022, the Group expects the zloty to consolidate despite the continued tightening of the monetary policy, including raising of nominal interest rates by the Monetary Policy Council, but with extended prospects of a decline in real negative interest rates and further high volatility resulting from the geopolitical situation. Appreciation of the zloty against the euro and the US dollar is anticipated in the second half of 2022, if the war in Ukraine de-escalates as expected, and EU funds for the financing of Poland's National Recovery Plan are unlocked. It is assumed that the forecast currency trends should not have a material bearing on the Group's performance in 2022.

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 main hedging tools used by the Group included natural hedging, factoring and discounting of foreign currency receivables, and currency forwards entered into on a rolling basis to cover up to 80% of the remaining currency exposure with time horizons of less than 6 months, up to 50% of the remaining currency exposure with time horizons between 6 and 12 months, and up to 30% of the remaining currency exposure with time horizons between 12 and 24 months.

The Group has a physical EUR and USD cash pooling structure in place 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 three months ended March 31st 2022, the Grupa Azoty Group entered into FX forward contracts for the sale of EUR and USD, to supplement currency exposure hedges.

The net result on settled hedging transactions of the Group (excluding Grupa Azoty POLYOLEFINS) in the three months ended March 31st 2022 was negative, at PLN -606 thousand. This was accompanied by a negative net result on remeasurement of hedging instruments, at PLN -2,802 thousand, caused by the significant appreciation of the euro against the zloty at the end of the quarter.

The overall net result of the Group (excluding Grupa Azoty POLYOLEFINS) on the settlement of hedging transactions and remeasurement of hedging instruments in the three months ended March 31st 2022 was PLN -3,408 thousand.

Grupa Azoty POLYOLEFINS's exposure to currency risk

In the three months ended March 31st 2022, 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.

In the three months to March 31st 2022, the company 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 March 31st 2022, Grupa Azoty POLYOLEFINS had the following open contracts:

- FX forward to buy approximately EUR 208 million 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 161 million for USD (hedging expenditure planned to be financed with proceeds from the USD-denominated term facility available under the Credit Facilities Agreement).

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

As at March 31st 2022, the total result on the measurement of open transactions hedging currency risk executed by the company was PLN -113,237 thousand, including PLN -20,986 thousand attributable to the measurement of transactions designated for hedge accounting purposes.

Interest rates

In the three months ended March 31st 2022, Grupa Azoty POLYOLEFINS held IRSs with a zero floor whereby positive values of EURIBOR and USD LIBOR are exchanged for a fixed interest rate. The contracts hedge the planned interest expense on the term facility made available under the Credit Facilities Agreement. They constitute security required under the Credit Facilities Agreement.

As at March 31st 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 March 2022, the notional amount of the transactions hedging interest rate risk was higher than the actual amount of debt outstanding under the term facility. The hedge relationship for that part of the hedging instrument's notional amount which was not covered by the hedged item was de-designated. A part of the fair value measurement of IRS and floor contracts was reclassified to profit or loss. Only the measurement amount corresponding to the portion of the hedge for which the hedged item is still expected to occur was charged to equity.

As at March 31st 2022, the total result on the measurement of open IRSs with a zero floor executed by the company was PLN 187,738 thousand, including PLN 181,366 thousand attributable to the measurement of transactions designated for hedge accounting purposes.

Commodity risk

In the three months to March 31st 2022, Grupa Azoty POLYOLEFINS did not carry any commodity risk hedges.

Foreign currency derivatives and hedge accounting

As at March 31st 2022, the notional amount of Grupa Azoty Group's open foreign currency derivatives (FX Forward) was EUR 141.4m (maturing in 2022) and EUR 6m under options, maturing in the period April to December 2022, entered into by Grupa Azoty POLICE.

The total value of the Grupa Azoty Group's open currency derivatives amounted to EUR 147.4m.

In the case of USD, the notional amount of Grupa Azoty Group's open FX forwards was USD 14.8m (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 company's currency exposure and their purpose is to limit the effect of exchange rate fluctuations on profit or loss.

The Grupa Azoty Group applies cash flow hedge accounting. The hedged item are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from April 2022 to March 2029. The hedging covers currency risk. The hedge are two euro-denominated credit facilities of:

- EUR 63,567 thousand as at March 31st 2022, repayable in the period from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each;
- EUR 128,667 thousand as at March 31st 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 March 31st 2022, the carrying amount of the two credit facilities was PLN 894,008 thousand. As at March 31st 2022, the hedging reserve included PLN -56,490 thousand on account of effective hedge. In the three months ended March 31st 2022, the Group reclassified PLN 2,854 thousand from other comprehensive income to the statement of profit or loss in connection with the settlement of a hedging relationship with respect to payment of currency loan instalments against proceeds from sales in the euro.

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

As at March 31st 2022, PLN -20,986 thousand on the measurement of FX hedging transactions and PLN 181,366 thousand on the measurement of interest rate risk hedging transactions were recognised in the hedge reserve.

War in Ukraine

For detailed information on the effects of the outbreak of war in Ukraine on the operations and financial performance of Grupa Azoty, see Note [3.10 Impact of the war in Ukraine](#) in the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2022.

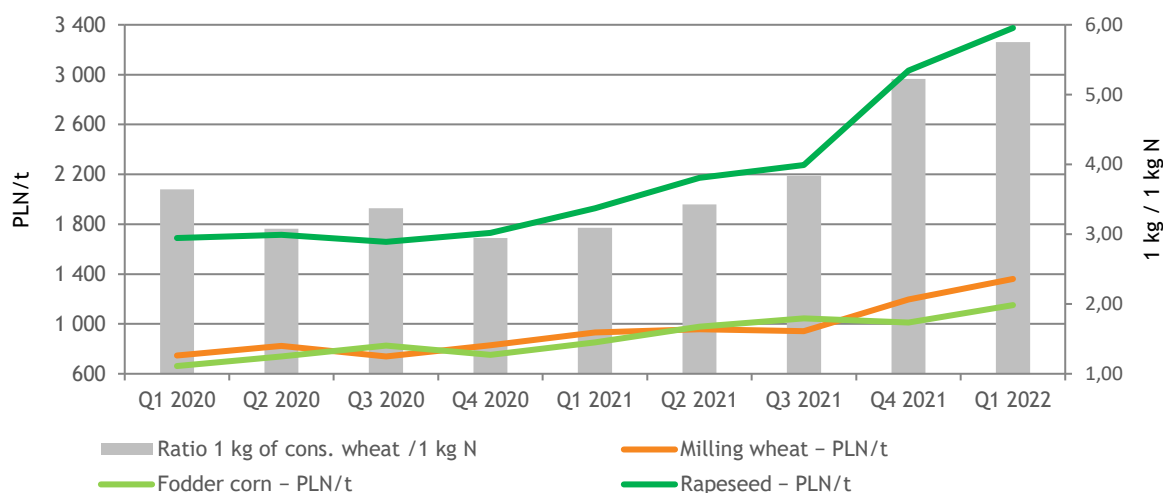
2.2. Market overview

AGRO FERTILIZERS

Economic conditions in agriculture

In the three months to March 31st 2022, the prices of main agricultural produce in Poland were significantly higher than the year before. The average price of milling wheat was PLN 1,361 per tonne, up by 46% year on year. Prices of maize and rapeseed were also high (PLN 1,151 per tonne, up by 35% year on year, and PLN 3,375 per tonne, up by 75% year on year, respectively). This strong price growth was chiefly driven by the emergence of a new global factor, namely the outbreak of war in Ukraine, which initially reduced and then almost completely halted the supply of cereals from Ukraine and Russia. Importantly, these countries are the world's leading cereal producers, which raised concerns about global food security, including in the EU. The market's response to these concerns was further price hikes globally, with the domestic market following suit. Based on current forecasts for the rest of the year, no major changes are expected. The continuing armed conflict, with the prospects of a significant decline in cereal production in Ukraine and reduced supply of agricultural produce from Russia, is anticipated to result in a tight balance of cereals globally this year, which will lead to further growth of prices of agricultural produce. An important factor will be the outcome of this year's harvest of cereals in Poland and in the EU. Based on Strategie Grains' (SG) forecasts for Poland, in the 2022/2023 season the crop yields may be slightly lower than in the current season (April 2022 data). Production of wheat is estimated to reach 11.8 million tonnes (down 1% year on year), barley - 2.9 million tonnes (down 3.6% yoy), and maize - 7.0 million tonnes (down 3.6% yoy). SG forecasts a decrease in cereal production in the 2022/2023 season also in the entire EU, where the total production volume is expected to reach 283.8 million tonnes, down by 6.2 million tonnes (2.1%) relative to the previous season. The condition of crops in Poland after the first three months of 2022 was assessed as relatively good, despite the sometimes dynamic development of severe weather conditions. Thanks to moderate weather conditions in the winter season, crop losses due to frost damage were relatively low. In February 2022, a problem of excessive moisture in fields appeared, which seriously hindered or prevented spring agricultural treatments. In March, the weather changed completely, bringing the problem of insufficient moisture and the first signs of spring drought. Additionally, temperatures were low for this time of year and slightly impeded crop growth, especially at the end of the period under consideration. The forecast improvement in weather conditions and higher temperatures should help the condition of crops so that they can catch up on delay in growth.

Prices of wheat, maize and rapeseed



Source: Company data.

Although the prices of agricultural produce remained high, the economic standing of the Polish agricultural sector deteriorated during the period under review, mainly because of the growth of overall production costs, driven by higher prices of energy carriers, fuels and means of agricultural production. Based on forecasts for the coming months, no major changes are expected. Despite the prospects of further deterioration in the agricultural sector, its financial condition will be supported by the direct payments and area payments scheme under the Rural Development Programme (RDP). As reported by the Agency for Restructuring and Modernisation of Agriculture (ARiMR), a total of PLN 18.3bn was paid out by April 6th 2022, including PLN 15.3bn in direct payments and PLN 3.0bn in RDP area payments. Assuming that the total funds earmarked for this scheme amount to PLN 18.6bn, the payment progress was 98%. Maintenance of this high rate warrants a conclusion that the agricultural sector in Poland has received a sizeable injection of funds, the majority of which will be spent, like every year, on means of production (mainly fertilizers). A favourable development for the sector in the coming months will be the planned launch of the fertilizer subsidy programme and the additional amount of approximately PLN 4bn being injected into the Polish agriculture.

In the three months to June 30th 2022, the prices of agricultural produce in Poland are not expected to change significantly. With the limited global supply of cereals from the largest producers, caused by the continuing armed conflict in Ukraine, the historically high levels of cereal prices are projected to continue. Another important factor, apart from weather conditions, in the three months to June 30th 2022 will be speculative activities on the market, including downsizing of the supply of cereals by the agricultural sector in expectation of further price growth.

In the fourth quarter of 2022, the Polish Agency for Restructuring and Modernisation of Agriculture (ARiMR) plans to start disbursing direct payments for 2022. As at the date of issue of this report, the total amount of the funds is not known and will be determined based on the EUR/PLN exchange rate prevailing at the end of September 2022. Like in previous years, direct payments may be disbursed in the form of 70% advances already in October 2022.

Market of nitrogen fertilizers

In the first 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 exceeded EUR 900 per tonne, having increased year on year by as much as 197%. In Germany, the prices (CIF Inland) of calcium ammonium nitrate (CAN) rose by a steep 215% year on year to an average level of nearly EUR 700 per tonne. The key driver behind the price increase in the three months to March 31st 2022 was the upward trend in gas prices and their fluctuations, continuing from the second half of 2021, which caused material deterioration of the cost side of fertilizer production. Another contributing factor was Russia's aggression against Ukraine, as it increased the volatility of commodity prices even further and affected the availability of fertilizer products on international markets. The unstable geopolitical situation in Europe and continuing uncertainty as to the availability and prices of natural gas warrant a conclusion that prices of nitrogen fertilizers in the remaining months of the year will be higher than in previous years. Other crucial factors will include the largest market players' commercial policies and availability of fertilizer products on the market, which varied in the three months ended March 31st 2022 as a result of production facility shutdowns and production cuts.

Because of the start of the spring application season, the first quarter typically sees the demand for nitrate fertilizers rise to the highest levels in the year. Unfortunately, due to unfavourable market developments, the structure and size of demand in the first quarter of 2022 differed significantly from those seen in previous years: it changed dynamically from time to time and was limited in volume, mainly because of record-high prices of

fertilizer products. In expectation of price declines, the agricultural sector waited to the last opportune moment to buy fertilizers and chose to cut spending on agricultural production by reducing fertilizer doses, which affected the total fertilizer consumption. Another key factor that shaped demand for fertilizers in the period was the weather, as it strongly influenced the timing and scope of field work related to fertilizer application. The rainfall shortage in March raised concerns about reasonability of the second nitrogen application, and locally there were cases indicating that not all nutrients from the first application had been absorbed. The situation improved only later. Rainfall increased at the beginning of April and the second nitrogen application was resumed. However, information was received that the application levels were relatively lower than in previous years, due to high prices of fertilizer products.

The situation in the fertilizer segment is not expected to change in the coming months. The continuing war in Ukraine, which will significantly destabilise the situation in this sector, will be a key factor. High commodity prices, mainly of natural gas, will continue to affect the cost of fertilizer production and thus fertilizer prices, which, given the lack of factors to drive any major growth of demand for fertilizers from the agricultural sector, may lead to a temporary reduction or stoppage of fertilizer production in the EU.

Urea

In the three months ended March 31st 2022, the average urea price (FOB Baltic) was USD 700 per tonne, up 107% year on year.

At the beginning of the period, urea prices went down to the four months' low. Interest from buyers was limited and the producers had difficulties in placing the product on the market, even after price reductions. The Indian government signed a three-year contract with an Omani supplier for 1 million tonnes of granulated urea to counteract fertilizer shortages on the domestic market. In order to reduce its dependence on imports, India is in the process of launching five urea production units, each with an annual capacity of 1,3 million tonnes. China's export activity was still limited by customs regulations and port inspections.

Russia's aggression against Ukraine at the end of February 2022 made the prices of urea grow strongly on the global market. The highest growth was seen in Egypt, where the bid price levels were among the highest globally.

In the first quarter of the year, deliveries from Russia were downsized considerably because of the sanctions, which significantly reduced the global supply. In Europe, there was a common concern about insufficiency of the product volumes. Some large forwarding companies scaled down deliveries to and from Russia in view of the rapidly changing legislative situation (imposition of sanctions). This did not apply to such essential products as food, medical supplies and humanitarian products. Lack of demand for Russian products and logistics problems caused a temporary suspension of handling of export fertilizers. The numerous personnel changes at Russian fertilizer companies which were subjected to EU and US sanctions could not alleviate their effects. The efforts of Russian producers to place their product on the market led to a situation where on certain markets Russian urea was sold at prices lower by even 25% than the average market levels. At the same time, the markets previously dependent on Russian prilled urea paid a higher price for supplies from new sources. However, after the US Office for Foreign Assets Control (OFAC) of the Department of the Treasury excluded fertilizers from the sanctions, urea producers (from the Baltic region) offered and exported the product from Russia. This activity remained limited as a result of difficulties related, inter alia, to the unavailability of ships in Russian ports and the fact that European ports often refused to handle Russian goods.

In Europe, at the beginning of 2022, the unexpected decline in urea prices on international markets led the buyers to withdraw from the market in anticipation of further price declines. Still, sellers were rather optimistic and assumed that demand would remain strong when urea prices reached the minimum level. Many sellers believed that the most recent decrease in urea prices would be short lasting and that demand would grow sharply in Europe and Latin America, which would again become buying markets. In north-western Europe, demand for urea was low, as the buyers adopted a cautious approach due to uncertain forecasts. In expectation of a downward correction, farmers postponed purchases. In February, demand remained weak. Unfavourable weather conditions and the falling prices of urea, ammonia and natural gas on global markets reduced the interest in purchases. The decline in prices, weak demand and persistent high levels of gas prices made a number of fertilizer manufacturers discontinue or scale down production at some plants in Europe. Activity on the market slowed down further in expectation of a tender in India, which would help identify the direction of future price development. European governments undertook various initiatives to support farmers and fertilizer manufacturers in dealing with high energy costs. The European Union announced a EUR 500m plan to help farmers to grow more crops and mitigate food price spikes and potential shortages resulting from the military conflict in Ukraine. It includes economic support to fertilizer manufacturers to offset high energy costs. Based on current forecasts, urea prices can be expected to remain on a downward trend in the next six months. There is a belief in the market that new urea production capacities to be launched in 2022 may cause difficulties in placing the product on the market, as most of the demand is met by the existing production units. Still, urea prices should remain higher than in previous years.

Ammonia

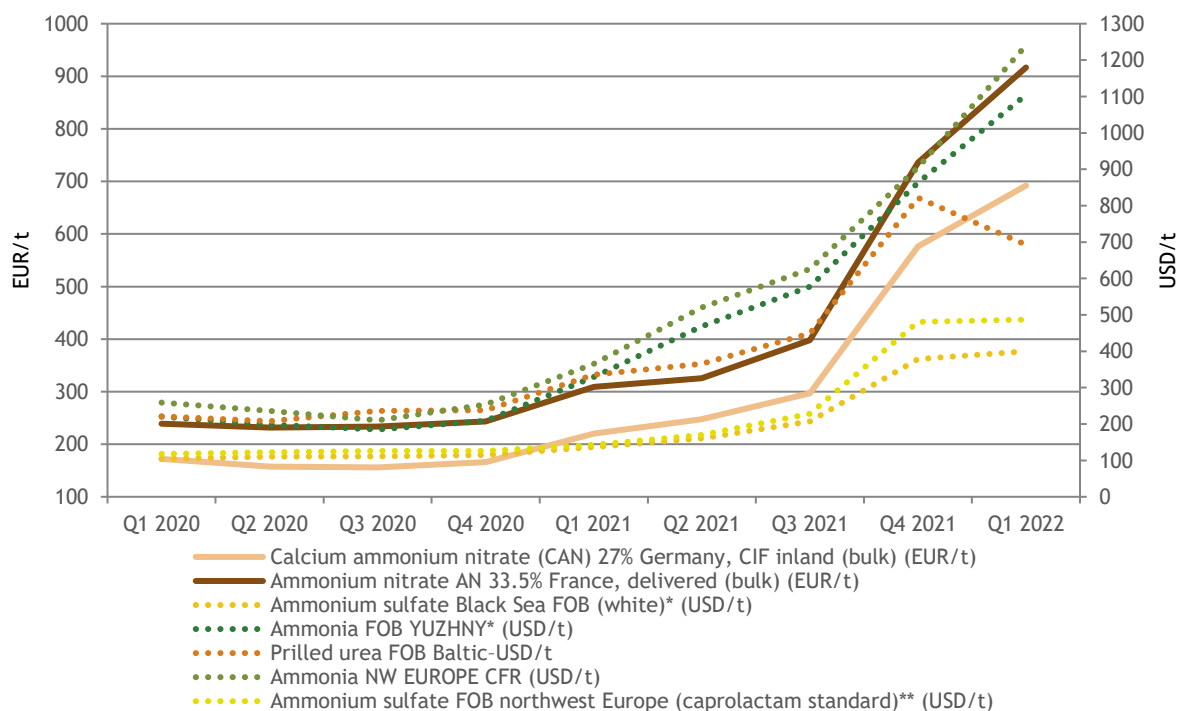
The prices of ammonia were relatively high in the first quarter of 2022. The average price (FOB Yuzhny) exceeded USD 1,100 per tonne, up 240% year on year. The global supply and demand balance at the beginning of the quarter appeared to be favourable to buyers, for the first time in a few months. The falling gas prices in Europe

encouraged producers to restart a number of large units. At the end of January, the balance of supply and demand became less tight as a result of reduced concentration on other nitrogen fertilizers. A large part of the ammonia surplus did not find buyers by that time. In February, the market slowed down as buyers were reluctant to make purchases, seeing the downward trend in prices. Price pressure occurred when European gas prices were falling from their historical highs. At the end of February, Russia's aggression against Ukraine gave rise to concerns about loss of supply volumes from Yuzhny for indefinite time, affecting the market as a whole. The abnormal circumstances faced by ammonia producers, traders and buyers brought activity on the spot market to an almost complete stop, and players attempted to quickly assess their situation. There was uncertainty about whether and how the market would deal with the loss of volumes from the Black Sea, amounting to over 200,000 tonnes per month. The war forced the closure of the Yuzhny port for an indefinite time and suspension of ammonia price quotations. Given the unstable situation in Ukraine, it is not clear for how long this suspension will continue. Russia's invasion and the resulting loss of trade in the Black Sea, accounting for 15% of the global maritime trade, caused an unprecedented situation on the market. For some time the buyers sought to find alternative sources of supply. In the first half of March, European fertilizer manufacturers started to limit their production as gas costs weighed on product margins while the demand remained weak. Based on estimates, in the medium-term the market will see growing supply deficit, due to high import demand from Western Europe, Western Africa and both Americas and the lack of exports from the Black Sea. The new transmission capacities in the Middle East are unlikely to offset the fall in exports from the Black Sea and prices in the West will remain high.

Forecast demand for nitrogen fertilizers in the second quarter of 2022 is lower than in the previous years, given the high prices and the nearing end of the spring fertilizer season. The main unknown will be the application of the third nitrogen dose (raising grain quality), normally carried out in late May and early June. The prospects of fertilizer product prices remaining at levels that are not acceptable to the agricultural market may lead to a situation where the application of the third dose will be significantly reduced or even completely abandoned. One factor that may support demand for fertilizers in that period will be good condition of the crops and the chance of maintaining high prices of agricultural produce during the harvest period, i.e. in the third quarter of 2022. The agricultural sector may be willing to increase spending on agricultural production then to maximise yields, which may ultimately result in a slight increase in demand for fertilizers in the second quarter of 2022.

Despite the fact that the second quarter of the year is typically marked by a decline as the spring fertilizer season is coming to an end, in the second quarter of 2022 the market prices of nitrogen fertilizers are expected to remain at historically high levels, the main reason being the persistent high prices of natural gas, which will continue to affect the costs of fertilizer production.

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 first quarter of 2022, the average price (FOB Baltic/Black Sea) of NPK 3x16 approached the level of USD 615 per tonne (up by 97% year on year), while the average price (FOB Baltic) of biammonium phosphate (DAP) was over USD 850 per tonne (up by 77% year on year). Quarter on quarter, there was an uptrend in the case of both products. The global market of phosphate fertilizers was dominated by India - it sourced more than 1 million tonnes of DAP from various suppliers in a series of purchases, which led to a local increase in prices for the product volumes scheduled for delivery in the first quarter of 2022 to approximately USD 920 per tonne (CFR). India continued its purchases in February, but the prices remained relatively unchanged.

In January and February, there was little activity on the European market. The high prices eroded demand for individual phosphate fertilizers to such an extent that even the downsizing of supplies by certain producers, who redirected their output to eastern markets instead of Europe, mainly to India, did not spur a price growth.

In Brazil, the value of the products remained stable, supported by limited demand. Despite favourable cereal prices, buyers maintained a prudent approach given the unstable value of nitrogen and uncertainty as to the price levels and availability of potash. In the US, NOLA rates (Port of New Orleans) fell to levels close to those seen in November 2021. The situation did not change until the second half of February, when the value of the products started to grow in both markets. DAP and MAP prices in the US went up before the spring application season, which was caused to some extent by higher prices of cereals and availability concerns. In Brazil, the prices (CFR) of those products exceeded USD 900 per tonne, supported by growing prices of soya beans and maize.

On the demand side, the NPK market showed some similarity to the phosphate fertilizers market. The first prices for Eastern Europe quoted at the beginning of the year were much higher than those at the end of 2021, but it was not long before the movements in raw material markets, in particular the depreciation of urea and uncertainty about the impact of the US and EU sanctions on Belarus, started to weigh on market sentiment. In the first two months of 2022, buyers in Europe, China and South East Asia kept waiting, trying to gauge the future direction of price development. The falling urea prices fed hopes for a much-awaited downward correction. However, this factor was counteracted to some extent by an increase in Asian MOP contracts. In terms of imports, the focus was on India, which rebuilt its stocks and was the source of the strongest demand.

Russia's invasion in Ukraine overshadowed other market developments. The phosphate fertilizers and NPK market came to a temporary standstill, and its participants attempted to estimate the impact of the changes on their operations. Bidders withdrew their bids. Exports of ammonia from the Ukrainian port of Pivdennyi were stopped. Producers of phosphate fertilizers, in particular in Tunisia and Morocco, felt the consequences of the tightening supply. In Europe, concerns emerged about the availability and the price to be paid for the finished product and the raw materials.

All this spurred a sharp growth in the prices of phosphate fertilizers on Western markets. The US market, with its anti-dumping (AD) duties on imports of phosphate fertilizers from Russia and Morocco, was the first to be affected by the price hikes. Following the surge in prices, a number of members of the US Congress called on the United States International Trade Commission (ITC) to abolish import duties on Moroccan phosphates in order to reduce fertiliser costs in the US.

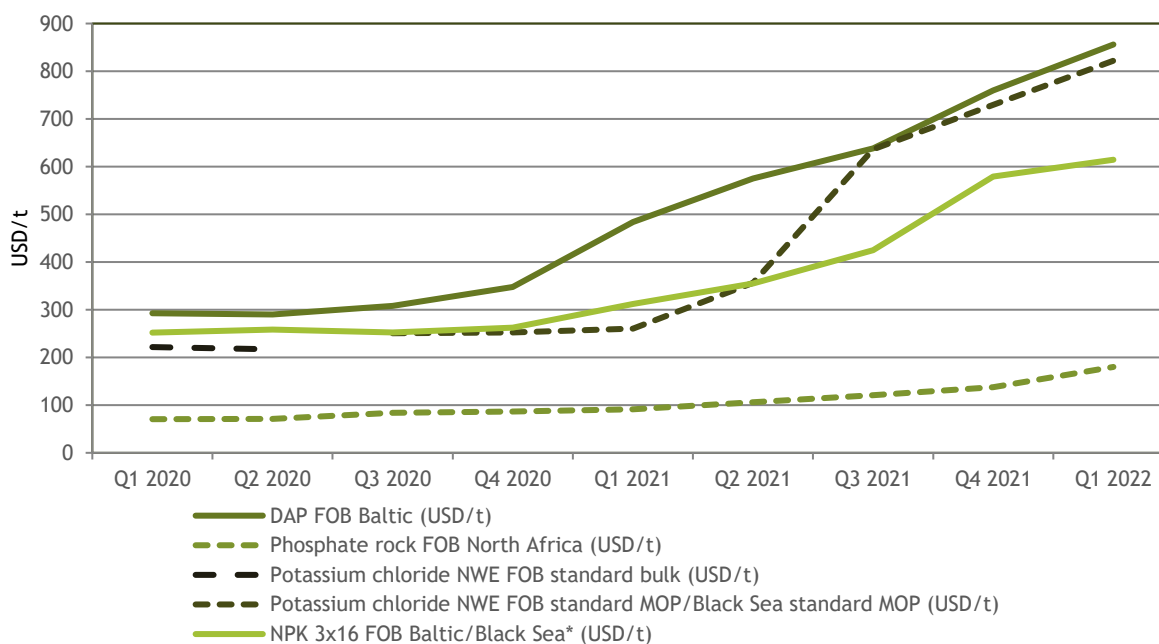
Over the next weeks, high purchasing activity was seen on Western markets, which pushed the product prices even higher. Buyers in Americas decided to return to the market sooner than planned. The situation was exacerbated by a communication from the Russian Federation's Ministry of Industry and Trade, which resolved to temporarily limit exports due to logistics difficulties. One more factor that compounded the problem of insufficient supplies was the export controls still applicable in China, which were increased and the process itself slowed down. This was said to have been caused by the sharp increase in the market prices and logistics problems resulting from the growing number of COVID-19 cases in this country.

In the East, the situation was different. Buyers postponed their purchases as they had no urgent demand. There were some cases of Russian DAP being sold to India, but at prices lower than on other bases. However, with time the price hikes seen in the West spilled over into eastern markets as well. Buyers in India expected an announcement of subsidies for the 2022/2023 fertilizer year, and the country's subsidy scheme again showed a weakness due to insufficient flexibility in the period of a strong upward price movement.

In the case of NPK fertilizers, the beginning of March saw increased buyer activity in key markets in Central and Western Europe, driven by concerns about shortages in the coming spring season and future price hikes. The market accepted prices that were considered too high just a few weeks earlier. Outside Europe, increased purchases were also seen in India. Prices grew almost throughout the world. The highest rates were recorded in Latin America.

With time, the supply of compound fertilizers from Russia, their largest global exporter, became tighter and tighter in some regions as a result of sanctions applied by the Western countries and self-imposed restrictions.

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



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

Source: Company data.

Phosphate rock

In January and February 2022, the market stabilised after significant price hikes in DAP and MAP phosphate fertilizers in Q4 2021. The upward price trend in the last months of 2021 was caused by the decision of China to discontinue exports of fertilizers. This brought about a strong increase in interest in the product from India, which, combined with limited supply in the region, fuelled price growth, in particular in the case of DAP. The increased purchases from India followed from the country's need to rebuild its stocks, record-low at the end of 2021. The governmental fertilizer subsidy policy in India failed to keep pace with successive price changes, especially for phosphoric acid, making acid-based production of DAP unprofitable and forcing India to import the product. 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. To sum up, in the first quarter of 2022, average prices of phosphate rock went up by 98%, and the phosphoric acid price quotations for India rose by some 80% year on year. The beginning of the war in Ukraine at the end of February and the imposition of sanctions on Russia seriously aggravated the situation on global fertilizer markets. The problems with payments and logistics disrupted the supply chain almost overnight. Information on the supply difficulties of Russian producers spurred a rapid increase in DAP and MAP prices in Brazil and the US in the first half of March. A period of strong growth of phosphate fertilizer prices in Latin America and Europe was followed by a slow down, while the price hikes hit Asian markets. At the end of March, prices fell in some regions (China, USA), but the supply is still tight.

Following Russia's invasion in 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. Since Russia is one of the key suppliers of phosphate fertilizers to Brazil, MAP prices in this country surged by approximately USD 300 per tonne over a dozen or so days, driven by expectations of potential supply problems. Russia is a major producer of phosphate fertilisers and an exporter of apatite, a raw material for the production of phosphoric acid and phosphate fertilizers. As some of its apatite output was exported to Europe, it may be necessary to replace those volumes with phosphate rock mined, for instance, in Africa. Analysts estimate that other suppliers of phosphate rock may cover the potential shortages. Based on forecasts, prices of phosphate fertilizers in 2022 will not return to the levels seen prior to the beginning of war in Ukraine, therefore further price increases for phosphoric acid and phosphate rock should be expected in the next quarter. Their size will depend on the prices of DAP fertilizers based on which phosphate rock is priced.

Potassium chloride

Until the middle of the first quarter of 2022, the potassium chloride market was relatively stable. However, it should be noted that it remained on a clear upward trend throughout 2021. Initially, prices were driven by favourable conditions prevailing in the fertilizers market, supply constraints and strong demand, mainly from the Brazilian and US markets. They soared following the first news of sanctions levied against Belarus. However, in the fourth quarter of 2021 the price growth decelerated. Numerous markets were resistant to further increases, and Brazil's activity decreased, with the price on that market stabilising for a longer time at around USD 800 per tonne (CFR). Practically throughout January and until mid-February 2022, there were no marked price movements

on the potassium chloride market despite the imposition of further sanctions in Belarus. The situation changed dramatically as the war in Ukraine began. Russia and Belarus have an approximately 40% share of the market, and therefore the sanctions considerably reduced the global supply. The other producers are not able to make up for the resulting volume deficit. Brazil, the world's largest importer of potassium chloride, purchased some 12.8 million tonnes of the product in 2021, including 3.6m tonnes from Russia and 2.4 million tonnes from Belarus. The worst case scenario assumes that the global undersupply of potassium chloride may reach as much as 10 million tonnes in 2022. The current price spikes are driven mainly by Brazil, which is forced to increase purchases from alternative sources, mainly Canada. This caused a significant increase in the prices of potassium chloride within a few weeks of the beginning of the war in Ukraine. In Brazil, the price of potassium chloride hit an all-time high, having exceeded the level it reached during the record increases of raw material prices in 2008 and 2009 (USD 1,100 per tonne (CFR)). Overall, in the first quarter of 2022, the average prices of potassium chloride increased by approximately 216% year on year.

The preliminary forecast for 2022 indicated a possible stabilisation of the market and even a decline in prices, but all changed with the start of Russia's aggression against Ukraine. The sanctions imposed on Russia and Belarus led to major turbulence in potassium chloride markets. As the situation is dynamic, it is difficult to say how much the prices may still grow and at which point the customers will refuse to accept them. Nevertheless, potassium chloride prices in 2022 are not expected to fall below the levels observed before the outbreak of war in Ukraine, when the benchmarks were USD 600-700 per tonne (FOB). The situation will largely depend on the individual countries' approach to the sanctions and the extent of the sanctions' hindering effect on trade in the long term. It is expected that the Russian-Chinese relations will be least affected, and China, the second largest importer of potassium chloride from Russia, will be in a privileged position compared with the rest of the world in 2022, mainly for logistics reasons. Another major importer of potassium chloride, India, mainly relies on imports from Canada and Israel, and to a lesser extent from Belarus and Russia. India will try to source the required volumes from Canada, thus causing further price pressures amid low supply. Moreover, additional sanctions levied by the EU against Belarus will enter into force as of June 2022, preventing EU countries from purchasing potassium chloride in the entire range of customs tariff codes. Under the sanction regime of June 2021, EU countries could purchase potassium chloride from Belarus for fertilizer production and agricultural applications, although it became very difficult at the beginning of 2022 due to the block on transit through Lithuania and the closing of the Klaipeda port for Belarusian fertilizers, including potassium chloride. In addition, the EU introduced a new package of sanctions on Russia, which also applies to potassium chloride. The Regulation establishes annual import quota for potassium chloride and NPK fertilizer imports from Russia. The additional sanctions will put additional pressure on prices in the coming months.

PLASTICS

Polyamide 6 chain

The first quarter of 2022 was marked by generally strong demand from polyamide 6 application markets, except for the automotive industry, and high prices along the entire product chain. During the reporting quarter, the European market continued to be affected by the geopolitical situation, prices of crude oil and energy carriers. Russia's aggression against Ukraine destabilised the petrochemical market. The announcements and imposition in March of sanctions on many sectors of Russia's economy increased the volatility of prices of natural gas, crude oil and petroleum products, and slowed down the rebuilding of supply chains disrupted by the COVID-19 pandemic. The highest price growth was seen on the European market.

In the first quarter of 2022, benzene prices in Asia and the US followed an upward trend. In Europe, benzene prices were driven mainly by crude oil quotations, and to some extent - by speculative activities. The European contract prices of benzene were on the rise since the fourth quarter of 2021, with the exception of February, when they slightly declined, to rebound in March to more than EUR 1,000/tonne (CIF NWE).

In the first quarter of 2022, the phenol market in Europe was marked by relatively strong demand from key derivatives sectors. On the supply side, it was driven by high energy prices and poor demand for acetone, which had a direct effect of another rise in quarterly subsidies to benzene prices, i.e. the final price of phenol. The availability of phenol in Europe was sufficient to meet demand. In the second quarter, maintenance work will be carried out on several European phenol production units.

In the first quarter of 2022, the average contract prices of benzene (CIF NWE) and phenol (FD NWE) in Europe increased by, respectively, 49% and 44% year on year. Compared with the fourth quarter of 2021, they were up by 23% and 16%, respectively. The prices of raw materials in Europe were high, which rendered this market less competitive than the other key global markets.

In the first quarter of 2022, the global prices of caprolactam were trending upwards. The prices of liquid caprolactam in Europe and spot prices in China were subject to slight fluctuations. Caprolactam prices were chiefly driven by rising prices of energy, benzene and other raw materials, low supply, and relatively weak demand in Asia due to the Olympics and holiday break. Russia's invasion of Ukraine shook the foundations of geopolitical order and compounded the increase in raw material prices, which was particularly strong in March in Europe and the US, driving up caprolactam prices. Growing production costs caused manufacturers to seek opportunities to improve their margins. Pandemic-related logistics constraints continued to be felt in China.

In Europe, the quarterly average contract price (Liq. DDP WE) of liquid caprolactam increased by 59% on the first three months of 2021, and by 11% on the last quarter of the previous year. The quarterly average contract price (CFR NE Asia) of caprolactam on the broad Asian market was 24% higher than in the first quarter of 2021, and 1% lower than in the preceding quarter.

In the reporting period, the prices of polyamide 6 in Europe followed the price trend of benzene, reaching an all-time high in March. The European polyamide market was put under pressure in March as prices of natural gas, energy and raw materials spiked after Russia's invasion of Ukraine.

Year on year, the quarterly average contract price (Engineering Resin Virgin DDP, WE) of polyamide 6 in Europe was up by 56%. It rose by 8% relative to the fourth quarter of 2021.

In the case of polyamide 6, the supply of the primary raw material was sufficient to meet market requirements. Blend components, especially glass fibres and flame retardants, continued to come in short supply.

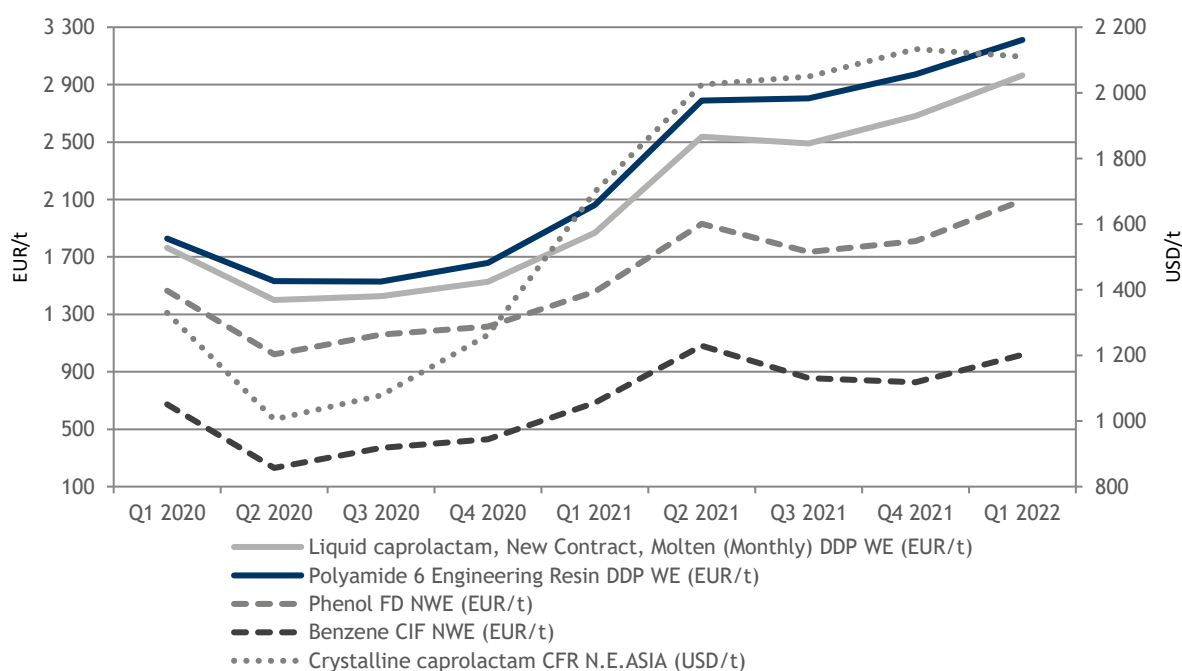
Demand for PA6 from the key industrial sectors, except for the automotive industry, remained strong. Demand from the packaging industry was high, especially from the pharmaceutical and fresh food sectors.

Europe's automotive sector continued to scale down its output due to shortages of various materials, mainly semiconductors. However, in January there were signs of a moderate increase in orders for PA6 from auto part makers. The situation deteriorated after Russian aggression against Ukraine. In March, a few automotive companies announced temporary production stoppages in some European production plants due to disruptions in supplies from auto part makers in Ukraine and Russia. Some automotive companies in Russia suspended their manufacturing and trading activities. Microprocessor shortages may be further aggravated by sanctions levied against Russia, which is a major supplier of many materials used in the production of semiconductors.

In China, the supply of PA6 was solid while the demand was weak. The rapid spread of COVID-19 pandemic and the related restrictions in certain Chinese cities led to logistics problems and shortages of workforce, making downstream producers scale down their output.

Since last year, the gap between the prices of polyamide 6 in Europe and Asia has significantly widened, markedly reducing competitiveness of the European product. The risk of Asian polyamide flooding the European market is growing, although high logistics costs continue to operate as a barrier.

Prices of PA6, caprolactam, benzene and phenol



Source: Company data.

Uncertainty about what the following quarters will bring prevails on the market. The volatility of crude prices will affect prices of petroleum-derived raw materials, including benzene. Since the European phenol sector is under pressure from high energy costs in the region, starting from the second quarter the majority of players replaced the quarterly system of phenol additive negotiation with a monthly one. Producers are of the opinion that this settlement system is likely to be in place until the end of the military conflict between Russia and Ukraine and the markets will remain vulnerable to further price shocks.

In the short term, high production costs on the European market will lead to a major increase in prices of both caprolactam and polyamide 6. The supply will be adjusted to the demand.

The armed conflict in Ukraine and the resulting volatility of prices of energy and raw materials as well as limited availability of many materials, soaring inflation and the spread of new COVID-19 variants across various regions of the world, mainly in China, pose a risk to maintaining sales volumes and margins. Growing inflation may adversely affect consumer demand.

CHEMICALS

OXO product chain

In the first quarter of 2022, the prices of 2-EH alcohols were much higher than in the corresponding period of the previous year (up 37%), driven mainly by strong growth in the prices of raw materials (propylene) and energy. Relative to the fourth quarter of 2021, the prices fell slightly (by 1%).

The availability of OXO alcohols in the first quarter of 2022 was sufficient, especially after one of the European producers declared the end of the force majeure event in the second half of January 2022. Demand for OXO alcohols remained strong, especially from companies active in the processing of OXO alcohols into butyl acetate and glycol. In late February, after the start of the armed conflict in Ukraine, this demand began to gradually decline due to the growing uncertainty about the prices and demand for alcohols in the coming months. Demand for OXO alcohols (mainly 2-EH) from non-European markets, in particular in South and North Americas and Turkey, was at a relatively good level, with persistently high prices of freight putting a damper on the demand. The continuing high demand and serious supply constraints led to further substantial price increases on the market. 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 struggled with logistics problems due to a surge in cases of the new coronavirus variant and the outflow of Ukrainian lorry drivers, going back to fight for their homeland. This caused delays in, or even cancellation of, supplies to OXO processors.

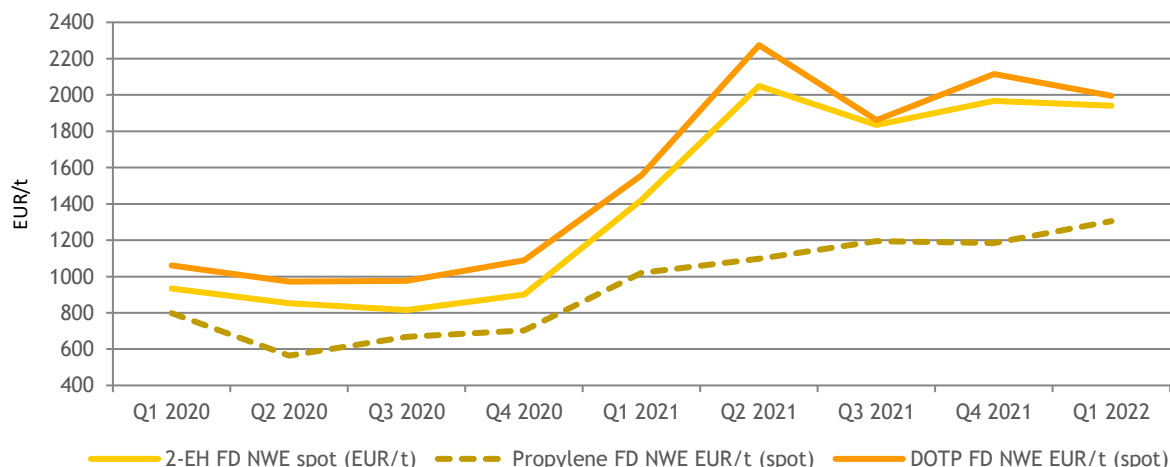
The market price of the DOTP plasticizer in the first quarter of 2022 was up by 28% year on year, having declined by 6% quarter on quarter. The availability of plasticizers in Europe in that period was viewed as sufficient to cover the demand. Plasticizer imports from Turkey remained strong, further improving the demand and supply balance in Europe. Demand for plasticizers was on the rise from early January, especially in the engineering plastics industry and the medical sector. In the second half of February, demand for plasticizers slightly decreased due to the outbreak of war in Ukraine and soaring inflation across Europe. Demand for plasticizers from the US and the Middle East (mainly DINP and DOTP) remained relatively high. Unfortunately, continuing high costs of freight and overall logistics problems gave rise to both import and export constraints. The European market continued to experience logistics problems caused by the pandemic.

The spot prices of propylene in the first quarter of 2022 were up by 28% year on year and 10% quarter on quarter. The contract prices also grew.

The supply of and demand for propylene was fairly stable in that period. Despite unscheduled shutdowns at some manufacturers, the availability of propylene was good also due to higher imports to Europe as high prices of propylene in Europe supported its imports. The pandemic also sparked off certain logistics problems on the propylene market. Demand for polymer and chemical propylene remained relatively high. The outbreak of war in Ukraine led to a significant increase in the prices of crude oil and naphtha, which translated into higher prices of propylene. The war, as well as the sanctions, significantly reduced the possibility of purchasing the product from suppliers in the countries east of Poland.

In the coming months, the situation on the propylene market will continue to be affected by crude oil and naphtha prices - if they go down, the propylene prices may follow suit. Much will also depend on the availability of propylene in the market. If more production plants are shut for maintenance, the availability of propylene may be limited, which - given the expected strong demand - may lead to further price spikes.

Prices of 2-EH, DOTP and propylene

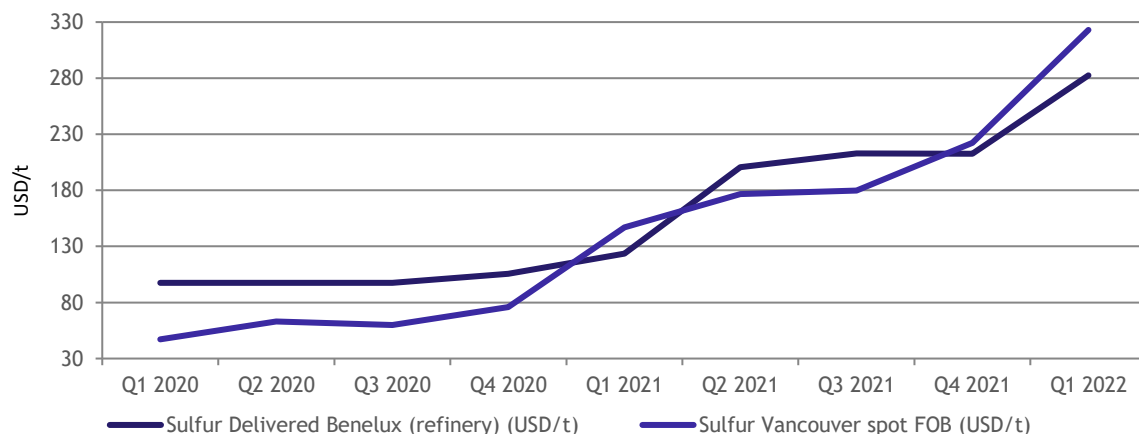


Source: Company data.

Sulfur

At the beginning of the first quarter of 2022, the prices of prilled and liquid sulfur rose sharply, continuing the trend initiated in 2021. In September 2021, benchmark prices in the Middle East were close to USD 180 per tonne of prilled sulfur. At the end of December, they stood at USD 300 per tonne, while at the end of January 2022 they amounted to USD 320 per tonne. The outbreak of war in Ukraine accelerated further increases due to anticipated supply constraints. 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 further pushed up prices in the Middle East and other markets. In the first quarter of 2022, the average prices of prilled sulfur rose by 128% year on year, while the average prices of liquid sulfur in Western Europe increased by approximately 120% year on year. Compared with the fourth quarter of 2021, they were up 45% and 33%, respectively.

Sulfur prices



Source: Company data.

Sulfur price forecasts are mainly based on the situation in the phosphate fertilizers market. This was the case until the start of war in Ukraine. After that, the price of sulfur was additionally affected by the sanctions against Russia. Russia is a major global exporter of sulfur and its seaports handle large volumes of sulfur from Kazakhstan. This means that approximately 15% of global sulfur output originates in countries where making purchases is now difficult both in terms of logistics and legal issues. The situation led to a sharp increase in the prices of prilled sulfur in the Middle East, and the following months are likely to see the continuation of upward trends. After reports of a nearly 70% increase in liquid sulfur prices on the Tampa US market, the projected surge in its prices in Western Europe in the second quarter materialised as well: they exceeded USD 100 per tonne. Although forecasts suggest a possible decline in the prices of prilled sulfur in the second half of 2022 due to potentially higher supply from the Middle East, given the nature of the West European liquid sulfur market it should be expected that sulfur prices in 2022 will not fall below pre-conflict levels. This is additionally connected with stepping up diversification efforts by many fuel producers. Increased processing of oil from Arab countries means lower volumes of liquid sulfur, which is why Western Europe is bound to face problems with sulfur supply it has not seen for many years.

Pigment chain

Titanium white

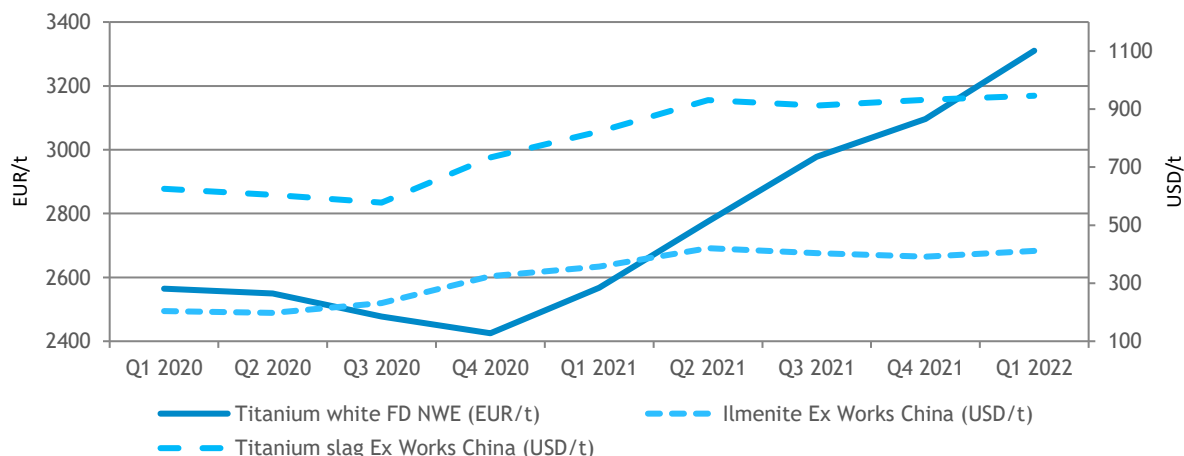
In the first quarter of 2022, the average price of titanium white in Europe grew 29% year on year and 7% quarter on quarter.

The TiO₂ market in Europe continued to be affected by production constraints, strong demand outpacing supply, and cost pressure. Demand for TiO₂ imports from Asia was low due to high costs of freight and long delivery times. Those problems are likely to be aggravated by another wave of COVID-19, which broke out in China. As costs became even more volatile following Russia's aggression against Ukraine, a proposal was put forward to review prices on a monthly basis. The security of supplies remains the key problem on the European titanium white market. Manufacturers discontinued their exports to Russia once the sanctions were imposed. However, as volumes of European titanium white sold in Russia earlier were relatively small, this move will not significantly increase its supply. Customers who are affected by the shortage of titanium white from Ukraine turn their eyes not only to other European markets, but also to China. However, the problem in the latter case is the price.

In the first quarter of 2022, demand varied depending on a particular end-use sector. The DIY sector decelerated as many home repair or renovation projects had been completed during the last two 'pandemic' years, and now consumer spending is centred around other areas. The paper laminate and printing paint sectors are faring well. The same holds true for the furniture and construction sectors, although some projects are being postponed due to rising costs and shortages of certain materials. Despite the low season, the purchasing activity in the paint sector was relatively good, probably due to a build-up of stocks for the upcoming high season. Demand in the automotive industry remains low, although some recovery is expected when microprocessors become available again. Demand from the plastics sector and the rubber industry was strong, with a full order book.

Market sentiment may be affected by economic turbulences caused by the outbreak of war in Ukraine, the overall economic uncertainty, rising costs (of energy in particular), shortages of titanium-bearing minerals and titanium white from Ukraine. The security of supplies remains the key problem on the European titanium dioxide market. There are also concerns about the stability of demand in the following months and it is probable that this year the peak season demand may be more moderate, chiefly due to the strong demand seen in earlier periods, considered the low season. Growing costs and economic uncertainty compounded by the conflict in Ukraine may further reduce spending and consumption in the key segments. In the coming quarters, the automotive sector may bear the brunt of the war and the sanctions as the belligerent parties are the key suppliers of components for the global automotive market. The availability of titanium white in Europe is unlikely to markedly improve in the second quarter of 2022 due to delays in international transport, high freight rates and expensive imports from Asia. Economic challenges and demand issues brought about by the market situation and the geopolitical crisis may decelerate the growing trend seen in prices, which are currently hitting their all-time highs.

Prices of titanium white, ilmenite and titanium slag



Source: Company data.

Ilmenite and titanium slag

Ilmenite prices were growing ever since the beginning of 2021 due to sharp increases in the prices of titanium white and its limited availability. In the first three months of 2022, ilmenite prices in Europe rose 25-30% year on year and 5-10% quarter on quarter. In China, ilmenite prices increased 15% year on year and were higher than in Europe due to curtailed local production (environmental inspections, the pandemic) and high import prices caused by high costs of freight. The increase in titanium slag prices was less dramatic, reaching 5% yoy in Europe and 15% yoy in China, given a rather moderate demand for the product and its persistently high prices.

In the following months of 2022, the prices of titanium-bearing minerals are expected to rise further globally due to the undersupply. Those minerals may be even more difficult to come by in Europe because of the issues experienced by Ukrainian mines in the wake of the war. This problem may be counteracted to some extent by decisions of major market players to resume production and abandon plans to close the mines.

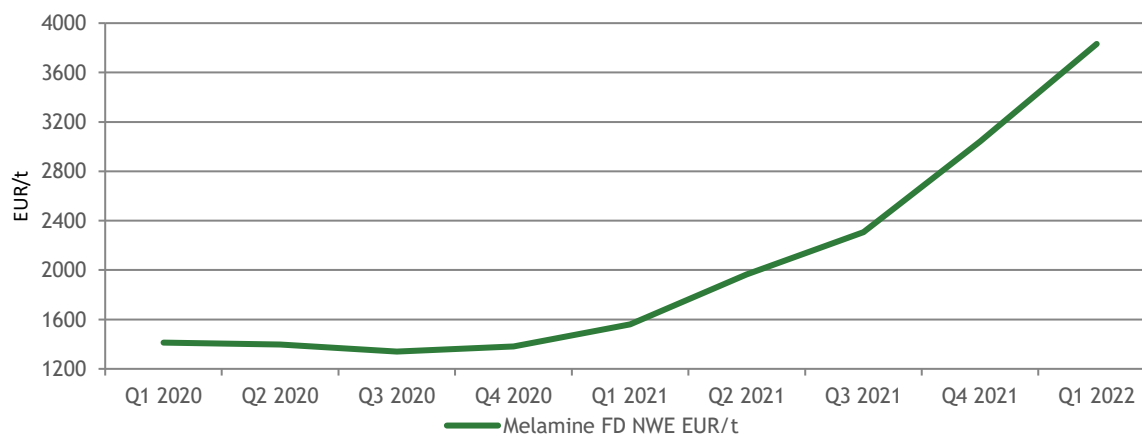
Melamine

In the three months ended March 31st 2022, the average contract prices of melamine increased 145% year on year and 26% quarter on quarter. Spot prices of melamine rose 145% year on year and fell 4% quarter on quarter. Late March saw the start of negotiations on contract prices for the second quarter of 2022 following Russia's invasion of Ukraine. For manufacturers, high and unstable prices of natural gas meant high production costs and low margins. Demand in Europe picked up after the Christmas and New Year break, but was lower year on year, especially in the DIY and home repair sectors. The supply improved on the back of competitively priced materials from Asia, increasing price pressures on the spot market. There was an uncertainty about trade flows between Russia and Europe.

The negotiations of contract prices for the first quarter of 2022 on the US market were concluded with an increase of more than USD 650 per tonne. The prices were affected by the force majeure-related issues faced by the sole US producer. Demand exceeded the volume of melamine available on the imports market. The negotiations of contract prices for the second quarter of 2022 on the US market were concluded in line with the local melamine producer's expectations, i.e. an increase of more than USD 550 per tonne as of April 1st. The increase was mainly attributable to limited supply of ammonia and growing prices of other raw materials. Customers hope that prices will stabilise in the coming quarter, which could be buoyed by higher imports and the local producer's declaration of the end of the force majeure event (announced on April 20th). Demand in the US remained strong in the first quarter of the year, partly due to delays in construction projects. The costs of raw materials and supply volumes, driven by geopolitical concerns, will continue to exert pressure on prices. The availability of melamine is likely to be limited throughout the second quarter. Demand from the automotive sector in the coming months will be weaker than expected.

In China, the first half of the quarter saw the Chinese New Year celebrations and winter Olympic Games in Beijing, which reduced supply in the region. Demand from export markets increased. March brought higher production costs, lower margins and increased uncertainty about logistics due to a growing number of coronavirus infections.

Prices of melamine



Source: Company data.

ENERGY

Natural gas

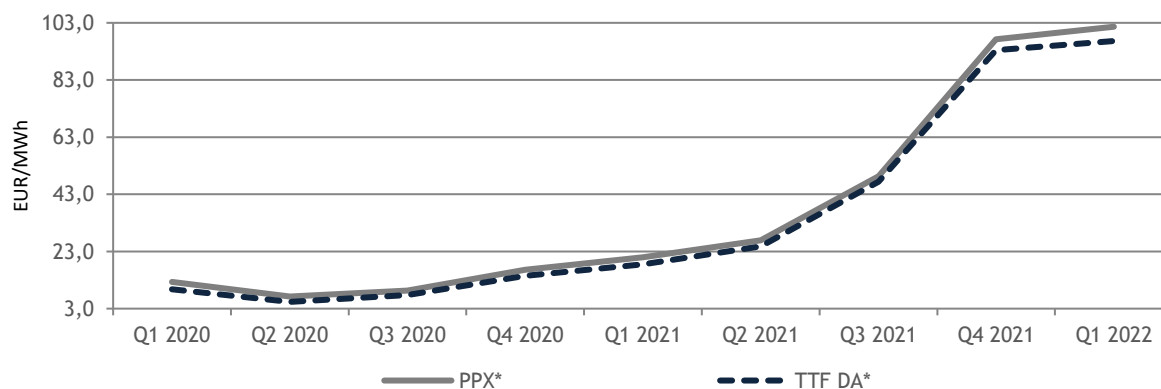
After a massive decline at the turn of the year, in January 2022 and for the most of February gas prices were subject to strong daily fluctuations, ranging from EUR 70 to EUR 95/MWh. Gas prices went down following reports of increased LNG deliveries to Europe and successive weather forecasts confirming that temperatures and wind conditions will be much above seasonal averages. The economic viability of LNG supplies from the US to Europe was much higher than from Asia, where demand slumped due to high prices of gas. Gas stocks in the EU decreased more slowly than the long-term average. The increase in the period was caused by reduced gas flows from Russia via the Velke Kapusany and Mallnow points, the emergency shutdown on Norway's Troll field, the shutdown of more nuclear reactors in France, the suspension of coal exports by Indonesia and the halting of the Nord Stream 2 certification procedure in Germany. The market also continued to be concerned about the amassing of Russian troops at the border with Ukraine. Although the volume of gas transported from Russia remained unchanged, the growing tension between Russia and Ukraine increased the risk of supply disruption, supporting price hikes.

Following Russia's invasion of Ukraine, gas prices in Europe skyrocketed. 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 to cover also natural gas. On March 7th, spot gas prices on TTF (Title Transfer Facility) hit a new all-time high of EUR 345/MWh, way above the December figure. The prices of other energy commodities, i.e. coal and crude oil, also increased, to over USD 450 per tonne and almost USD 130 per barrel, respectively.

Following Gazprom's announcement that despite the ongoing war gas would be supplied to Europe as per existing contracts, its prices went down and moved within the range of EUR 90-110/MWh. In the second half of March, gas continued to be injected to the EU's storage facilities as the supply of regasified LNG was high and the supply from Russia via Nord Stream and Ukraine was stable. With time, traders got used to the unstable situation, which led to lower risk premium in European gas prices.

Gas prices began to grow towards the end of the quarter as the Russian Federation's President announced the demand that payments for Russian gas be made in the rouble. Gazprom was obligated to make necessary amendments to its gas contracts, and the market once again plunged into uncertainty about the possibility of gas supplies being cut off if customers refuse to pay in the Russian currency. On April 27th, Russia discontinued gas supplies to Poland and Bulgaria as the two countries refused to make payments in the rouble, and the market responded with a nervous, albeit short lived, price surge.

Prices of natural gas



* Excluding transmission.

Source: Company data.

Given the uncertainty of gas supplies from Russia, and the excess of demand over supply in the European gas market in the context of the necessity to stock up on gas before the next winter, it should be expected that throughout the rest of the year gas prices will be close to the current levels.

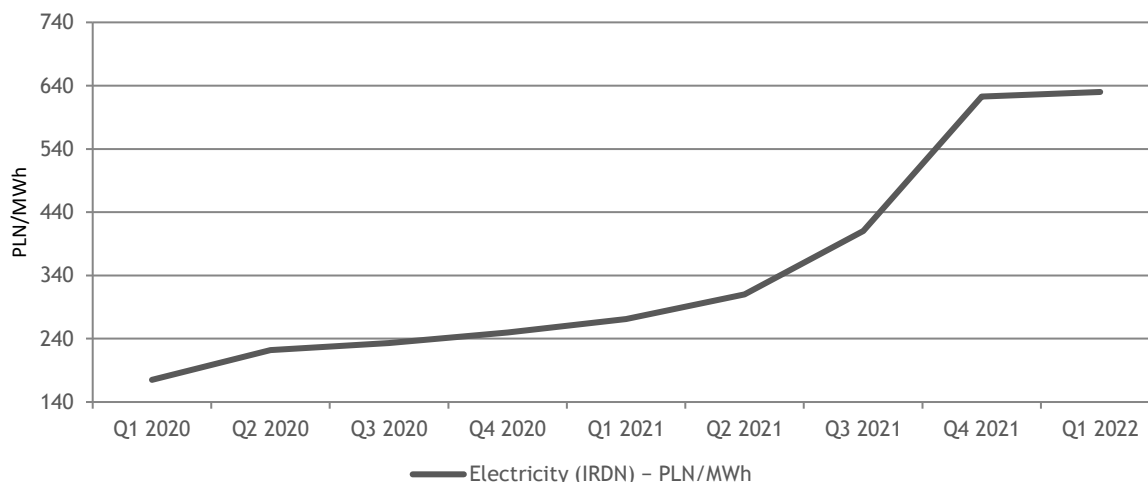
Electricity

In the first quarter of 2022, the average price of electricity grew at a slower rate of only 1% relative to the last quarter of 2021. Year on year, the increase was over 132%, led mainly by higher prices of CO₂ emission allowances (which reached new highs of over EUR 96 per allowance in the first quarter of 2022), volatility of demand, changes in the structure of generation sources, weather conditions, and cross-border capacities.

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

- situation in Poland and Europe related to higher demand for electricity;
- significant price fluctuations in the other commodity markets, caused by the armed conflict in Ukraine;
- sensitivity to movements in market prices of CO₂ emission allowances.

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 first quarter of 2022 saw continued growth in coal prices, which rose by 123% year on year and 40% quarter on quarter. In March 2022, the average price was USD 320 per tonne.

The main reason behind this price trend is the supply crisis related to the war in Ukraine and the high risk of failure to maintain uninterrupted supply of energy commodities.

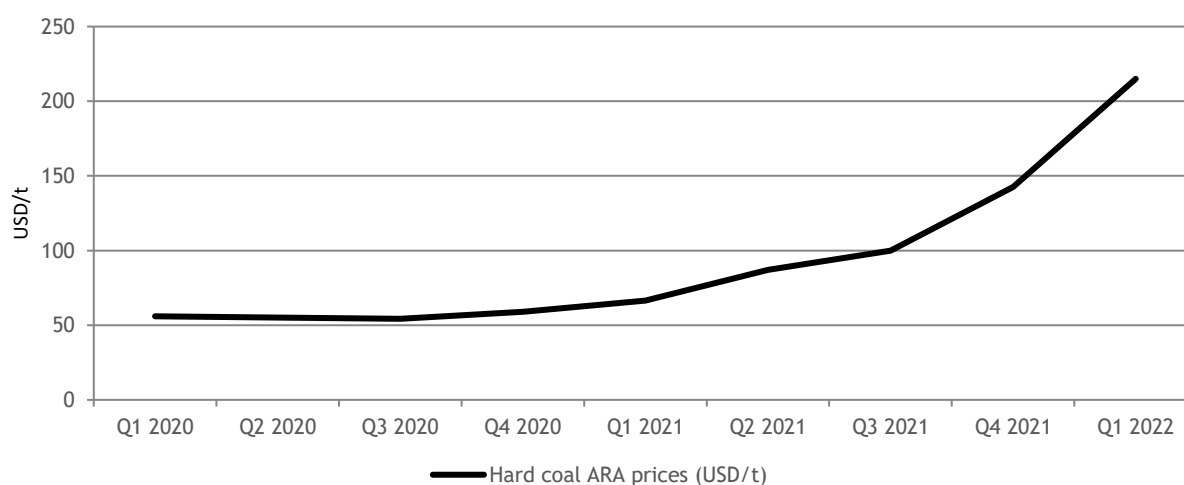
In addition, a major and growing risk is related to the availability of hard coal, which was largely imported from Russia before the outbreak of war in Ukraine, from domestic sources. For detailed information, see Note [3.10 Impact of the war in Ukraine](#) in the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2022.

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

- the geopolitical situation;
- the sanctions on Russian commodities;
- growing demand for coal in Europe;
- price fluctuations in other commodity markets.

Due to the ongoing armed conflict, prices of energy commodities are bound to remain high in the near future, with possible supply disruptions leading to higher price pressures.

Prices of hard coal



Source: Company data.

2.3. Key financial and economic data

2.3.1. Consolidated financial information

Item	Q1 2022	Q1 2021	change	% change
Revenue	6,827,163	3,361,982	3,465,181	103.1
Cost of sales	(5,155,231)	(2,693,871)	(2,461,360)	91.4
Gross profit	1,671,932	668,111	1,003,821	150.2
Selling and distribution expenses	(303,003)	(249,755)	(53,248)	21.3
Administrative expenses	(213,194)	(192,651)	(20,543)	10.7
Profit on sales	1,155,735	225,705	930,030	412.1
Net other income/(expenses)	(590)	(12,279)	11,689	95.2
Operating profit	1,155,145	213,426	941,719	441.2
Net finance costs	(67,814)	(84,827)	17,013	20.1
Share of profit of equity-accounted investees	3,451	3,475	(24)	(0.7)
Profit before tax	1,090,782	132,074	958,708	725.9
Income tax	(208,412)	(46,197)	(162,215)	351.1
Net profit	882,370	85,877	796,493	927.5
EBIT	1,155,145	213,426	941,719	441.2
Depreciation and amortisation	178,279	191,660	(13,381)	(7.0)
Impairment losses	1,344	1,344		
EBITDA	1,334,768	405,086	929,682	229.5

Source: Company data.

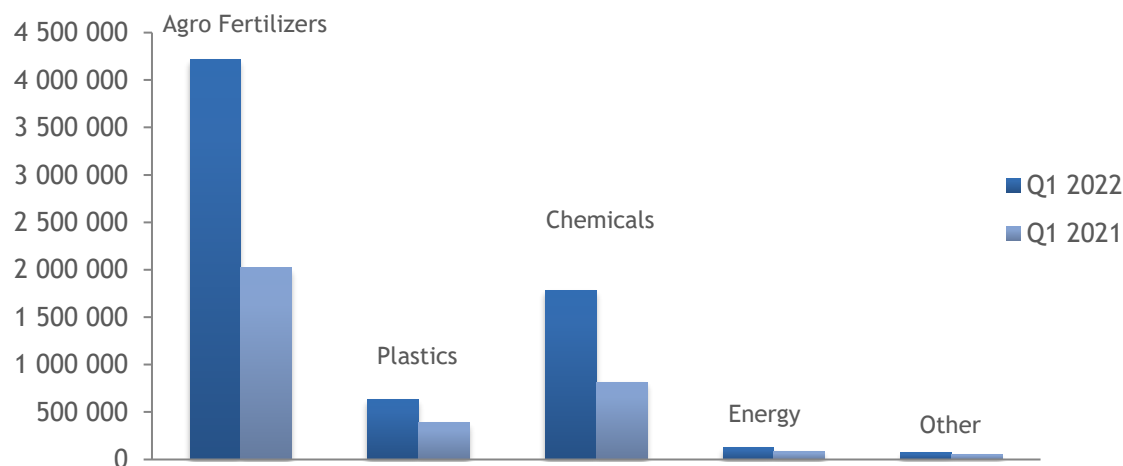
2.3.2. Segment results

EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	4,216,373	631,124	1,786,091	123,367	70,208	6,827,163
EBIT	732,079	52,729	353,552	9,598	7,187	1,155,145
EBITDA	814,339	68,636	376,444	36,657	38,692	1,334,768

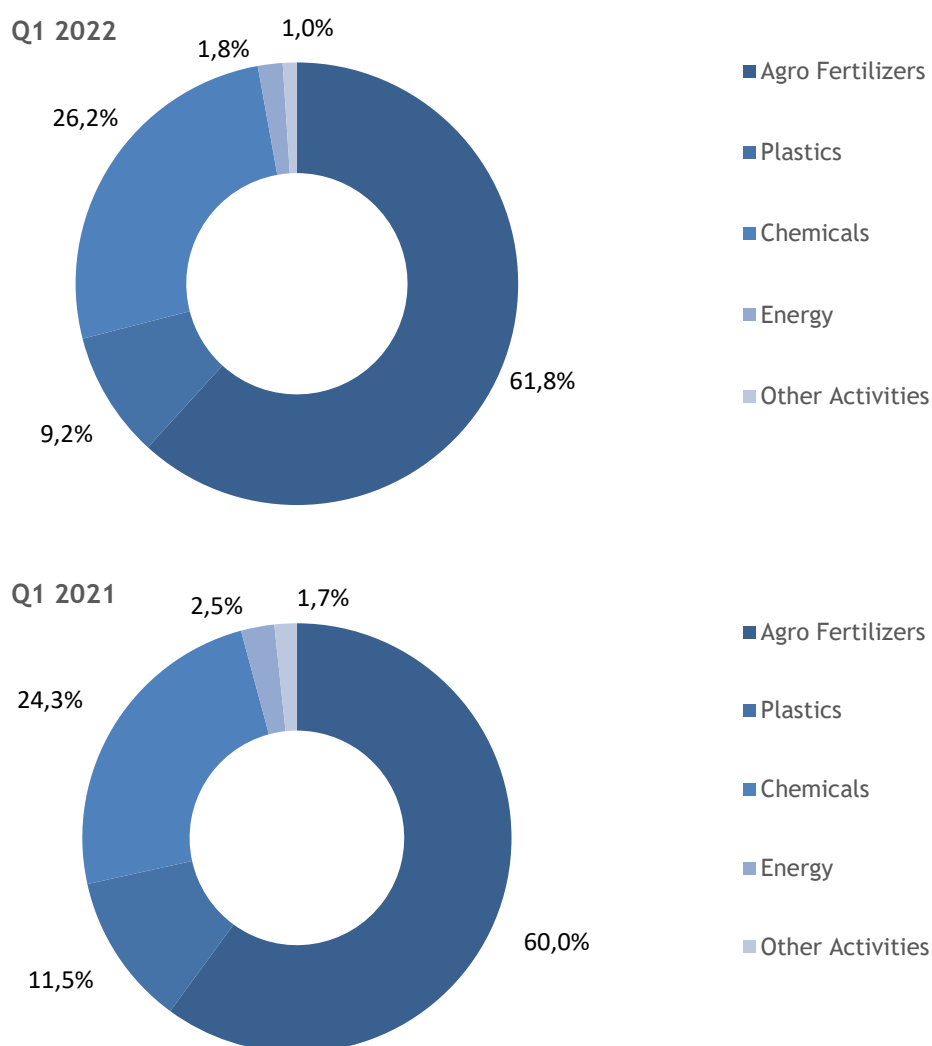
Source: Company data.

Revenue by segment



Source: Company data.

Revenue by segment



Source: Company data.

Agro Fertilizers

In the three months ended March 31st 2022, revenue in the Agro Fertilizers segment came in at PLN 4,216,373 thousand and accounted for 61.8% of the Group's total revenue. The segment's revenue went up 108.9% year on year, and its share in the Group's total expanded by 1.8 pp.

The Agro Fertilizers segment reported an EBIT of PLN 732,079 thousand and a positive EBITDA.

Domestic market accounted for 66% of the segment's total sales.

Plastics

In the three months ended March 31st 2022, revenue in the Plastics segment was PLN 631,124 thousand and accounted for 9.2% of the Group's total revenue. Year on year, the segment's revenue increased by 63.2%. The segment delivered an EBIT of PLN 52,729 thousand and a positive EBITDA.

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

Chemicals

In the first quarter of 2022, revenue in the Chemicals segment amounted to PLN 1,786,091 thousand, having increased 119.1% year on year. The segment's revenue accounted for 26.2% of the Group's total revenue. Its EBIT came in at PLN 353,552 thousand, with a positive EBITDA.

Foreign markets accounted for 56% of the segment's total sales.

Energy

In the three months ended March 31st 2022, revenue in the Energy segment was PLN 123,367 thousand and accounted for approximately 1.8% of the Group's total. Year on year, the segment's revenue increased by 45.9%. EBIT was positive, at PLN 9,598 thousand.

Other Activities

In the three months ended March 31st 2022, the Other Activities segment reported revenue of PLN 70,208 thousand, up 23.9% year on year, accounting for 1.0% of the Group's total revenue. The segment's operations generated a profit on sales and positive EBIT of PLN 7,187 thousand.

2.3.3. Structure of operating expenses

Operating expenses by nature of expense

	Q1 2022	Q1 2021	change	% change
Depreciation and amortisation	177,242	190,514	(13,272)	(7.0)
Raw materials and consumables used	4,428,562	1,921,006	2,507,556	130.5
Services	393,092	309,459	83,633	27.0
Salaries and wages, including surcharges, and other benefits	491,883	446,541	45,342	10.2
Taxes and charges	186,505	194,123	(7,618)	(3.9)
Other	33,940	31,154	2,786	8.9
Total	5,711,224	3,092,797	2,618,427	84.7

Source: Company data.

Structure of operating expenses [%]

	Q1 2022	Q1 2021
Depreciation and amortisation	3.1	6.2
Raw materials and consumables used	77.5	62.1
Services	6.9	10.0
Salaries and wages, including surcharges, and other benefits	8.6	14.4
Taxes and charges	3.3	6.3
Other	0.6	1.0
Total	100.0	100.0

Source: Company data.

2.3.4. Assets, equity and liabilities

Structure of assets

	Q1 2022	Q1 2021	change	% change
Non-current assets, including:	15,508,243	14,248,256	1,259,987	8.8
Property, plant and equipment	12,443,006	11,316,292	1,126,714	10.0
Intangible assets	1,002,844	1,029,825	(26,981)	(2.6)
Right-of-use assets	815,005	848,024	(33,019)	(3.9)
Other receivables	563,588	471,069	92,519	19.6
Goodwill	323,365	334,628	(11,263)	(3.4)
Current assets, including:	9,348,369	4,814,458	4,533,911	94.2
Inventories	2,409,537	1,438,375	971,162	67.5
Trade and other receivables	4,469,421	2,188,196	2,281,225	104.3
Property rights	1,758,329	715,917	1,042,412	145.6
Cash and cash equivalents	672,092	433,797	238,295	54.9
Total assets	24,856,612	19,062,714	5,793,898	30.4

Source: Company data.

Structure of equity and liabilities

	Q1 2022	Q1 2021	change	% change
Equity	10,020,095	8,369,714	1,650,381	19.7
Non-current liabilities, including:	6,168,144	6,114,292	53,852	0.9
Borrowings	3,890,599	3,683,221	207,378	5.6
Other financial liabilities	642,442	573,050	69,392	12.1
Deferred tax liabilities	445,654	522,295	(76,641)	(14.7)
Employee benefit obligations	419,700	490,155	(70,455)	(14.4)
Lease liabilities	358,500	361,163	(2,663)	(0.7)
Provisions	194,417	210,985	(16,568)	(7.9)
Government grants	195,991	196,651	(660)	(0.3)
Current liabilities, including:	8,668,373	4,578,708	4,089,665	89.3
Trade and other payables	5,137,569	3,219,154	1,918,415	59.6
Borrowings	1,118,132	697,348	420,784	60.3
Other financial liabilities	631,991	389,458	242,533	62.3
Provisions	89,146	43,278	45,868	106.0
Government grants	1,336,396	14,421	1,321,975	9,167.0
Total equity and liabilities	24,856,612	19,062,714	5,793,898	30.4

Source: Company data.

2.3.5. Financial ratios

Profitability ratios [%]

	Q1 2022	Q1 2021
Gross profit margin	24.5	19.9
EBIT margin	16.9	6.3
EBITDA margin	19.6	12.0
Net profit margin	12.9	2.6
ROA	3.5	0.5
ROCE	7.1	1.5
ROE	8.8	1.0
Return on non-current assets	5.7	0.6

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 profit margin = net profit (loss) / revenue

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

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

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

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

Liquidity ratios

	Q1 2022	Q1 2021
Current ratio	1.1	1.1
Quick ratio	0.8	0.7
Cash ratio	0.1	0.1

Source: Company data.

Ratio formulas:

Current ratio = current assets / current liabilities

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

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

Operational efficiency ratios

	Q1 2022	Q1 2021
Inventory turnover	42	48
Average collection period	59	59
Average payment period	90	108
Cash conversion cycle	11	(1)

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 [%]

	Q1 2022	Q1 2021
Total debt ratio	59.7	56.1
Long-term debt ratio	24.8	32.1
Short-term debt ratio	34.9	24.0
Equity-to-debt ratio	67.5	78.3
Interest cover ratio	3,609.7	934.2

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 three months ended March 31st 2022, the Group paid all of its liabilities under borrowings and other financial liabilities when due, and there is no threat to its ability to continue servicing its debt.

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 defer the payment of amounts due to suppliers and service providers under reverse factoring agreements executed together with the Group companies. The amounts under the agreements were increased by a total of PLN 600m in the first quarter of 2022. The Group is also able to finance its receivables from trading partners under factoring agreements executed together with the Group companies.

The Group is monitoring the spread of the COVID-19 pandemic and its impact on the Group's economic environment. As at the date of this Report, the Group did not record any material adverse impact of the COVID-19 pandemic on its financial position.

2.5. Borrowings

In the three months ended March 31st 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. The Grupa Azoty Group has access to umbrella overdraft limits related to the PLN and EUR physical cash pooling arrangements and under a multi-purpose credit facility, which may be used as directed by the Parent at times of increased demand for funding from any of the Group companies. The Group also has access to bilateral overdraft limits and multi-purpose facilities available to the Group companies.

The aggregate amount of the Group's undrawn overdraft and multi-purpose credit facilities as at March 31st 2022 was PLN 814m. At the same time, the Group had undrawn limits under corporate credit facilities of PLN 1,113m 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 4,629m.

As at March 31st 2022, under the agreements specified above the Group had access to total credit limits of approximately PLN 6,574m (of which limits under Grupa Azoty POLYOLEFINS special purpose credit facilities for the financing of the Polimery Police project were PLN 4,629m, and other limits available to the Group amounted to PLN 1,945m).

The Group's financial standing is sound, and there are no material threats or risks of its deterioration in the future. 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 one-off items that would materially impact the Group's assets, equity and liabilities, capital, net profit/loss or cash flows.

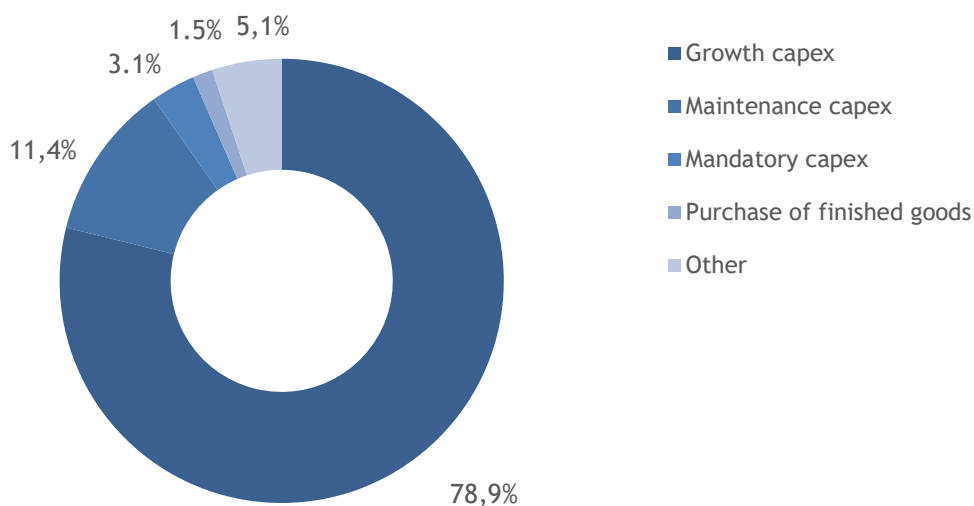
2.7. Key investment projects

In the three months ended March 31st 2022, the Group incurred expenditure of PLN 632,814 thousand to purchase intangible assets and property, plant and equipment.

Structure of capital expenditure:

• Growth capex	PLN 499,042 thousand
• Maintenance capex	PLN 72,037 thousand
• Mandatory capex	PLN 20,419 thousand
• Purchase of finished goods	PLN 9,236 thousand
• Other (major overhauls, components, catalysts, etc.)	PLN 32,080 thousand

Structure of Grupa Azoty Group's capital expenditure in the three months ended March 31st 2022



Source: Company data.

Below is presented Grupa Azoty Group's capital expenditure in the three months ended March 31st 2022:

• Parent	PLN 41,308 thousand
• Grupa Azoty POLYOLEFINS	PLN 454,430 thousand
• Grupa Azoty PUŁAWY Group	PLN 52,322 thousand
• Grupa Azoty KĘDZIERZYN Group	PLN 40,795 thousand
• Grupa Azoty POLICE Group	PLN 18,416 thousand
• COMPO EXPERT	PLN 6,351 thousand
• Grupa Azoty KOLTAR	PLN 3,270 thousand
• Grupa Azoty SIARKOPOL	PLN 6,755 thousand
• Grupa Azoty PKCH	PLN 565 thousand
• Grupa Azoty COMPOUNDING	PLN 8,546 thousand
• Grupa Azoty ATT POLYMERS	PLN 56 thousand

Key investment projects implemented by the Group as at March 31st 2022 (PLN '000)

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q1 2022	Project purpose	Scheduled completion date
Grupa Azoty POLYOLEFINS					
Polimery Police	7 210 957*	3,560,379	454,430	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	98,904	3,867	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	965,107	5,822	Bringing Grupy Azoty PUŁAWY's energy generation units in line with the latest environmental requirements, while increasing the share of the autoproducer CHP plant in the electricity volumes consumed by the production units, and ensuring uninterrupted supplies of energy (process steam and heating water).	2022
Upgrade of existing nitric acid production units and construction of new nitric acid production and neutralisation units and units for production of new fertilizers based on nitric acid	695,000	394,586	1,484	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
Facility for production of granulated fertilizers based on ammonium nitrate	430,000	416,880	2,148	Improvement of the quality of fertilizers by applying modern mechanical granulation. The key element of the complex is two lines for manufacturing granulated	2022

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q1 2022	Project purpose	Scheduled completion date
				fertilizers based on ammonium nitrate melt as the feedstock for granulated ammonium nitrate and calcium ammonium nitrate.	
Upgrade of steam generator OP-215 No. 2 to reduce NO _x emissions	145,000	100,096	9,358	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.	2022
Replacement of the TG-1 turbine generator set	85,000	74,096	6,866	Increasing the efficiency of electricity and heat cogeneration by replacing the TG-1 30 MWe pass-out and condensing turbine with a new 34 MWe turbine as part of the power system upgrade.	2022
Grupa Azoty KĘDZIERZYN					
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	180,000	104,274	18,533	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	20,655	1,813	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	59,499	199	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	2,108	0	Enabling the production of 20,000 tonnes of 2-EHA per year.	2024
Upgrade of the urea production line	173,000	1,238	1,238	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.	2024

* 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 projected performance at least over the next reporting period

Exchange rates

The zloty strengthened until mid-February 2022, and then fell sharply as a direct consequence of Russia's invasion of Ukraine, to partly recoup the losses by the end of March. In the first quarter of 2022, the zloty depreciated in relation to the euro and the US dollar as the respective exchange rates changed from 4.60 to 4.65 and from 4.06 to 4.18.

Given the current situation in financial markets driven by the war in Ukraine, the global inflationary pressures and the monetary policy tightening by central banks, prospects for the global economy are rather gloomy. The continued high volatility and risk aversion in financial markets may have an adverse effect on the domestic currency. Despite the growing interest rate disparity between Poland on the one side and the euro area and the United States on the other side, the Polish currency may remain weak in the second quarter of 2022. Its strengthening for a longer term could be made possible by:

- de-escalation of the conflict in Ukraine;
- unlocking of EU funds under the National Recovery Plan;
- weakening of the prospects of the global central banks' tightening the monetary policy.

The Group expects that in the second quarter of 2022 the exchange rate of the Polish zloty will remain at the currently observed high levels, with strong market volatility bound to continue. Any clearer appreciation of the Polish currency is unlikely to take place before the end of the second and beginning of the third quarter of 2022.

The weakening of the Polish currency versus convertible currencies should not have a material effect on the Group's ability to deliver the financial results planned for the second quarter of 2022. Increased volatility in foreign exchange markets is a risk factor.

Interest rates in Poland

In the first quarter of 2022, interest rates in Poland were raised to approximately 4% and further increases are expected by the end of 2022. This will drive up the Group's finance costs, with debt service ability still secured, also in view of the plans to step up the financing for investment projects.

The National Bank of Poland (NBP) is expected to continue the tightening of its monetary policy. The war in Ukraine is another adverse development that adds to the existing risks of uncontrolled growth in the benchmark inflation rate and CPI. Based on forward rate contracts currently executed in Poland, the 3M WIBOR rate is estimated to increase above 7% over the next six months. Following the interest rate hikes in April and May and the anticipated future increases, the base rate for the credit facilities of the Grupa Azoty Group (1M WIBOR) is expected to go up to approximately 6% by the end of the second quarter of 2022.

The developments seen at the end of the first and beginning of the second quarter of 2022 show a growing discrepancy between the monetary policies pursued by the United States and the euro area. While the Fed has already projected four to five interest rate increases in 2022, the ECB remains consistent in its communications that the interest rates will not rise at least until the middle of the current year, however without ruling out an increase in the following months.

The Grupa Azoty Group's base case scenario assumes that the current interest rates will increase by the end of the third quarter of 2022 with respect to the currencies in which the Group finances its operations. This means growing finance costs until that time.

Prices of CO₂ emission allowances

In the first quarter of 2022, the CO₂ emission allowances market saw another all-time high of EUR 96.9 per tonne as well as a steep downward correction, amid the highest ever market volatility. The declines were sparked by the outbreak of war in Ukraine. An intraday trading low of EUR 55.3 per tonne was recorded on March 7th. From March 8th 2022, the market witnessed the development of another growth wave, with EUA prices rising to more than EUR 80 per tonne. The average forecast price for 2022 is EUR 79 per tonne. The EUA market is expected to remain affected by the war in Ukraine, driving increased volatility.

In the first quarter of 2022, 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 to purchase allowances to secure part of the required EUA volumes for 2023. At the same time, the Group companies have secured all EUAs required for 2022.

European Union Regulatory Area

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

The European Commission (EC) continues to draw up delegated acts to the Regulation. The Regulation will be effective as of July 16th 2022.

Until January 14th 2022, public consultations were held on agronomic efficiency and safety criteria for the use of by-products in EU fertilizer products and criteria ensuring safety of the use of high purity materials in EU fertilizer products. The two delegated acts were adopted by the EC in March of 2022. In the absence of any objection from the European Parliament and the Council, the delegated act is expected to enter into force within two months.

On February 9th 2022, one-month public consultations were started by the EC on further amendments meant to align some technical requirements with EU's political priorities: the Farm to Fork strategy and the chemicals strategy of sustainability. They also reflect existing practices for processing bio-waste, to facilitate access to the single market of digestate.

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. Poland submitted its strategic plan on December 22nd 2021 and is currently working on the incorporation of EC's comments into it. The period of dialogue with the EC and the plan review do not count towards the six-month period prescribed for the approval of the CAP strategic plan.

Farm to Fork strategy

From February 16th to March 16th 2022, the EC received comments on the assessment of the effects of the directive on soil health, including soil protection, sustainable soil management in the EU and soil restoration. The aim of the soil health law proposal is to specify the conditions for a healthy soil, determine options for soil monitoring, and lay out rules conducive to sustainable soil use and restoration.

February 7th 2022 saw the opening of EU public consultations on certification of carbon removals. The purpose is to expand sustainable carbon removals and encourage the use of innovative solutions to capture, recycle and store CO₂ by farmers, foresters and industries.

On March 23rd 2022, the European Commission published a communication on ensuring food security and on reinforcing resilience of food systems, which presented short-term and medium-term actions to enhance global food security and to support farmers and consumers in the EU in light of rising food prices and input costs, such as energy and fertilisers.

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. Most of the proposals were made by stakeholders from the European Parliament.

From December 15th 2021 to April 12th 2022, the EC held public consultations on the draft of amended Directive and Regulation on common rules for the internal markets in renewable and natural gases and in hydrogen, i.e. the Hydrogen and Decarbonised Gas Package, complementing the draft legislative acts published as part of the Fit for 55 package.

Taxonomy

January 1st 2022 was the effective date of the EU Taxonomy criteria for non-financial reporting and disclosure of information on compliance of products with the environmental objectives, which are a tool for financial market participants and businesses. The reporting requirement follows from Commission Delegated Regulation (EU) 2021/2139 of June 4th 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives. The European Commission is continuing work on further delegated acts designed to achieve the other environmental objectives.

On February 2nd 2022, the EC adopted a supplementary delegated act, which accounts for the role of gas and nuclear energy in energy transition, 'under strict conditions'. 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. Given the scientific and technical progress, these activities cannot yet be replaced by technologically and economically feasible low-carbon alternatives, but they contribute to climate change mitigation and have the potential to play a significant role in the transition to a climate-neutral economy, without crowding out investment in renewables, and are compliant with the EU objectives.

Chemicals strategy

From January 20th to April 15th 2022, the EC reviewed the REACH Regulation, i.e. Regulation (EC) No 1907/2006 concerning the registration, evaluation, authorisation and restriction of chemicals. The purpose of the review was to ensure that the Regulation reflects the EC's ambitions for innovation and a high level of protection of human health and the environment.

Until February 17th 2022, EU public consultations were held on simplification and digitalisation of labelling requirements for chemicals.

On March 15th 2022, the European Commission launched public consultations on the use of EU agencies to streamline scientific assessments. To this end, a 'one substance - one assessment' process is to be adopted to simplify the current assessment principles.

Other initiatives

- On February 18th 2022, the EC launched work on reviewing the Best Available Techniques Reference Document for Large Volume inorganic Chemicals (LVIC BREF), a process supervised by the Joint Research Centre and covering large volume production of inorganic chemicals.
- On March 8th 2022, the EC issued the REPowerEU communication on joint European action for more affordable, secure and sustainable energy - a plan to make Europe independent from Russian fossil fuels: diversification of gas supply, speeding up the roll-out of renewable gases and replacing gas in heating and power generation.
- On March 19th 2022, the EC issued a communication on the State Aid Temporary Framework, whose aim is to enable Member States to use the full flexibility foreseen under state aid rules to support the economy in the context of the COVID-19 pandemic.
- On March 23rd 2022, the EC issued a communication on Temporary Crisis Framework designed to enable Member States to use the flexibility foreseen under state aid rules to support the economy in the context of Russia's invasion of Ukraine.
- From March 23rd to May 26th 2022, the EC held public consultations on a proposal for a Regulation amending Regulation (EU) 2017/1938 concerning measures to safeguard the security of gas supply and Regulation (EC) 715/2009 on conditions for access to natural gas transmission networks, with the aim of aligning the regulations with the effects of the EU communication REPowerEU on joint European action for more affordable, secure and sustainable energy and the statement made at a meeting in Versailles on the Russian military aggression.
- On March 23rd 2022, the EC issued a communication 'Security of supply and affordable energy prices: options for immediate measures and preparing for next winter', presenting options for measures that could be implemented in the short term to mitigate the impact of soaring natural gas prices on the electricity market.

Polish Regulatory Area

- From January 31st to March 2nd 2022, the Ministry of Climate and Environment held public consultations on the draft Act Amending the Act on Packaging and Packaging Waste Management and the Waste Act, a partial transposition of Directive (EU) 2019/904 of the European Parliament and of the Council of 5 June 2019 on the reduction of the impact of certain plastic products on the environment.
- From February 25th to March 18th 2022, consultations were held on the draft Act Amending the Act on Renewable Energy Sources and Certain Other Acts, which is a transposition of Directive 2018/2001 of December 11th 2018, containing a proposal of changes concerning energy clusters, guarantees of origin, peer-to-peer energy trading, and operational support for renewable energy sources whose 15-year support period is nearing an end.
- February 25th 2022 was the publication date of the Act Amending the Act on the Compensation Scheme for Energy-Intensive Sectors and Subsectors of February 9th 2022 - the aim is to bring the current compensation regulations in line with the EC communication on certain state aid measures in the context of the system for greenhouse gas emission allowance trading post-2021.
- From March 15th to April 14th 2022, the Ministry of Agriculture and Rural Development held public consultations on the draft Act Amending the Act on Fertilizers and Fertilization and the Act on Value Added Tax, with the aim of implementing the provisions of Regulation (EU) 2019/1009 of the European Parliament and of the Council of June 5th 2019 laying down rules on the making available on the market of EU fertilising products.
- From March 24th to April 7th 2022, the Ministry of Climate and Environment held public consultations on the draft regulation on a change of the volume share of total electricity from redeemed certificates of origin confirming generation of electricity from renewable energy sources in 2023 - the aim is to reduce the volume requirement for the redemption of green certificates in 2023 to 10% and set the volume requirement for the redemption of blue certificates at 0.5%.

International trade policy

- On January 26th 2022, the United States International Trade Commission (ITC) instituted an expiry review of the antidumping and countervailing duties on ammonium sulfate imports from China. The duties were imposed in March 2017. The purpose of the ITC's review is to determine whether revocation of the duties would be likely to lead to continuation or recurrence of material injury to the US industry.
- On January 27th 2022, the US Department of Commerce announced preliminary determinations in the anti-dumping duty investigation on imports of UAN from Russia and Trinidad and Tobago. Based on initial findings, the dumping rates were 9-127% for Russia and 112% for Trinidad and Tobago. Before that, at the end of November 2021, the US Department of Commerce decided to impose provisional ad valorem countervailing duties on imports of mixtures of urea and ammonium nitrate from Trinidad and Tobago and Russia. The decisions were made after CF Industries Holding filed, in June 2021, a request with the US Department of Commerce and the US International Trade Commission to initiate an anti-dumping and anti-subsidy

- investigation, and the US International Trade Commission determined that there was a reasonable indication that the U.S. industry is materially injured by reason of UAN imports from those countries.
- On February 25th 2022, the Indian Ministry of Commerce published findings concerning anti-dumping duties on imports of melamine from the European Union, Japan, Qatar and the United Arab Emirates. The amount of the duty on melamine imports from those regions or countries will be between USD 119 and USD 428 per tonne.
 - At the request of agricultural producers, the EC is considering the suspension of anti-dumping duties on UAN imports from Russia, the US and Trinidad and Tobago imposed by Commission Implementing Regulation (EU) 2019/1688 of October 8th 2019 .
 - Proceedings are pending to challenge the EC's decision of October 2019 to impose anti-dumping duties on UAN imports from Russia, the US and Trinidad and Tobago by Methanol Holdings (of Trinidad and Tobago) and Eurochem (of Russia).
 - The ban on exports of phosphates introduced in September 2021 by the National Commission for Reform Development (NDRC) in China is still in force and is to remain effective at least until June 2022.
 - In Russia, fertilizer prices on the domestic market are still frozen under decisions made in 2021 by the country's largest mineral fertilizer manufacturers. As the reasons behind the decisions, the producers cited changes in macroeconomic conditions triggered by the COVID-19 pandemic and the natural disasters that hit some regions of Russia. Prices are to remain frozen until the end of May 2022. Currently, there are signals that this period may be extended until the end of 2022.
 - Russian government's decision of November 2021 to impose fertilizer export quotas for a period of six months, starting from December 2021, in order to reduce exports of fertilizer products outside the Eurasian Economic Union, is still in force. The quotas were calculated based on historical export volumes and are expected to apply until May 31st 2022. At the end of April, the export quotas for fertilizers were extended until August 31st 2022, with the option of prolonging their applicability every quarter in needed.
 - On February 2nd 2022, Russia introduced a two-month ban on ammonium nitrate exports to ensure adequate supply on its home market. According to Russian government, this is a temporary measure and exports will resume when Russian companies receive ammonium nitrate in the required quantity and demand in the domestic market is past its peak. At the end of March, the export ban was extended until May 1st 2022. The extension does not apply to exports of ammonium nitrate to the Luhansk, Donetsk, South Ossetia and Abkhazia areas.
 - On March 12th 2022, the Ukrainian Ministry of Agriculture announced the introduction of zero quotas for exports of mineral fertilizers, which in practice means a ban on exports of those products. The quotas apply to nitrogen, phosphate, potassium and compound fertilizers and they are intended to help maintain the balance on the domestic market.
 - The EU continues to negotiate its trade agreements with third countries. In February 2022, negotiations were held with Australia. In October 2021, negotiations of a trade agreement with Chile were concluded but both parties are still in the process of a legal review of its wording.
 - 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.
 - The United Kingdom continues to enter into free trade agreements. In February 2022, it signed a trade agreement with New Zealand, as well as a digital trade agreement with Singapore. In mid-January 2022, negotiations of a free trade agreement with India began.
 - January 1st 2022 saw the entry into force of the Regional Comprehensive Economic Partnership (RCEP), paving the way to create the world's largest free trade area. RCEP covers ten current members of ASEAN, namely Indonesia, Thailand, Singapore, Malaysia, the Philippines, Vietnam, Myanmar, Cambodia, Laos and Brunei, and five other countries of the region: China, Japan, South Korea, Australia and New Zealand.
 - On March 11th 2022, G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the US) and the EU issued a statement of their intention to levy additional economic sanctions against Russia in response to the military invasion in Ukraine, including restrictions on trade in goods. The joint statement contained a number of commitments to isolate Russia from the world's largest economies and global financial institutions, including a decision to deny Russia Most-Favoured-Nation (MFN) status under the World Trade Organisation (WTO) rules, which qualifies Russian imports for favourable duty rates. The US, EU and United Kingdom have already taken steps to implement the measures announced by the G7 countries.

EU and US sanctions imposed on Russia and Belarus

- On February 21st 2022, the President of Russia Vladimir Putin issued a decree recognising the independence of the self-proclaimed Donetsk People's Republic and Luhansk People's Republic. In response, the US President's administration issued an executive order prohibiting new US investments in Russia as well as exports to and imports from the two self-proclaimed republics. A ban was introduced on imports to and exports from Russia of dual-use materials, arms industry goods, and technologies supporting the war in Ukraine.
- On February 22nd 2022, the US Treasury Department imposed sanctions targeting two main Russian state-owned financial institutions (VEB, PSB) and their subsidiaries, which are crucial to the financing of the Russian defence industry, as well as five Kremlin-linked oligarchs. It continues to impose additional restrictions on Russian sovereign debt.
- On February 23rd 2022, the EU introduced the first set of sanctions against Russia, including a ban on imports

of goods from the Donetsk Republic and the Luhansk Republic, trade and investment restrictions, an export ban for certain goods and technologies, and restrained access by Russia to EU's capital and financial markets and services.

- On February 24th 2022, the (EU) Council decided to prolong the restrictive measures against Belarus for one year. The decision was made following an annual review, taking into account the continuing difficult situation in that country. The restrictive measures are to apply until February 28th 2023.
- On February 25th 2022, in response to Russia's invasion of Ukraine, the EU introduced a second package of sanctions, including financial sanctions against Vladimir Putin, Minister of Foreign Affairs Sergey Lavrov, and Russian banks. Also, the US Treasury Department imposed sanctions freezing all interests in US assets held by Vladimir Putin, Sergey Lavrov and 11 members of the Russian Security Council.
- On February 28th 2022, the EU adopted the third package of sanctions, prohibiting transactions with the Russian Central Bank, closing off the EU's airspace for Russian air carriers, and imposing sanctions on 26 further Russian individuals. On March 2nd 2022, the EU expanded the third package of sanctions, banning seven Russian banks from the SWIFT system as of March 12th 2022: Bank Otkritie, Novikombank, Promsvyazbank, Bank Rossiya, Sovcombank, Vnesheconombank (VEB) and VTB Bank. The United States and many other countries took similar measures.
- On March 2nd 2022, the EU condemned Belarus's participation in the Russian military invasion against Ukraine and, in response to its actions, imposed a package of individual and economic sanctions on 22 persons, and introduced further trade restrictions. The European Council introduced restrictions on trade in potassium chloride products. The ban applies to imports of potassium chloride designated with code 3104.20 and includes the previously allowed potassium chloride designated with code 3104.20.50; also, exceptions for pre-existing contracts were removed.
- On March 8th 2022, US President's administration issued an executive order banning the import of Russian oil, liquefied natural gas and coal.
- On March 9th 2022, the European Council imposed additional controls on exports of maritime navigation goods and radio-communication technologies to Russia, as well as financial sanctions and travel ban on 160 Russian oligarchs and politicians.
- On March 9th 2022, the EU imposed new financial sanctions on Belarus, including the exclusion of three Belarussian banks from SWIFT.
- On March 11th 2022, the US announced another executive order imposing new prohibitions on trade with Russia and investments in Russia.
- On March 15th 2022, the EU imposed a fourth package of sanctions, which restricted imports of iron and steel originating from Russia and exports of luxury goods to Russia, prohibited new investments and added export controls against the Russian energy industry.
- On April 8th 2022, the EU imposed a fifth package of sanctions, prohibiting imports of Russian coal and other products, such as wood, cement, fertilizers, seafood and alcohol as of August 2022. It also introduced an entry ban on Russian-flagged vessels to EU ports and a full ban on Russian and Belarussian freight road operators working in the EU. The package includes a full transaction ban on four Russian banks and financial sanctions on Russian oligarchs, politicians and members of their families, including on Vladimir Putin's daughters.
- On April 8th 2022, the (EU) Council introduced a Regulation prohibiting any road transport undertaking established in Belarus to transport goods by road within the territory of the Union, including in transit, after April 16th 2022. Derogations apply to the transport of pharmaceutical, medical, agricultural and food products and humanitarian purposes.
- On May 8th 2022, the United States imposed further sanctions against Russia. Assets of 33 individuals and 22 companies were frozen and contracting with them was forbidden. The list includes the current members of the Management Board of Gazprombank and Seberbank, 10 subsidiaries of Moscow Industrial Bank, a private Russian arms producer, three public television broadcasters, as well as land and maritime transport operators. Approximately 70 Russian flag cargo vessels (including ships transporting raw materials) were also included in the list. As of June 7th 2022, there will be a ban on the provision of any accounting, trust, corporate formation and management consulting services by US entities to entities located in the Russian Federation. As of August 20th 2022, the provision of credit rating and auditing services by US entities to entities located in the Russian Federation will be prohibited.

Polish sanctions against Russia and Belarus

April 16th 2022 saw the entry into force of the Act on Special Measures to Prevent Supporting Aggression against Ukraine and Protect the National Security, implementing measures to enhance the enforcement of EU sanctions against Russia and Belarus in Poland. Under the Act, on April 26th 2022, a Polish sanctions list was established, including sanctioned persons and entities, and a new restrictive measure was created whereby the sanctioned entities are excluded from public procurement procedures. The Act provides for administrative penalties and criminal liability for a breach of its provisions or of EU sanctions regulations.

Russian retaliatory sanctions

On May 3rd 2022, the President of the Russian Federation signed a decree on retaliatory special economic measures to be introduced in connection with the "unfriendly actions of some foreign states and international organizations". By a decree of May 11th 2022, the Government of the Russian Federation approved the list of legal persons subject to the retaliatory sanctions. It contains entities from Germany, France and other European

countries, as well as the US and Singapore. These include European subsidiaries of Gazprom, traders and operators of underground gas storage facilities, Gazprom Germania of Germany and Polish EuRoPol Gaz, the owner of the Polish section of the Yamal pipeline. Russian public institutions, legal persons and citizens may not enter into transactions with those entities or any structures under their control, discharge obligations to those entities under completed transactions, or execute financial transactions with them. This also applies to foreign trade contracts that have already been signed.

3. Other information

3.1. Other significant events

Implementation of the Polimery Police project

In the first three months of 2022, Grupa Azoty POLYOLEFINS carried out 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. ("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

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 will 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

Following Russia's invasion of Ukraine, the Western countries imposed a number of sanctions against Russia and Belarus which, among other things, pushed up the prices of building materials (steel, copper and cement). Grupa Azoty POLYOLEFINS monitors the situation on an ongoing basis and takes the best possible remedial actions to mitigate the identified risks and ensure smooth implementation of the Project.

To mitigate the risk of reduced supply of strategic raw materials, the company plans to diversify its supply sources. In early March 2022, the General Contractor notified the company 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. According to Hyundai, their departure had no effect on the Project's implementation.

Progress of construction work

As at the end of 2021, the overall stage of completion under the EPC Contract was 83%, and as at April 15th 2022 - 90.6%. An assessment of the overall stage of completion covers design, procurement and supply, construction, acceptance, commissioning and start-up.

In the first quarter of 2022, the deliveries of plant and equipment continued. The installation of overground and underground pipelines, wiring, electrical equipment and automation systems, as well as steel structures was underway in all sub-projects.

Handling and storage terminal (marine gas terminal, HST)

The construction of a fire water pumping station in the HST area continued in the first quarter of 2022. The key tasks were to complete the installation and perform hydrostatic tests of the propane and ethylene tanks, as well as to install loading arms.

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

Delivery and installation of the DCS at the control room, which is currently under construction, continue. Installation of the flare stack was completed. At the beginning of February 2022, a Cold Box tower was installed in the gas separation system. The tower will separate hydrogen from the mixture of propane and propylene. This will also be the start of hydrogen stream, which - after purification - will be delivered to Grupa Azoty POLICE's ammonia synthesis unit.

As part of other sub-projects, assembly work, hydrostatic tests and delivery of equipment on the construction site were ongoing.

Administrative decisions

By way of a decision of March 1st 2022, the company obtained a use permit for the new building, air intake, air pipeline with supports, road, rainwater drainage and electricity systems and site amenities.

Financing

At present, Grupa Azoty POLYOLEFINS draws funds under a term facility and VAT facility to meet its liquidity needs according to the progress in implementing the Project.

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

For the interest period ended December 31st 2021, annexes to the loan agreements between the company and the Parent and Grupa Azoty POLICE were signed on January 5th 2022. In the case of Grupa LOTOS S.A. and Korea Overseas Infrastructure & Urban Development Corporation, annexes concerning capitalisation of interest and commission fees for the interest period ended January 13th 2022 were signed on January 20th and January 24th 2022, respectively.

Grupa Azoty PUŁAWY recognised in the Decarbonisation Initiatives Ranking

Grupa Azoty PUŁAWY won the second edition of the Decarbonisation Initiatives Ranking of the PTWP Group. The ranking presents the most interesting, imaginative and effective initiatives to reduce greenhouse gas emissions. The Ranking leaders were selected by the Board of the 'Green Index' campaign, consisting of representatives of environmental protection institutions, organisations and experts.

Grupa Azoty PUŁAWY was recognised for its R&D project 'Development and implementation of advanced process controls (APC) for the ammonia production unit'. Advanced process controls is a system whose implementation has reduced the carbon footprint on a single ammonia production line by more than 20 kg CO₂ per tonne of ammonia.

The positive project outcomes provide rationale for the deployment of the APC system on the remaining eight ammonia production lines, which may reduce the total CO₂ emissions by more than 20,000 tonnes per year. In the future, Grupa Azoty PUŁAWY intends to introduce the APC system for other technological processes as well.

The project was implemented under the INNOCHEM sectoral programme financed from the resources of the National Centre for Research and Development under Measure 1.2 'Sectoral R&D Programmes' of the Smart Growth Operational Programme 2014-2020. The Decarbonisation Initiatives Ranking is a part of 'Green Index', an extensive campaign run by the PTWP Group, publisher of the wnp.pl website, addressed to active participants of the green transition of Poland's economy.

Grupa Azoty KĘDZIERZYN sums up its tasks under the New Energy Concept

Two investment projects totalling PLN 36.1m were completed on the premises of the Ammonia Department at Grupa Azoty KĘDZIERZYN. 'Upgrade of the ammonia liquefaction unit' and 'Replacement of K-2 and K-3 ammonia gas compressors with electric compressors' are implemented as part of the New Energy Concept, one of the key ongoing projects carried out by Grupa Azoty KĘDZIERZYN.

As part of the upgrade of the ammonia liquefaction unit, a new system based on screw compressors and evaporative condensers was designed and built. The project included construction (bunds, foundations), installation (rainwater drainage and industrial sewer system), erection (pipelines and equipment), electricity (such as equipment power supplies) and I&C works (including the installation of metering devices, control system upgrade). The PLN 19.3m project was executed from 2019 to 2021.

To replace the K-2 and K-3 gas ammonia compressors with electric compressors, three screw compressors were installed, and connection pipelines and power supply routes were provided for new machinery. The necessary I&C work was also completed at the facility and within the control system. The PLN 16.8m project commenced in 2019 and was placed in service in late 2021.

Other material events

For information on other material events in the reporting period and subsequent to the reporting date, which have not been listed above, see the interim condensed consolidated financial statements of the Grupa Azoty Group for the three months ended March 31st 2022.

3.2. Significant agreements

Financing agreements

Annex 4 to the Payments Servicing Agreement of December 14th 2018 with Banco Santander S.A. and Santander Factoring Sp. z o.o., as amended by the Agreement of September 23rd 2019 Amending and Superseding the Payments Servicing Agreement

On March 15th 2022, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN and COMPO EXPERT signed Annex 4 to the Payments Servicing Agreement of December 14th 2018, as amended by the Agreement of September 23rd 2019 Amending and Superseding the Payments Servicing Agreement, capped at EUR 122m, with Banco Santander S.A. and Santander Factoring Sp. z o.o. in order to enable suppliers to discount accounts receivable before invoice due dates.

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

On March 31st 2022, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed an Annex to the Payment Services and Financing Agreement of April 29th 2021 with CaixaBank S.A., Polish Branch.

The amendments introduced by the Annex include an increase in the facility amount from PLN 500 million to PLN 800 million (or its equivalent in EUR or USD), extension of the availability period of the facility until April 29th 2023, change of the CaixaBank's margins on the financing in PLN and USD in accordance with the standards applied in other contracts of this type, and making available the option of supplier financing until payment date as a split-payment mechanism.

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

On March 31st 2022, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed an Annex to the supply financing agreement of May 31st 2021 with Pekao Faktoring Sp. z o.o.

The amendments introduced by the Annex include an increase in the facility amount from PLN 250 million to PLN 550 million (or its equivalent in EUR or USD), extension of the availability period of the facility until November 30th 2022, replacement of the 1M LIBOR benchmark for USD with the 1M CME Term SOFR benchmark, and making available the option of supplier financing until payment date.

Insurance agreements

Grupa Azoty Group's Consolidated Insurance Programme with TUW PZUW

The Grupa Azoty Group companies which are members of the Grupa Azoty Mutual Insurance Union (ZWC) within Towarzystwo Ubezpieczeń Wzajemnych (TUW) of Polski Zakład Ubezpieczeń Wzajemnych (PZUW) signed a new Master Agreement for the Consolidated Property Insurance Programme with TUW PZUW for a term of 3 years, i.e. from March 1st 2022 to February 28th 2025, under which policies were issued for the first year, covering the following lines of insurance:

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

Trade credit insurance at Grupa Azoty PUŁAWY

In February 2022, Towarzystwo Ubezpieczeń Euler Hermes S.A. (TUEH) issued trade credit insurance policies for Grupa Azoty Puławy. The insurance, within the credit limits set by TUEH, except for transactions secured by bank guarantees and letters of credit, will cover:

- domestic and export sales of caprolactam and melamine and other products under a policy taken out for a period from February 1st 2022 to June 30th 2023;
- export sales of fertilizers and other chemical products under a policy taken out for a period from February 1st 2022 to June 30th 2023;
- domestic sales of fertilizers and other chemical products under a policy taken out for a period from July 1st 2022 to June 30th 2023.

Project co-financing agreements

In the first quarter of 2022, no material amounts of project co-financing were received. In the same period, the Parent received a grant of PLN 1,322 thousand for the project 'Speciality ammonium nitrate-sulfate fertilizer products with functional additives'.

In the first quarter of 2022, Grupa Azoty KĘDZIERZYN signed Annex No. to the co-financing agreement for the project 'Innovation Centre at Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna', extending the expenditure eligibility period under the project until June 30th 2022. In the first quarter of 2022, co-financing for the projects implemented by the Group totalled PLN 888 thousand.

3.3. Sureties and guarantees

Guarantees

In the first quarter of 2022, the total amount of all guarantees issued at the request of the Group companies was PLN 2,737 thousand. The guarantee for the highest amount, PLN 1,296 thousand, was issued on January 4th 2022 at the request of Grupa Azoty PUŁAWY in favour of Enea Wytwarzanie Sp. z o.o.

Intragroup loans

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

On January 5th 2022, Grupa Azoty POLYOLEFINS signed annexes to loan agreements of May 31st 2020:

- with the Parent - Annex 3 in connection with capitalisation of a new 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;
- with Grupa Azoty POLICE - Annex 3 in connection with capitalisation of a new 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.

Annex to a loan agreement between the Parent and Grupa Azoty

On February 18th 2022, Annex 1 to the loan agreement of February 5th 2021 between the Parent and Grupa Azoty PUŁAWY was signed under an intra-group financing agreement. The Annex extended the disbursement/availability period for the PLN 650,000 loan until February 25th 2023 to cover capital expenditure under the project 'Construction of coal-fired power generation unit'. Loan repayment dates were rescheduled until June 29th 2025.

3.4. Shares and 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 April 27th 2022 (in accordance with the information provided in the interim report for 2021)

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 ¹⁾	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 subsidiary of Norica Holding S.à r.l.

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 relevant information.

In the period from April 27th 2022 to the issue date of this report, the Parent was not notified of any changes in major holdings of its shares.

3.4.1. Sanctions imposed on a minority shareholder

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 26th 2022, together with the entities through which he controls 19.82% of the Company's shares - on the Polish sanction 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 end of the reporting period (March 31st 2022) and as at the date of this report, none of the members of the Parent's Management and Supervisory Boards held any shares in the Parent.

3.6. Composition of the management and supervisory bodies

Management Board

In the first quarter of 2022, there were no changes in the composition of the Parent's Management Board. As at March 31st 2022, the Parent's Management Board consisted of the following persons:

- Tomasz Hinc - President of the Management Board,
- Mariusz Grab - Vice President of the Management Board,
- Filip Grzegorzczuk, 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 Parent's Management Board and Supervisory Board members

Division of powers and responsibilities between the members of the parent's Management Board as at March 31st 2022:

- Tomasz Hinc - President of the Management Board, responsible for managing the Parent Management Board's operation and for corporate governance, corporate supervision, 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 supervised areas and processes within the Group;

- Mariusz Grab - Vice President of the Management Board, responsible for procurement process management, ICT process management, security and cybersecurity management, raw material and semi-finished product integration, integration and coordination of supervised areas and processes within the Group;
- Filip Grzegorzczuk, Dr. Habil. - Vice President of the Management Board, responsible for strategic management of energy transition projects, logistics process management, corporate risk management, market regulations and protection, market analyses, integration and coordination of supervised areas and processes within the Group, coordination of efforts designed to meet the requirements of the Green New Deal in the area of energy;
- Tomasz Hryniewicz - Vice President of the Management Board, responsible for management of sales and customer service standards, product portfolio management, integration and coordination of supervised areas and processes within the Group;
- Grzegorz Kądziaławski, 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, integration and coordination of supervised areas and processes within the Group, coordination of the Group's efforts designed to meet the requirements of the Green New Deal (excluding the energy area) and Circular Economy;
- Marek Wadowski - Vice President of the Management Board, responsible for finance and accounting policy management, monitoring of the implementation of plans, planning, budgeting and controlling, mergers and acquisitions, investor relations, integration and coordination of supervised areas and processes 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 supervised areas and processes within the Group.

Division of responsibilities between the Management Board members as at March 31st 2022



Source: Company data.

Supervisory Board

In the first quarter of 2022, there were no changes in the composition of the parent's Supervisory Board. As at March 31st 2022, the Supervisory Board consisted 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 Parent's Supervisory Board operates in accordance with the following regulations:

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

The key powers and responsibilities of the Supervisory Board pursuant to Art. 32 of the Parent's Articles of Association 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 approval for the Management Board to execute material legal transactions.

In the first quarter of 2022, the Supervisory Board had the following committees:

- The Audit Committee,
- The Strategy and Development Committee,
- 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 first quarter of 2022, there were no changes in the composition of the Audit Committee. As at March 31st 2022, the Audit Committee consisted of the following persons:

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

In the first quarter 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 first quarter of 2022, there were no changes in the composition of the Strategy and Development Committee. As at March 31st 2022, the Strategy and Development Committee consisted of the following persons:

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

In the first quarter 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.

Nomination and Remuneration Committee

In the first quarter of 2022, there were no changes in the composition of the Nomination and Remuneration Committee. As at March 31st 2022, the Nomination and Remuneration Committee consisted of the following persons:

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

In the first quarter of 2022, the Nomination and Remuneration Committee operated pursuant to the Rules of Procedure adopted by the Nomination and Remuneration Committee under a resolution of March 24th 2021 and approved by the Supervisory Board under a resolution of April 19th 2021.

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 to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state of March 29th 2018 (Dz. U. of 2018, item 757), other than the following proceedings:

- Proceedings instigated by a Shareholder of the Parent to repeal Resolution No. 5 of the Parent's Extraordinary General Meeting of August 20th 2020 to grant consent for legal transactions which could result in disposal of the Parent's non-current assets. The value of the claim is PLN 599,283 thousand. The proceedings were initiated on September 23rd 2020. The Parent assessed the claim as unfounded. On April 1st 2021, the Regional Court of Kraków issued a judgment dismissing the claim. The plaintiff appealed against the judgment. On April 28th 2022, the Court of Appeals in Kraków passed a judgment dismissing the Shareholder's appeal, thus upholding the decision on the merits issued by the court of first instance. The judgment is final.
- Proceedings instigated by the parent against Cenzin Sp. z o.o. 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 Parent PLN 79,821 thousand. PLN 207 thousand was also awarded to the Parent as return of the costs of proceedings. On November 29th 2021, the Parent filed a request to supplement the payment order by issuing a ruling on interest relating to one of the claims covered by the lawsuit. On April 20th 2022, the Parent received an objection against the payment order from Cenzin Sp. z o.o., to which it replied on May 4th 2022. The proceedings are pending.

Parent's branches

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

Shares, share issues

In the three months ended March 31st 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.

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, May 25th 2022