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Positive impact of business diversification on the Grupa Azoty Group's financial results for 2021

In 2021, the Grupa Azoty Group posted consolidated revenue of PLN 15.90bn (up PLN 5.38bn year on year), EBITDA of PLN 1.95bn (up PLN 624m year on year), and EBITDA margin of 12.2% (down 0.4pp year on year). Net profit in 2021 reached PLN 634m, having increased by PLN 279m year on year. The largest contribution to consolidated EBITDA earned by the Grupa Azoty Group in the fourth quarter of 2021 was made by the Chemicals segment, which posted its best performance on record.

2021 saw record-high revenue, with EBITDA margin roughly on a par with the previous year's levels. The Grupa Azoty Group's performance during that period was mainly driven by product prices and high costs of feedstocks for fertilizer production (primarily natural gas), as well as feedstocks for the manufacturing of plastics and chemicals.

The Fertilizers segment accounted for 55% of the Group's total revenue and 40% of EBITDA. The highest margins were delivered by the Chemicals segment, whose EBITDA came close to that of the Fertilizers segment, supported by excellent results posted in the fourth quarter. The Plastics segment reported a positive EBITDA margin of nearly 10%.

Despite disruptions in the raw material and product supply chains, the economic recovery after the COVID-19 pandemic was strong. In the fourth quarter of 2021, the Group saw a year-on-year increase in both revenue (PLN 2,749m, up by 100.5%) and EBITDA (PLN 561m, up by 175.3%).

The Grupa Azoty Group's consolidated operating profit and net profit were affected by the recognition of an impairment loss on non-current assets in the Plastics segment (a non-monetary item) by the subsidiary Grupa Azoty Zakłady Azotowe Puławy S.A. As a result, the Grupa Azoty Group's consolidated operating profit was reduced by PLN 289m. In line with the Group's accounting policies, the impairment loss had no impact on its consolidated EBITDA.

"The strategic diversification of the Grupa Azoty Group's businesses allowed us to deliver robust financial results in 2021, which is important given the unfavourable, challenging market and macroeconomic environment. 2021 was primarily a period of record-breaking levels and high volatility of commodity prices, as well as a sharp rise in the prices of CO₂ emission allowances. The fourth quarter of 2021 saw an increase in the prices of most of the Group's products on European and global markets, sparked by hikes in the prices of key production feedstocks, including natural gas, phosphate rock, potassium chloride, benzene, phenol and propylene. All this triggered an unprecedented surge in production costs, and significantly increased the risk of production and financing activities in the European chemical sector, as demonstrated by the situation of other European producers.

Despite major macroeconomic and market changes, in 2021 the Grupa Azoty Group consolidated its strong position on the Polish fertilizers market and maintained its production levels, while the prices of fertilizers offered in Poland were among the lowest across the European Union. That was due partly to the fact that a portion of the costs of raw materials was secured by entering into forward contracts. We are particularly pleased with the achievements of our non-fertilizer segments, mainly Chemicals and Plastics, which contributed almost 60% of the Group's total EBITDA. In previous years, the proportion was in favour of the Fertilizers segment. As regards the macroeconomic environment, we saw clear signs of economic recovery and growth of demand, especially in the Chemicals segment. In October, following months of hard work, the Grupa Azoty Group adopted its new business strategy until 2030, including the key Green Azoty project. The document presents specific measures we intend to take to achieve climate neutrality and energy transition, with many of those projects already at the implementation stage," says **Tomasz Hinc, President of the Management Board of Grupa Azoty S.A.**

Fertilizers

In 2021, the Fertilizers segment posted revenue of PLN 8,767m relative to PLN 6,364m the year before. The strong revenue growth was accompanied by a large increase in costs, translating into a lower EBITDA margin, of 8.8% (2020: 12.9%). The segment was under strong pressure from all-time high prices of gas, which pushed up fertilizer prices. This global trend was further exacerbated by the demand-supply imbalance resulting from major supply constraints in the EU market due to temporary production stoppages or scale-downs by European producers. It should be stressed that in 2021 the Grupa Azoty Group neither suspended nor cut down its fertilizer production. In volume terms, fertilizer sales in 2021 shrank by 4.7%, mainly in the case of urea – owing to a ban on using urea without an inhibitor or biodegradable coatings for agricultural purposes, introduced in August – and NPK fertilizers. In line with global market trends, in 2021 fertilizer prices grew on average by 43.9% relative to the previous year, driven by rising production costs. It should be noted that natural gas prices in that period rose 298.0% year on year. Q4 2021 performance was better year on year, both in terms of revenue (up PLN 1,403m) and EBITDA (up PLN 186m), with a slight increase in EBITDA margin (up 1.2pp y/y).

Plastics

The segment's aggregate revenue in 2021 was PLN 1,829m, an increase of 61.1% year on year (from PLN 1,135m). Following the cost and price optimisation, the segment's results markedly improved on the back of higher sales, with EBITDA margin rising from -2.8% in 2020 to +9.7% in 2021. In 2021, the plastics market continued on an upward trend, fuelled by large growth in demand, mainly in the automotive (persistent problems with the availability of semiconductors stifled demand in the fourth quarter), BCF carpet fibers and films sectors. The favourable market conditions helped achieve higher transaction prices and margins. The prices of key production feedstocks (benzene, phenol) rose significantly year on year, by 94.6% and 63.1%, respectively, which – coupled with higher prices of gas and energy – put a lot of upward pressure on product prices. Comparing the segment's Q4 2021 results with the previous year's figure, the Company recorded revenue and EBITDA growth of PLN 177m and PLN 65m, respectively (despite lower sales volumes), as well as a 13.2% increase in EBITDA margin.

Chemicals

Year on year, the Chemicals segment reported a record-high increase in revenue, of 83.6%, to PLN 4,630m, with a strong growth of EBITDA margin, which improved by 4.5pp, to 15.0%. Revenue growth was reported on sales of all products, with melamine (up 138.3% y/y) and technical-grade urea (up 101.6%) topping the list. The main price growth driver in Chemicals was strong demand accompanied by supply disruptions experienced by other producers. The volume of products sold also increased. Similarly to the other segments, the prices of raw materials rose markedly, but without reducing the segment's margin. The fourth quarter of 2021 saw a strong performance improvement, with revenue reaching PLN 1,817m (a year-on-year increase of 161.8%). EBITDA came in at PLN 378m (up 500.0% y/y), with EBITDA margin at 20.8% (up 11.7pp), which means that as much as 54.5% of the segment's EBITDA for 2021 was generated in the fourth quarter alone.