



Interim condensed separate financial statements for the
six months ended
June 30th 2020, prepared in accordance with IAS 34
Interim Financial Reporting,
as endorsed by the European Union

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Interim condensed separate statement of profit or loss and other comprehensive income

	Note	for the period Jan 1 – Jun 30 2020	for the period Jan 1– Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1– Jun 30 2019
Profit/loss		<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue	1	825,156	1,016,443	303,776	458,297
Cost of sales	2	(669,600)	(801,171)	(253,573)	(388,127)
Gross profit		155,556	215,272	50,203	70,170
Selling expenses	2	(48,686)	(50,518)	(19,629)	(23,917)
Administrative expenses	2	(87,717)	(85,990)	(45,482)	(45,367)
Other income	3	17,289	7,337	11,804	3,115
Other expenses	4	(10,768)	(12,894)	(6,739)	(9,045)
Operating profit/(loss)		25,674	73,207	(9,843)	(5,044)
Finance income	5	190,689	60,487	181,666	54,407
Finance costs	6	(72,335)	(33,631)	(8,432)	(18,647)
Net finance income		118,354	26,856	173,234	35,760
Profit before tax		144,028	100,063	163,391	30,716
Income tax	7	(14,410)	(17,774)	(3,046)	(5,526)
Net profit		129,618	82,289	160,345	25,190
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial (losses) from defined benefit plans		(2,057)	(6,054)	(2,062)	(6,054)
Tax on items that will not be reclassified to profit or loss	7	391	1,151	392	1,151
		(1,666)	(4,903)	(1,670)	(4,903)

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

Interim condensed separate statement of profit or loss and other comprehensive income (continued)

	Note	for the period Jan 1 – Jun 30 2020	for the period Jan 1– Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1– Jun 30 2019
		<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Items that are or may be reclassified to profit or loss					
Cash flow hedging - effective portion of fair value changes		(40,156)	8,067	18,572	8,286
Income tax relating to items that are or will be reclassified to profit or loss	7	7,630	(1,533)	(3,529)	(1,575)
		(32,526)	6,534	15,043	6,711
Total other comprehensive income		(34,192)	1,631	13,373	1,808
Comprehensive income for the year		95,426	83,920	173,718	26,998
Earnings per share:					
Basic (PLN)		1.31	0.83	1.62	0.25
Diluted (PLN)		1.31	0.83	1.62	0.25

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

Interim condensed separate statement of financial position

	Note	as at Jun 30 2020	as at Dec 31 2019
		<i>unaudited</i>	<i>audited</i>
Assets			
Non-current assets			
Property, plant and equipment	8	1,648,813	1,661,561
Right-of-use assets	9	44,345	47,411
Intangible assets	10	51,019	50,838
Investment property		22,246	23,049
Shares	11	5,460,676	5,410,006
Other financial assets		275,677	292,001
Other receivables		4,717	5,855
Total non-current assets		7,507,493	7,490,721
Current assets			
Inventories		230,818	251,022
Property rights		60,311	45,513
Derivative financial instruments		-	1,025
Other financial assets		67,173	61,409
Current tax assets		5,420	-
Trade and other receivables	12	410,261	232,229
Cash and cash equivalents	13	1,693,660	1,158,379
Assets held for sale		95	95
Total current assets		2,467,738	1,749,672
Total assets		9,975,231	9,240,393

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

Interim condensed separate statement of financial position (continued)

	Note	as at Jun 30 2020 <i>unaudited</i>	as at Dec 31 2019 <i>audited</i>
Equity and liabilities			
Equity			
Share capital		495,977	495,977
Share premium		2,418,270	2,418,270
Hedging reserve		(26,654)	5,872
Retained earnings, including: <i>Net profit for the year</i>		2,048,463 129,618	1,920,511 58,249
Total equity		4,936,056	4,840,630
Liabilities			
Borrowings	14	2,900,855	2,413,532
Lease liabilities		35,687	38,962
Other financial liabilities	15	15,830	19,042
Employee benefit obligations	16	67,575	64,080
Trade and other payables	18	-	32
Provisions	17	31,619	31,619
Government grants received	19	46,232	47,048
Deferred tax liabilities	7.4	4,031	1,426
Total non-current liabilities		3,101,829	2,615,741
Borrowings	14	1,474,319	1,118,985
Lease liabilities		12,737	13,199
Derivative financial instruments		834	-
Other financial liabilities	15	171,752	262,879
Employee benefit obligations	16	4,719	4,678
Current tax liabilities		-	1,168
Trade and other payables	18	239,362	378,443
Provisions	17	2,251	2,251
Government grants received	19	31,372	2,419
Total current liabilities		1,937,346	1,784,022
Total liabilities		5,039,175	4,399,763
Total equity and liabilities		9,975,231	9,240,393

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

Interim condensed separate statement of changes in equity

for the period ended June 30th 2020

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at Jan 1 2020	495,977	2,418,270	5,872	1,920,511	4,840,630
<i>Profit or loss and other comprehensive income</i>					
Net profit	-	-	-	129,618	129,618
Other comprehensive income	-	-	(32,526)	(1,666)	(34,192)
Comprehensive income for the year	-	-	(32,526)	127,952	95,426
Balance as at Jun 30 2020 (unaudited)	495,977	2,418,270	(26,654)	2,048,463	4,936,056

for the period ended June 30th 2019

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at Jan 1 2019	495,977	2,418,270	1,861	1,872,080	4,788,188
<i>Profit or loss and other comprehensive income</i>					
Net profit	-	-	-	82,289	82,289
Other comprehensive income	-	-	6,534	(4,903)	1,631
Comprehensive income for the year	-	-	6,534	77,386	83,920
Balance as at June 30th 2019 (unaudited)	495,977	2,418,270	8,395	1,949,466	4,872,108

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

Interim condensed separate statement of cash flows

	for the period Jan 1 – Jun 30 2020	for the period Jan 1 – Jun 30 2019
	<i>unaudited</i>	<i>unaudited restated*</i>
Cash flows from operating activities		
Profit before tax	144,028	100,063
<i>Adjustments for:</i>	<i>(38,337)</i>	<i>34,165</i>
Depreciation and amortisation	68,472	63,038
Impairment losses	1,011	735
Loss on investing activities	1,251	693
Interest, foreign exchange gains or losses	64,017	11,861
Dividends	(175,922)	(41,953)
Fair value loss/(gain) on financial assets at fair value	2,834	(209)
	105,691	134,228
Decrease/(Increase) in trade and other receivables	1,139	(70,627)
Decrease/(Increase) in inventories and property rights	5,407	(41,258)
Increase in trade and other payables	49,850	149,956
(Decrease)/Increase in provisions, prepayments and grants	(38,239)	14,143
Other adjustments	(3,500)	(3,500)
Cash generated from operating activities	120,348	182,942
Income tax paid	(10,372)	(16,273)
Net cash from operating activities	109,976	166,669

* as described in Section 1.2.d.

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

Interim condensed separate statement of cash flows (continued)

	for the period Jan 1 – Jun 30 2020	for the period Jan 1 – Jun 30 2019
	<i>unaudited</i>	<i>unaudited restated*</i>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	4,237	519
Purchase of property, plant and equipment, intangible assets and investment property	(62,609)	(72,899)
Proceeds from sale of other financial assets	30	-
Purchase of other financial assets	(50,700)	(9,638)
Interest received	11,540	8,299
Loans	(19,650)	(40,260)
Repayments of loans	28,336	26,491
Other disbursements	(1,572)	(961)
Net cash from investing activities	(90,388)	(88,449)
Cash flows from financing activities		
Proceeds from borrowings	851,967	-
Repayment of borrowings	(88,047)	(130,152)
Interest paid	(36,819)	(24,261)
Payment of lease liabilities	(6,955)	(3,110)
Repayment of reverse factoring	(185,304)	(97,066)
Other cash provided by financing activities	1,174	3,757
Other cash used in financing activities	(20,167)	(8,753)
Net cash from financing activities	515,849	(259,585)
Total net cash flows	535,437	(181,365)
Cash and cash equivalents at beginning of period	1,158,379	1,000,980
Effect of exchange rate fluctuations on cash held	(156)	280
Cash and cash equivalents at end of period	1,693,660	819,895

* as described in Section 1.2.d.

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

Supplementary information to the interim condensed separate financial statements

1. Basis of preparation of the interim condensed separate financial statements

1.1. Statement of compliance and general basis of preparation

Grupa Azoty S.A. (“the Company”) is a joint stock company with its registered office at ul. Kwiatkowskiego 8, 33-101 Tarnów, Poland. The Company shares are publicly traded on the Warsaw Stock Exchange.

These interim condensed separate financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed separate financial statements of the Company cover the six months ended June 30th 2020 and contain comparative data for the six months ended June 30th 2019 and as at December 31st 2019.

The interim condensed separate statement of profit or loss and other comprehensive income as well as notes to the interim condensed separate statement of profit or loss and other comprehensive income for the three months ended June 30th 2020 as well as the comparative data for the three months ended June 30th 2019 have not been reviewed or audited by an auditor.

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 and synthetic rubber in primary forms,
- Manufacture of plastics.

These interim condensed separate financial statements of the Company for the six months ended June 30th 2020 were authorised for issue by the Management Board on September 9th 2020.

The Company has also prepared interim condensed consolidated financial statements for the six months ended June 30th 2020, which were authorised for issue by the Management Board on September 9th 2020.

These interim condensed financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the Company’s financial statements for the year ended December 31st 2019, which were authorised for issue on April 7th 2020.

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

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

These interim condensed separate 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. For information on the impact of the COVID-19 pandemic on the Company’s business, see Note 26 to these financial statements.

1.2. Changes in accounting policies and data presentation

The accounting policies applied to prepare these interim condensed separate financial statements are consistent with those applied to draw up the Company’s full-year financial statements for the year ended December 31st 2019.

a) Changes in International Financial Reporting Standards

The amendments to International Financial Reporting Standards (“IFRSs”) presented below have been applied in these interim condensed separate financial statements as of their effective dates, however, they had no material effect on the disclosed data:

- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) – effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 3 *Business Combinations* (issued on October 22nd 2018) - effective for annual periods beginning on or after January 1st 2020;
- Amendments to IAS 1 and IAS 8: *Definition of materiality* (published on October 31st 2018) - effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 9, IAS 39 and IFRS 7: *Interest rate benchmark reform* (published on September 26th 2019) - effective for annual periods beginning on or after January 1st 2020;

b) New standards and interpretations which have been issued but are not yet effective

The following standards and interpretations have been issued by the International Accounting Standards Board, but are not yet effective:

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) – pursuant to the European Commission’s decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version (not endorsed by the EU by the date of authorisation of these financial statements for issue) - effective for annual periods beginning on or after January 1st 2016,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) – work leading to endorsement of the amendments was deferred by the EU for an indefinite period – effective date was deferred by the IASB for an indefinite period,
- IFRS 17 *Insurance Contracts* (issued on May 18th 2017) - effective for annual periods beginning on or after January 1st 2021;
- Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current* (issued on January 23rd 2020) - expected to be effective for periods beginning on or after January 1st 2022.
- Amendment to IFRS 16 *Leases: Covid-19-Related Rent Concessions* (issued on May 28th 2020), effective as of June 1st 2020. The amendment to IFRS 16 introduces a practical expedient permitting a lease modification not to be recognised e.g. in the event of any changes in lease payments occurring as a consequence of the Covid-19 pandemic.
- Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements to IFRS Standards 2018-2020. The amendments were issued on May 14th 2020, and are effective for annual periods beginning on or after January 1st 2022. One of the amendments prohibits deducting from the cost of property, plant and equipment of any proceeds from selling items produced while the entity is developing/preparing the asset for its intended use.

The effective dates are set in the text of the standards issued by the International Accounting Standards Board. The effective dates of the standards in the European Union may differ from those specified in the text of the standards and are announced on approval of a standard by the European Union.

The Company does not expect the proposed amendments to IFRSs to have a material effect on its financial reporting.

c) Judgements and estimates

The preparation of the interim separate and 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 separate financial statements were the same as those made in preparing the separate financial statements for the financial year ended December 31st 2019.

d) Change in comparative data presentation

Following a change in presentation of reverse factoring in the 2019 statement of cash flows, the comparative data for H1 2019 was restated accordingly.

In connection with the change, the entry into reverse factoring arrangements disclosed under operating activities was transferred from 'Other adjustments' to 'Change in trade and other payables'.

Under financing activities, a separate item was disclosed showing the amount repaid under reverse factoring in the reporting period.

Both before and after the change, reverse factoring is accounted for separately, i.e. the entry into a reverse factoring arrangement is recorded under operating cash flows, while its repayment - as a financing outflow.

	for the period Jan 1 – Jun 30 2019	Adjustments for:	for the period Jan 1– Jun 30 2019
	<i>unaudited</i>		<i>unaudited restated*</i>
Cash flows from operating activities			
Profit before tax	100,063	-	100,063
<i>Adjustments for:</i>	<i>34,165</i>	-	<i>34,165</i>
Depreciation and amortisation	63,038	-	63,038
Impairment losses	735	-	735
Loss on investing activities	693	-	693
Interest, foreign exchange gains or losses	11,861	-	11,861
Dividends	(41,953)	-	(41,953)
Fair value loss/(gain) on financial assets at fair value	(209)	-	(209)
	134,228	-	134,228
Increase in trade and other receivables	(70,627)	-	(70,627)
Increase in inventories and property rights	(41,258)	-	(41,258)
(Decrease)/Increase in trade and other payables	(21,211)	171,167	149,956
Increase in provisions, prepayments and grants	14,143	-	14,143
Other adjustments	167,667	(171,167)	(3,500)
Cash generated from operating activities	182,942	-	182,942
Income tax paid	(16,273)	-	(16,273)
Net cash from operating activities	166,669	-	166,669
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment, intangible assets and investment property	519	-	519
Purchase of property, plant and equipment, intangible assets and investment property	(72,899)	-	(72,899)
Purchase of other financial assets	(9,638)	-	(9,638)
Interest received	8,299	-	8,299
Loans	(40,260)	-	(40,260)
Repayments of loans	26,491	-	26,491
Other disbursements	(961)	-	(961)
Net cash from investing activities	(88,449)	-	(88,449)

Cash flows from financing activities			
Repayment of borrowings	(130,152)	-	(130,152)
Interest paid	(24,261)	-	(24,261)
Payment of lease liabilities	(3,110)	-	(3,110)
Repayment of reverse factoring	-	(97,066)	(97,066)
Other cash provided by financing activities	-	3,757	3,757
Other cash used in financing activities	(102,062)	93,309	(8,753)
Net cash from financing activities	(259,585)	-	(259,585)
Total net cash flows	(181,365)	-	(181,365)
		-	
Cash and cash equivalents at beginning of period	1,000,980	-	1,000,980
Effect of exchange rate fluctuations on cash held	280	-	280
Cash and cash equivalents at end of period	819,895	-	819,895

2. Selected notes and supplementary information

Business segment reporting

Main categories of products, services, merchandise and materials sold by the Company:

Fertilizers segment: nitrogen fertilizers (calcium ammonium nitrate, ammonium nitrate), nitrogen-sulfur fertilizers (ammonium sulfate, ammonium sulfate nitrate), ammonia, concentrated nitric acid.

Plastics segment: manufacture and sale of caprolactam, engineering plastics (PA 6, POM) and their modifications, modified plastics (PPC, PPH, PBT, PA66), plastic products (PA tubes, PE tubes, polyamide casings).

Energy segment: 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 (mainly of electricity) to external customers. As part of its operations, the segment also purchases and distributes natural gas for process needs.

Other Activities segment comprises the remaining activities, including laboratory services, catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts), property rental, and other activities which are not allocated to any of the segments specified above.

Operating segments

Operating segments' revenue, expenses and financial results for the six months ended June 30th 2020

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
External revenue	347,156	436,154	14,560	27,286	825,156
Intersegment revenue	101,018	124,512	237,369	19,846	482,745
Total revenue	448,174	560,666	251,929	47,132	1,307,901
Operating expenses, including: (-)	(414,406)	(579,700)	(253,275)	(41,367)	(1,288,748)
<i>selling expenses (-)</i>	(35,183)	(12,963)	(81)	(459)	(48,686)
<i>administrative expenses (-)</i>	(37,709)	(46,294)	(1,216)	(2,498)	(87,717)
Other income	7,292	5,513	541	3,943	17,289
Other expenses (-)	(2,225)	(1,740)	(2,143)	(4,660)	(10,768)
Segment's EBIT	38,835	(15,261)	(2,948)	5,048	25,674
Finance income	-	-	-	-	190,689
Finance costs (-)	-	-	-	-	(72,335)
Profit before tax	-	-	-	-	144,028
Income tax	-	-	-	-	(14,410)
Net profit	-	-	-	-	129,618
EBIT*	38,835	(15,261)	(2,948)	5,048	25,674
Depreciation and amortisation	27,782	21,059	7,090	6,252	62,183
Unallocated depreciation and amortisation	-	-	-	-	6,289
EBITDA**	66,617	5,798	4,142	11,300	94,146

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.

** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

Operating segments' revenue, expenses and financial results for the six months ended June 30th 2019

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
External revenue	391,448	593,088	13,664	18,243	1,016,443
Intersegment revenue	125,260	142,105	264,313	19,948	551,626
Total revenue	516,708	735,193	277,977	38,191	1,568,069
Operating expenses, including: (-)	(481,416)	(694,810)	(279,181)	(33,898)	(1,489,305)
<i>selling expenses (-)</i>	(33,634)	(16,313)	(302)	(269)	(50,518)
<i>administrative expenses (-)</i>	(35,383)	(49,494)	(614)	(499)	(85,990)
Other income	2,391	189	688	4,069	7,337
Other expenses (-)	(2,184)	(2,987)	(2,374)	(5,349)	(12,894)
Segment's EBIT	35,499	37,585	(2,890)	3,013	73,207
Finance income	-	-	-	-	60,487
Finance costs (-)	-	-	-	-	(33,631)
Profit before tax	-	-	-	-	100,063
Income tax	-	-	-	-	(17,774)
Net profit	-	-	-	-	82,289
EBIT*	35,499	37,585	(2,890)	3,013	73,207
Depreciation and amortisation	23,975	20,911	7,042	5,981	57,909
Unallocated depreciation and amortisation	-	-	-	-	5,129
EBITDA**	59,474	58,496	4,152	8,994	136,245

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.

** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

Operating segments' assets and liabilities as at June 30th 2020

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
Segment's assets	742,875	872,135	312,194	196,256	2,123,460
Unallocated assets	-	-	-	-	7,851,771
Total assets	742,875	872,135	312,194	196,256	9,975,231
Segment's liabilities	125,160	179,505	104,849	89,940	499,454
Unallocated liabilities	-	-	-	-	4,539,721
Total liabilities	125,160	179,505	104,849	89,940	5,039,175

Operating segments' assets and liabilities as at December 31st 2019

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
Segment's assets	722,591	905,828	309,273	207,781	2,145,473
Unallocated assets	-	-	-	-	7,094,920
Total assets	722,591	905,828	309,273	207,781	9,240,393
Segment's liabilities	124,896	226,021	154,980	99,753	605,650
Unallocated liabilities	-	-	-	-	3,794,113
Total liabilities	124,896	226,021	154,980	99,753	4,399,763

Other segmental information for the six months ended June 30th 2020

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
Expenditure on property, plant and equipment	13,055	20,877	7,525	2,214	43,671
Expenditure on intangible assets	-	-	50	-	50
Unallocated expenditure	-	-	-	-	6,374
Total expenditure	13,055	20,877	7,575	2,214	50,095
Segment's depreciation and amortisation	27,782	21,059	7,090	6,252	62,183
Unallocated depreciation and amortisation	-	-	-	-	6,289
Total depreciation and amortisation	27,782	21,059	7,090	6,252	68,472

Other segmental information for the six months ended June 30th 2019

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
Expenditure on property, plant and equipment	13,523	11,117	3,805	584	29,029
Unallocated expenditure	-	-	-	-	27,215
Total expenditure	13,523	11,117	3,805	584	56,244
Segment's depreciation and amortisation	23,975	20,911	7,042	5,981	57,909
Unallocated depreciation and amortisation	-	-	-	-	5,129
Total depreciation and amortisation	23,975	20,911	7,042	5,981	63,038

Note 1 Revenue from contracts with customers

	for the period Jan 1 – Jun 30 2020	for the period Jan 1– Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1– Jun 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue from sale of products and services	793,013	985,001	294,762	437,670
Revenue from sale of merchandise and materials	31,782	31,271	8,857	20,462
Revenue from sale of property rights	361	171	157	165
	825,156	1,016,443	303,776	458,297

The revenue decline was attributable to lower selling prices of Fertilizer products, despite a higher sales volume.

The Plastics segment was also a negative contributor to top-line performance, affected by lower prices and significantly lower volumes.

For the period Jan 1–Jun 30 2020

	Fertilizers	Plastics	Energy	Other Activities	Total
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
<i>Main product lines</i>					
Revenue from sale of products and services	347,156	407,509	12,208	26,140	793,013
Revenue from sale of merchandise and materials	-	28,284	2,352	1,146	31,782
Revenue from sale of property rights	-	361	-	-	361
Total	347,156	436,154	14,560	27,286	825,156
<i>Geographical regions</i>					
Poland	237,454	63,312	14,560	21,794	337,120
Germany	37,457	160,179	-	202	197,838
Other EU countries	29,588	161,676	-	5,290	196,554
Asia	-	21,775	-	-	21,775
South America	7,184	4,228	-	-	11,412
Other countries	35,473	24,984	-	-	60,457
Total	347,156	436,154	14,560	27,286	825,156

For the period Jan 1-Jun 30 2019

	Fertilizers	Plastics	Energy	Other Activities	Total
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
<i>Main product lines</i>					
Revenue from sale of products and services	391,448	565,841	10,378	17,334	985,001
Revenue from sale of merchandise and materials	-	27,082	3,280	909	31,271
Revenue from sale of property rights	-	165	6	-	171
Total	391,448	593,088	13,664	18,243	1,016,443
<i>Geographical regions</i>					
Poland	270,102	95,387	13,664	17,538	396,691
Germany	24,641	230,253	-	287	255,181
Other EU countries	35,563	211,091	-	2	246,656
Asia	-	24,128	-	-	24,128
South America	17,335	5,887	-	-	23,222
Other countries	43,807	26,342	-	416	70,565
Total	391,448	593,088	13,664	18,243	1,016,443

Revenue from sale of products, services, merchandise and materials

As a rule, revenue from sale of products, merchandise and materials is recognised by the Company at a specific point in time, in accordance with the Incoterms rules set forth in the agreement (usually upon release from the warehouse or upon delivery to the point indicated by the customer). In the case of deliveries effected in accordance with selected Incoterms (CIF, CIP, CFR, CPT), the Company identifies the transport service or the transport and insurance service as a separate performance obligation towards a customer after passing control of the good / product to the customer. Revenue from sale of services is recognised upon completion of a service.

When recognising revenue, the Company takes into account specific issues, such as: determination whether the Company is acting as the principal or an agent in the transaction, product return rights, recognition of discounts being part of variable consideration, recognition of discounts representing a material right, bill-and-hold arrangements, and recognition of revenue from take-or-pay contracts. For most of the contracts containing discounts that are part of variable consideration, the estimated amount of the discount is fully recognised in liabilities under bonuses, a component of trade and other payables.

As a rule, the customary payment terms for this revenue stream are 30 days.

The Company also enters into comprehensive contracts with customers for the sale of electricity and electricity distribution services, where the Group purchases high-voltage electricity and sells it after conversion over medium and low-voltage grids. Also in this case the Company believes that under such contracts, which contain two performance obligations, the Group acts as the principal, and recognises both the sale of electricity and the distribution service under revenue from sale of products and services. In the case of electricity sale contracts, the payment terms average 17 days.

Note 2 Operating expenses

	for the period Jan 1 – Jun 30 2020	for the period Jan 1– Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1– Jun 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Depreciation and amortisation	67,669	62,449	34,548	32,986
Raw materials and consumables used	422,368	554,285	157,068	264,794
Services	116,469	123,215	58,645	66,507
Taxes and charges	37,712	38,392	21,193	19,462
Salaries and wages	90,867	92,739	46,265	46,418
Social security and other employee benefits	23,901	22,902	11,779	11,327
Other expenses	9,622	11,316	4,175	6,121
Costs by nature of expense	768,608	905,298	333,673	447,615
Change in inventories of finished goods (+/-)	6,898	5,045	(23,474)	(8,880)
Work performed by the entity and capitalised (-)	(675)	(742)	(318)	(343)
Selling expenses (-)	(48,686)	(50,518)	(19,629)	(23,917)
Administrative expenses (-)	(87,717)	(85,990)	(45,482)	(45,367)
Cost of merchandise and materials sold	31,172	28,078	8,803	19,019
Cost of sales	669,600	801,171	253,573	388,127
including excise duty	538	536	254	273

The cost changes relate in particular to:

- Reduced costs of raw materials and consumables used, as the prices of key feedstocks (gas,

ammonia, phenol and caprolactam) fell, with lower consumption volumes due to lower output (plastics).

- Reduced costs of services attributable to lower transport volumes (plastics) and lower expenditure on repair services.
- A decrease in salaries and wages attributable to a negative balance of provisions, despite a rise in headcount and employee salaries.
- A decrease in other expenses, attributable mainly to lower advertising expenses and costs of business travel.

Note 3 Other income

	for the period Jan 1 – Jun 30 2020	for the period Jan 1– Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1– Jun 30 2019
	<i>Unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Reversal of impairment losses on receivables	5	-	4	-
Compensation for the increase in electricity prices due to higher prices of CO ₂ emission allowances	12,372	-	9,269	-
Income from lease of investment property	3,217	3,186	1,595	1,584
Received compensation	168	2,695	63	580
Government grants received	1,118	891	559	476
Other	409	565	314	475
	17,289	7,337	11,804	3,115

As at June 30th 2020, the Company recognised, under other income, compensation of PLN 12,372 thousand for 2019, granted under the Act on the Compensation Scheme for Energy-Intensive Sectors and Subsectors of July 19th 2019. Entities in these sectors, including the Company, may be eligible for public aid for passing on the costs of emission allowances to the prices of electricity used to make their products. The compensation was recognised under other income as it related to the previous year, and as at December 31st 2019 was recognised as contingent assets given the uncertainty as to the reliable estimation of its amount, as the compensation scheme had only recently been brought into operation. Compensation expected to be received for 2020 is recognised as a deduction of current costs of electric energy consumed.

Note 4 Other expenses

	for the period Jan 1 – Jun 30 2020	for the period Jan 1– Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1– Jun 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Loss on disposal of assets:				
Loss on disposal of property, plant and equipment	1,251	693	367	577
	1,251	693	367	577
Recognised impairment losses on:				
Property, plant and equipment	1,011	669	1,011	548
Other receivables	4	137	-	133
Other	-	66	-	58
	1,015	872	1,011	739
Other expenses:				

Investment property maintenance costs	2,609	2,327	1,203	1,060
Failure recovery costs	4,692	6,542	3,485	4,515
Recognised provisions	-	1,918	-	1,915
Other	1,201	542	673	239
	8,502	11,329	5,361	7,729
	10,768	12,894	6,739	9,045

Note 5 Finance income

	for the period Jan 1 – Jun 30 2020	for the period Jan 1– Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1– Jun 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Interest income:				
Interest on bank deposits	2	3	-	1
Interest on cash pooling	7,025	3,616	2,358	1,739
Interest on non-bank borrowings	4,513	4,683	1,843	2,421
Other interest income	99	92	47	29
	11,639	8,394	4,248	4,190
Gains on measurement of financial assets and liabilities:		88		88
Other finance income:				
Foreign exchange gains	-	6,663	-	6,423
Dividends	175,922	41,953	175,922	41,953
Other finance income	3,128	3,389	1,496	1,753
	179,050	52,005	177,418	50,129
	190,689	60,487	181,666	54,407

Note 6 Finance costs

	for the period Jan 1 – Jun 30 2020	for the period Jan 1– Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1– Jun 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Interest expense:				
Interest on bank borrowings and overdraft facilities	30,203	24,052	14,551	13,056
Interest on cash pooling	5,646	3,502	1,584	1,823
Interest on lease, factoring liabilities	2,018	1,398	828	844
Other interest expense	698	817	380	1,030
	38,565	29,769	17,343	16,753
Foreign exchange losses	26,966	-	(8,126)	-
Loss on measurement of financial assets and liabilities:	2,834	-	(2,749)	-
Other finance costs:	3,970	3,862	1,964	1,894
	72,335	33,631	8,432	18,647

Foreign exchange losses of PLN 26,966 thousand (H1 2019: PLN 6,663 thousand) comprised:

- net realised foreign exchange losses of PLN 18,621 thousand (H1 2019: net realised foreign exchange gains of PLN 3,224 thousand),
- net foreign exchange losses on realised transactions in currency derivatives of PLN 194 thousand (H1 2019: net foreign exchange gains of PLN 973 thousand),
- net foreign exchange losses on measurement of receivables and liabilities denominated in foreign currencies as at the reporting date of PLN 7,991 thousand (H1 2019: net foreign exchange gains of PLN 2,147 thousand),
- net foreign exchange losses on measurement of other items as at the reporting date of PLN 160 thousand (H1 2019: net foreign exchange gains of PLN 319 thousand).

Note 7 Income tax

Note 7.1 Income tax disclosed in the statement of profit or loss

	for the period Jan 1 – Jun 30 2020	for the period Jan 1 – Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Current income tax:				
Current income tax expense	4,968	17,891	(4,435)	2,126
Adjustments to current income tax for previous years	(1,183)	-	15	-
	3,785	17,891	(4,420)	2,126
Deferred income tax:				
Deferred income tax associated with origination and reversal of temporary differences	10,625	(117)	7,466	3,400
	10,625	(117)	7,466	3,400
Income tax disclosed in the statement of profit or loss	14,410	17,774	3,046	5,526

Note 7.2 Effective tax rate

	for the period Jan 1 – Jun 30 2020	for the period Jan 1 – Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Profit before tax	144,028	100,063	163,391	30,716
Tax calculated at the applicable tax rate	27,365	19,012	31,044	5,836
Effect of tax-exempt income (+/-)	(24,101)	(8,156)	(24,080)	(7,731)
Effect of non tax-deductible expenses (+/-)	(9,678)	378	(9,195)	(1,132)
Tax effect of inclusion of property, plant and equipment into operations in Special Economic Zone	937	1,203	630	719
Recognition of state aid deductible in future periods (+/-)	-	4,425	-	5,614
Other (+/-)	19,887	912	4,647	2,220
Income tax disclosed in the statement of profit or loss	14,410	17,774	3,046	5,526
Effective tax rate	10.00%	17.76%	1.86%	18.0%

Note 7.3 Income tax disclosed in other comprehensive income

	for the period Jan 1 – Jun 30 2020	for the period Jan 1 – Jun 30 2019	for the period Apr 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Tax on items that will not be reclassified to profit or loss (+/-)	(391)	(1,151)	(392)	(1,151)
Remeasurement of net defined benefit obligation/asset	(391)	(1,151)	(392)	(1,151)
Tax on items that are or may be reclassified to profit or loss (+/-)	(7,630)	1,533	3,529	1,575
Cash flow hedging - effective portion of fair value changes	(7,630)	1,533	3,529	1,575
Income tax disclosed in other comprehensive income	(8,021)	382	3,137	424

Note 7.4 Deferred tax assets and liabilities

	Assets (-)		Liabilities (+)	
	Jun 30 2020 <i>unaudited</i>	Dec 31 2019	Jun 30 2020 <i>unaudited</i>	Dec 31 2019
Property, plant and equipment	(9,558)	(9,558)	43,605	44,542
Right-of-use assets	-	-	9,145	9,730
Investment property	-	-	1,071	1,153
Intangible assets	(1,363)	(1,363)	7,488	7,354
Financial assets	(1,057)	(1,057)	105	105
Inventories and property rights	(2,340)	(2,103)	11,459	8,647
Trade and other receivables	(380)	(1,169)	3,790	45
Trade and other payables	(17,340)	(20,241)	363	350
Employee benefits	(18,548)	(20,105)	-	-
Provisions	(6,368)	(6,368)	157	102
Borrowings	(690)	(729)	109	157
Lease liabilities	(8,930)	(9,556)	-	-
Derivative financial instruments	-	-	-	195
Measurement of hedging instruments through hedge accounting	(6,410)	-	-	1,377
Other	(352)	(162)	75	80
Deferred tax assets (-)/liabilities (+)	(73,336)	(72,411)	77,367	73,837
Offset	73,336	72,411	(73,336)	(72,411)
Deferred tax assets (-)/liabilities (+) recognised in the statement of financial position	-	-	4,031	1,426

Note 8 Property, plant and equipment

Carrying amount

	as at Jun 30 2020	as at Dec 31 2019
Land	572	572
Buildings and structures	463,224	471,589
Plant and equipment	1,002,221	1,037,254
Vehicles	739	876
Other property, plant and equipment	46,701	48,708
	1,513,457	1,558,999
Property, plant and equipment under construction	135,356	102,562
	1,648,813	1,661,561

As at June 30th 2020, one of the triggers listed in paragraph 12d of IAS 36 *Impairment of Assets* occurred in respect of all of the Company's non-current assets - the carrying amount of the Company's net assets was higher than its market capitalisation. Therefore, the Company analysed the validity of the assumptions adopted for the previous impairment tests as at December 31st 2019, and the results of those tests. The analysis showed that:

- the adopted operating 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 2019,
- the Company's EBITDA and cash flows for the six months to June 30th 2020 for the tested CGUs (Fertilizers, Plastics) were higher than those assumed in the impairment tests as at the end of 2019,
- the projected financial results for 2020 for the majority of the Grupa Azoty Group's CGUs were also higher than the assumed results for the period underlying the impairment tests at the end of 2019,
- there were symptoms of the risk that the macroeconomic outlook and market conditions could deteriorate, including as a consequence of the SARS CoV-2 coronavirus pandemic (especially in the segment of plastics for automotive applications), but the Group assessed their effect as limited, not warranting any material adjustment to its long-term financial performance projections relative to the levels assumed in the tests,
- the risk-free interest rate (yield on 10-year Treasury bonds) fell from 2.11% at the end of 2019 to 1.36% at the end of June 2020, and the NBP's reference rate was reduced over the period from 1.5% to 0.1%. The result was a decrease in the weighted average cost of capital for the Grupa Azoty Group.

Given the above, it was concluded that the recoverable amount estimates resulting from the previous tests of non-current assets and shares held in subsidiaries remained valid as at June 30th 2020, and therefore no additional impairment losses needed to be recognised and no indicators existed that any impairment losses on assets recognised in prior periods should be reversed.

As at June 30th 2020, there were no indications for reversal of the impairment loss on the assets of the Tarnoform cash-generating unit, initially recognised in the financial statements as at December 31st 2013.

It should be noted that the impact of COVID-19 will be far-reaching and will affect all business areas, although it is still impossible to fully estimate its consequences for the future business and condition of the Company and the other Grupa Azoty Group companies. For information on risks related to the consequences of COVID-19 and remedial actions taken by the Group companies, see Note 26 to these interim condensed financial statements.

For detailed information on the impairment tests and their results, including sensitivity analyses, see Note 10 to the separate financial statements of Grupa Azoty Spółka Akcyjna for the 12 months ended December 31st 2019.

Net property, plant and equipment, by type

	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount as at Jan 1 2020	572	471,589	1,037,254	876	48,708	102,562	1,661,561
Increase, including:	-	4,879	10,288	-	980	47,061	63,208
Purchase, production, commissioning	-	4,879	8,409	-	980	47,061	61,329
Reversal and use of impairment losses	-	-	1,000	-	-	-	1,000
Other increase	-	-	879	-	-	-	879
Decrease, including: (-)	-	(13,244)	(45,321)	(137)	(2,987)	(14,267)	(75,956)
Depreciation and amortisation	-	(12,365)	(43,310)	(137)	(2,987)	-	(58,799)
Disposal or retirement	-	-	(1,000)	-	-	-	(1,000)
Commissioning	-	-	-	-	-	(14,267)	(14,267)
Recognition of impairment loss	-	-	(1,011)	-	-	-	(1,011)
Other decrease	-	(879)	-	-	-	-	(879)
Net carrying amount as at Jun 30 2020	572	463,224	1,002,221	739	46,701	135,356	1,648,813

	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount as at Dec 31 2018	572	439,219	1,019,909	4,426	27,478	158,628	1,650,232
Effect of implementation of IFRS 16, including:	-	-	-	(3,488)	-	-	(3,488)
Transfers to right-of-use assets	-	-	-	(3,488)	-	-	(3,488)
Net carrying amount as at Jan 1 2019	572	439,219	1,019,909	938	27,478	158,628	1,646,744
Increase, including:	-	61,906	115,280	402	27,589	134,682	339,859
Purchase, production, commissioning	-	61,233	114,854	271	27,562	134,682	338,602
Reversal and use of impairment losses	-	658	426	-	23	-	1,107
Reclassification from investment property	-	15	-	-	-	-	15
Other increase	-	-	-	131	4	-	135
Decrease, including: (-)	-	(29,536)	(97,935)	(464)	(6,359)	(190,748)	(325,042)
Depreciation and amortisation	-	(23,862)	(86,175)	(363)	(6,308)	-	(116,708)
Contribution in kind	-	(344)	(10,923)	(101)	(24)	(102)	(11,494)
Disposal or retirement	-	(658)	(264)	-	(23)	-	(945)
Commissioning	-	-	-	-	-	(190,646)	(190,646)
Recognition of impairment loss	-	(509)	(222)	-	(4)	-	(735)
Reclassification to investment property	-	(4,163)	(182)	-	-	-	(4,345)
Other decrease	-	-	(169)	-	-	-	(169)
Net carrying amount as at Dec 31 2019	572	471,589	1,037,254	876	48,708	102,562	1,661,561

Note 9 Right-of-use assets

Carrying amount

	as at Jun 30 2020	as at Dec 31 2019
	<i>unaudited</i>	<i>audited</i>
Perpetual usufruct of land	22,107	22,273
Land	10	19
Buildings and structures	376	962
Plant and equipment	396	535
Vehicles	21,456	23,606
	44,345	47,395
Right-of-use assets under construction	-	16
	44,345	47,411

The Company applies the following depreciation periods for right-of-use assets:

- perpetual usufruct right to land - a definite period determined based on the statutory period of use, i.e. 71 years;
- other groups of assets with definite-term contracts - a period equal to the contract term, i.e. between 3 and 5 years;
- other groups of assets with indefinite-term contracts - the Company assumes that for the majority of contracts their terms may be amended within three years.

Note 10 Intangible assets

Carrying amount

	as at Jun 30 2020	as at Dec 31 2019
	<i>unaudited</i>	<i>audited</i>
Patents and licences	33,483	33,385
Software	5,171	5,492
Development costs	225	242
Other intangible assets	2,117	2,248
	40,996	41,367
Intangible assets under development	10,023	9,471
	51,019	50,838

Note 11 Shares

	as at Jun 30 2020	as at Dec 31 2019
Shares in subsidiaries	5,454,051	5,403,351
Shares in other entities	6,625	6,655
	5,460,676	5,410,006
including		
Long-term	5,460,676	5,410,006

Acquisition of shares

Repurchase of minority interests in Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (“Grupa Azoty SIARKOPOL”)

On March 26th 2020, an entry was made in the share register concerning acquisition by the Company of 2,159 shares, by way of repurchase in accordance with Art. 418¹ of the Commercial Companies Code.

On March 27th 2020, the Company received a declaration of the State Treasury’s acceptance of a repurchase offer for 7,604 employee-stock shares in Grupa Azoty SIARKOPOL which had not been acquired by that company’s eligible employees or their heirs. The payment for the shares was made on April 30th 2020. On May 8th 2020, a global certificate for the shares was delivered against a transfer report; accordingly, the Company’s interest in the share capital of Grupa Azoty SIARKOPOL increased to 99.56%. The carrying amount of the acquired shares is PLN 674 thousand.

On July 31st 2020, the Annual General Meeting of Grupa Azoty SIARKOPOL passed a resolution to repurchase the shares under Art. 418¹ of the Commercial Companies Code. Based on the resolution, the Company will repurchase 463 shares at a price of PLN 46.83 per share, i.e. a total price of PLN 21,682.29. On August 21st 2020, the Company paid for the repurchased shares.

Increase in Grupa Azoty Polyolefins S.A.’s share capital

On January 24th 2020, an Extraordinary General Meeting of Grupa Azoty Zakłady Chemiczne Police S.A., and on February 17th 2020 - an Extraordinary General Meeting of the Company approved the purchase by the companies of shares, for the issue price specified by the General Meeting of Grupa Azoty POLYOLEFINS, by way of a private placement, within the meaning of Art. 431.2.1 of the Commercial Companies Code, in a number ensuring that the companies’ current percentage shareholdings in Grupa Azoty POLYOLEFINS are maintained.

On February 18th 2020, an Extraordinary General Meeting of Grupa Azoty POLYOLEFINS passed a resolution to increase the share capital by PLN 131,944,310.00 through the issue of 13,194,431 new Series F registered shares with a par value of PLN 10.00 per share. The issue price of each Series F share is PLN 47.90.

The new shares were to be acquired in a private placement by Grupa Azoty Zakłady Chemiczne Police S.A., which was to acquire 6,993,048 shares for a total issue price of PLN 334,967 thousand, and the Company, which was to acquire 6,201,383 shares for a total issue price of PLN 297,046 thousand.

On March 18th 2020, the Parent’s Management Board passed a resolution to acquire 6,201,383 shares in Grupa Azoty POLYOLEFINS as part of the issue of Series F shares, for the issue price of PLN 47.90 per share (total consideration of PLN 297,046,245.70). In order to implement the resolution, the Management Board requested the Supervisory Board to grant consent for the above actions.

On April 7th 2020, the Supervisory Board of the Company approved the execution of an agreement to acquire Grupa Azoty POLYOLEFINS shares.

On June 15th 2020, the Company made a payment of PLN 50,034 thousand. The balance of payments towards the share capital increase were made on July 1st, July 9th and July 21st 2020.

Impairment testing

Following an analysis of the validity of estimated impairment of shares held, consistent with an analysis of impairment of property, plant and equipment of the subsidiaries as at June 30th 2020, no need to recognise impairment of shares was identified.

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

The subsidiary reviews the need to update the key model assumptions and parameters on an ongoing basis. The scope of revisions made in the first half of 2020 covered primarily selected aspects of financial assumptions, including those agreed during ongoing discussions with the syndicate of financing institutions and the process of obtaining corporate approvals to meet the conditions precedent laid down by the project co-sponsors and financing institutions. For an overview of the project implementation status, see the Directors' Report. For information on the request received from the project's general contractor, Hyundai Engineering Co. Ltd. of South Korea (the "General Contractor"), to amend the EPC Contract, by, among other things, extending the completion deadline and increasing the price payable to the General Contractor, see Note 25. The analysis performed, taking account of the risks involved in the newly emerged circumstances, identified no need to recognise impairment. Accordingly, as at June 30th 2020, the conclusions of the analysis performed at the end of 2019, which indicated that no impairment of the Group's assets related to the implementation of the *Polimery Police* project needed to be recognised, were upheld.

Note 12 Trade and other receivables

	as at Jun 30 2020	as at Dec 31 2019
Trade receivables - related parties	128,509	130,038
Trade receivables - other entities	51,430	61,829
Receivables from state budget, except for income tax	22,191	31,398
Prepayments for deliveries of property, plant and equipment - other entities	4,717	5,855
Prepayments for deliveries of materials, goods and services	1,000	673
Prepaid expenses - other entities	9,339	2,184
Other receivables - related parties	176,534	4,749
Other receivables - other entities	21,258	1,358
	414,978	238,084
including		
Long-term	4,717	5,855
Short-term	410,261	232,229
	414,978	238,084

Other receivables from related parties include dividend receivable of PLN 175,922 thousand. Other receivables from other entities include compensation due under the Act on the Compensation Scheme for Energy-Intensive Sectors and Subsectors of July 19th 2019:

- of PLN 12,372 thousand for 2019 - recognised under other income,
- of PLN 7,572 thousand for H1 2020 - recognised as a deduction of electricity costs.

The amount of compensation due for 2019 was received by the Company on August 6th 2020.

Note 13 Cash

	as at Jun 30 2020	as at Dec 31 2019
Cash in hand	7	18
Bank balances in PLN	521,708	50,196
Bank balances in foreign currencies (translated to PLN)	2,582	28,898
Bank deposits – up to 3 months	298	1,824
Cash and cash equivalents under cash pooling	1,169,065	1,077,443
	1,693,660	1,158,379
Cash and cash equivalents in the statement of financial position	1,693,660	1,158,379
Cash and cash equivalents in the statement of cash flows	1,693,660	1,158,379

As at June 30th 2020 and December 31st 2019, the Company held no restricted cash.

Note 14 Borrowings

	as at Jun 30 2020	as at Dec 31 2019
Bank borrowings	3,199,147	2,546,902
Loans	1,176,027	985,615
	4,375,174	3,532,517
including		
Long-term	2,900,855	2,413,532
Short-term	1,474,319	1,118,985
	4,375,174	3,532,517

In H1 2020, the Company drew down a PLN 500m loan under the term facility advanced by a bank syndicate under the Credit Facility Agreement of April 23rd 2015 (as amended), to secure liquidity necessary to finance its equity contribution to the *Polimery Police* project.

In H1 2020, the Company did not enter into any new loan or credit facility agreements.

Maturities and currencies of borrowings

As at Jun 30 2020

Currency	Reference rate	Amount as at the reporting date		Up to 1 year	1–2 years	2–5 years	Over 5 years
		in foreign currency	in PLN				
PLN	variable	2,395,448	2,395,448	990,987	80,557	1,277,450	46,454
EUR	fixed	191,081	852,709	82,174	139,807	422,454	208,274
EUR	variable	253,149	1,127,017	401,158	-	725,859	-
			4,375,174	1,474,319	220,364	2,425,763	254,728

As at December 31st 2019

Currency	Reference rate	Amount as at the reporting date		Up to 1 year	1–2 years	2–5 years	Over 5 years
		in foreign currency	in PLN				
PLN	variable	1,659,720	1,659,720	744,889	27,415	103,650	783,766
EUR	fixed	200,162	851,655	78,343	104,872	399,919	268,521
EUR	variable	240,709	1,021,142	295,752	-	-	725,390
			3,532,517	1,118,984	132,287	503,569	1,777,677

As part of debt under borrowings maturing in up to one year from the reporting date, i.e. by June 30th 2021, the Company presented PLN and EUR-denominated debt under the cash pooling arrangement towards related entities of PLN 1,176,027 thousand (December 31st 2019: PLN 985,615 thousand) as well as debt under umbrella working capital facilities as at June 30th 2020 of PLN 194,093 thousand (December 31st 2019: PLN 32,384 thousand). The umbrella working capital facility agreements are effective until September 30th 2022. However, the related liabilities are classified as current, because they are used to finance the Company's day-to-day operations and because of their half-yearly allocation and availability periods. The Company expects to refinance or extend these instruments in the following periods.

Note 15 Other financial liabilities

	as at Jun 30 2020	as at Dec 31 2019
Liabilities under receivables discounting	84,080	104,247
Liabilities under reverse factoring agreements	84,142	155,125
Other	19,360	22,549
	187,582	281,921
including		
Long-term	15,830	19,042
Short-term	171,752	262,879
	187,582	281,921

Note 16 Employee benefit obligations

	as at Jun 30 2020	as at Dec 31 2019
Pension benefit obligations	41,013	37,973
Jubilee benefit obligations	22,806	21,764
Pensioner Social Fund benefit obligations	5,561	6,471
Other	2,914	2,550
	72,294	68,758
including		
Long-term	67,575	64,080
Short-term	4,719	4,678
	72,294	68,758

Changes in defined employee benefit obligations

	for the period from Jan 1 to Jun 30 2020	for the period Jan 1 - Dec 31 2019
At beginning of period	46,994	33,744
Current service cost (+)	1,007	1,450
Interest expense (+)	465	984
Remeasurement of net defined benefit obligation/asset	2,057	12,121
Benefits paid (-)	(1,035)	(1,305)
At end of period	49,488	46,994

Changes in other long-term employee benefit obligations

	for the period from Jan 1 to Jun 30 2020	for the period Jan 1 - Dec 31 2019
At beginning of period	21,764	21,056
Current service cost (+)	427	809
Interest expense (+)	217	607
Actuarial gains and losses recognised in profit or loss for the period (+/-)	1,110	1,645
Benefits paid (-)	(712)	(2,353)
At end of period	22,806	21,764

The increase in *Employee benefit obligations* follows from changes in actuarial assumptions, mainly with respect to the discount rate (1.40%).

Note 17 Provisions

	as at Jun 30 2020	as at Dec 31 2019
Provision for litigation	38	38
Provision for environmental liabilities	32,779	32,779
Other	1,053	1,053
	33,870	33,870
including		
Long-term	31,619	31,619
Short-term	2,251	2,251
	33,870	33,870

Note 38 Trade and other payables

	as at Jun 30 2020	as at Dec 31 2019
Trade payables - related parties	37,472	36,306
Trade payables - other entities	66,695	135,343
Liabilities to state budget, except for income tax	16,850	19,074
Salaries and wages payable	10,251	8,294
Liabilities under purchases of property, plant and equipment, intangible assets, investment properties - related parties	14,280	19,850
Liabilities under purchases of property, plant and equipment, intangible assets, investment properties - other entities	3,313	11,960
Prepayments for deliveries - other entities	1,960	1,448
Other liabilities - related parties	19	
Other liabilities - other entities	10,193	8,645
Accrued expenses	68,280	129,034
Liabilities under bonuses	9,578	8,390
Deferred income	471	131
	239,362	378,475
including		
Long-term	-	32
Short-term	239,362	378,443
	239,362	378,475

The decrease in trade payables was a combined effect of the lower purchase prices of key raw materials and reduced production volumes compared with December 31st 2019. The decrease in accrued expenses was mainly attributable to settlement of the provision for redemption of CO₂ emission allowances for 2019.

Note 19 Grants

	as at Jun 30 2020	as at Dec 31 2019
Government grants	77,604	49,467
	77,604	49,467
including		
Long-term	46,232	47,048
Short-term	31,372	2,419
	77,604	49,467

In H1 2020, free CO₂ emission allowances for 2020 were allocated to the Company. They are accounted for over the year pro rata to CO₂ emissions, which increased the balance of grants as at June 30th 2020. As at June 30th 2020, the outstanding grant of CO₂ emission allowances was PLN 28,969 thousand.

Note 20 Other information

Dividend

On June 29th 2020, the Company's Annual General Meeting passed a resolution to allocate the entire amount of the Parent's net profit for the financial year 2020, of PLN 58,249 thousand, to the Company's reserve funds.

Lease liabilities

In H1 2020, the Company did not enter into any new material lease agreements.

Note 21 Financial instruments

Categories of financial instruments

Financial assets

	as at Jun 30 2020	as at Dec 31 2019
At fair value through profit or loss	-	1,025
At amortised cost	2,408,566	1,699,303
At fair value through other comprehensive income	12,300	17,115
	2,420,866	1,717,443
Recognised in the statement of financial position as:		
Shares	6,625	6,655
Trade and other receivables	377,731	197,974
Cash and cash equivalents	1,693,660	1,158,379
Derivative financial instruments	-	1,025
Other financial assets	342,850	353,410
	2,420,866	1,717,443

Financial liabilities

	as at Jun 30 2020	as at Dec 31 2019
At fair value through profit or loss	834	-
At amortised cost	4,762,873	4,093,858
	4,763,707	4,093,858
Recognised in the statement of financial position as:		
Long-term borrowings	2,900,855	2,413,532
Short-term borrowings	1,474,319	1,118,985
Derivative financial instruments	834	-
Non-current lease liabilities	35,687	38,962
Current lease liabilities	12,737	13,199
Other non-current financial liabilities	15,830	19,042
Other current financial liabilities	171,752	262,879
Trade and other payables	151,693	227,259
	4,763,707	4,093,858

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk principally in connection with its trade receivables, advanced loans, short-term bank deposits, bank accounts, and cash pooling.

Maximum exposure to credit risk

	as at Jun 30 2020	as at Dec 31 2019
At fair value through profit or loss	-	1,025
At amortised cost	2,408,566	1,595,056
At fair value through other comprehensive income	5,675	10,460
	2,414,241	1,606,541

The Company's trade receivables from third parties are in the first place insured under a global trade credit insurance policy, which limits the Company's credit risk exposure to the deductible amount (i.e. 5-10% of the amount of insured receivables). The policy ensures that customers' financial condition is monitored on an ongoing basis and enables debt recovery when required. Upon a customer's actual or legal insolvency, the Company receives compensation equal to 90-95% of the amount of the insured receivables.

A part of the Company's trade receivables from third parties not covered by the policy is secured with letters of credit and guarantees or other forms of security acceptable to the Company.

Trade credit limit is granted primarily on the basis of the insurance company's decision, but also taking into account positive trading history with the customer and the customer's creditworthiness (assessed based on business intelligence reports), financial statements and payment history.

If there is no positive history of trading between the Company and a customer, or where transactions are occasional and the credit limit cannot be insured, the customer is required to make a prepayment or provide security.

Credit risk exposure is defined as the total of unpaid receivables, monitored on an ongoing basis by the Company's internal financial staff (individually for each customer) and, if a receivable is insured, also by the insurance companies' credit analysts.

Provision matrix for trade receivables

	Percentage of expected impairment as at Jun 30 2020	Percentage of expected impairment as at Dec 31 2019
Not past due	0.17%	0.11%
Past due up to 90 days	0.14%	0.68%
Past due 91-180 days	5.56%	10.29%
Past due 181-360 days	100.00%	47.06%
Past due more than 360 days	99.56%	99.45%

Fair value of financial instruments

Detailed information on the fair value of financial instruments whose fair value can be estimated is presented below:

- cash and cash equivalents, short-term bank deposits and short-term bank borrowings, factoring and reverse factoring transactions, and sale and discount of receivables. Carrying amounts of these instruments approximate their fair values because of their short maturities.
- Trade and other receivables, trade payables. Carrying amounts of these instruments approximate their fair values due to their short-term nature.
- Long-term variable-rate borrowings. Carrying amounts of these instruments approximate their fair values due to the variable nature of their interest rates.
- Long-term fixed-rate borrowings. Carrying amount of these instruments is PLN 851,638 thousand, and their fair value is ca. PLN 858,137 thousand (Level 2 in the fair value hierarchy).
- Foreign currency derivatives. The carrying amounts of these instruments are equal to their fair values.

The table below presents the Company's financial instruments carried at fair value by levels in the fair value hierarchy, as at June 30th 2020:

Hierarchy level (unaudited)

Financial assets at fair value, including:
 measured at fair value through other comprehensive
 income, including:
 shares
 trade receivables
 Financial liabilities at fair value, including:
 currency futures and forward contracts

	Level 2	Level 3
	-	12,300
	-	12,300
	-	6,625
	-	5,675
	834	
	834	-

The table below presents the Company's financial instruments carried at fair value by levels in the fair value hierarchy, as at December 31st 2019:

Hierarchy level (audited)	Level 2	Level 3
Financial assets at fair value, including:	1,025	17,115
measured at fair value through other comprehensive income, including:		
<i>shares</i>	-	17,115
<i>trade receivables</i>	-	6,655
currency futures and forward contracts	-	10,460
	1,025	-

There were no transfers between the levels in H1 2020 or in 2019.

The fair value hierarchy presented in the tables above is as follows:

Level 1 - price quoted in an active market for the same asset or liability,

Level 2 - values based on inputs other than quoted Level 1 prices that are either directly or indirectly observable or determined on the basis of market data,

Level 3 - values based on input data that are not based on observable market data.

In H1 2020 and 2019, no financial instruments were transferred between Level 2 and Level 3 of the classification of financial instruments measured at fair value.

The fair value of foreign currency contracts presented in Level 2 is determined on the basis of a valuation carried out by brokers or banks with which the relevant contracts have been concluded. The valuations are verified by discounting the expected cash flows from the contracts at market interest rates effective as at the reporting date.

Derivative financial instruments and hedge accounting

Foreign currency derivatives

Foreign currency derivatives include forward contracts to sell an expected excess cash in EUR. As at June 30th 2020, the notional amount of the Company's open currency derivatives (forwards) was EUR 16m. As at December 31st 2019, the notional amount of its open currency derivatives (forwards) was EUR 15m. 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.

Hedge accounting

The Company applies cash flow hedge accounting. The hedged item are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from July 2020 to September 2028. The hedging covers currency risk. The hedge are two euro-denominated credit facilities of:

- EUR 90,810 thousand as at June 30th 2020 (December 31st 2019: EUR 99,891 thousand), repayable in the period from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each;
- EUR 100,000 thousand as at June 30th 2020 (December 31st 2019: EUR 100,000 thousand), repayable from March 2021 to September 2028 in 15 equal half-yearly instalments of EUR 6,666 thousand each.

As at June 30th 2020, the carrying amount of both these credit facilities was PLN 852,709 thousand (December 31st 2019: PLN 850,648 thousand). In H1 2020, the hedging reserve included PLN (32,906) thousand (2019: PLN 7,250 thousand) on account of the effective hedge. In 2019, the Company reclassified PLN 781 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 foreign currency loan instalments against proceeds from sales in the euro.

Note 22 Contingent liabilities, contingent assets, sureties and guarantees

Contingent liabilities and guarantees/sureties

	as at Jun 30 2020	as at Dec 31 2019
Sureties	8,039	7,740

The surety is to secure a grant advanced to Grupa Azoty ATT Polymers GmbH by Investitionsbank des Landes Brandenburg (ILB) to finance 20% of capital expenditure on the construction of a logistics centre in Guben, Germany.

Support loan provision guarantee agreement

On May 31st 2020, in connection with the Credit Facility Agreement for financing the *Polimery Police* project, the Company and Grupa Azoty POLICE entered into a support loan provision guarantee agreement with Grupa Azoty POLYOLEFINS and Bank Polska Kasa Opieki S.A. (acting as the facility agent and security agent) for up to EUR 105m in the form of a subordinated loan, the main objective of which is to cover a potential liquidity deficit, construction cost overruns, operating costs and debt service costs in the operation phase.

As at the issue date of these financial statements, the above loan provision guarantee was not yet provided. It will be provided on the date of fulfilment of the conditions precedent under the Credit Facility Agreement for financing the *Polimery Police* project.

Note 23 Related-party transactions

Trade transactions with subsidiaries

Trade transactions

In the six months ended June 30th 2020 and as at that date (unaudited)

Related parties Grupa Azoty S.A.
Related parties Grupa Azoty Zakłady Chemiczne Police S.A.
Related parties Grupa Azoty Zakłady Azotowe Puławy S.A.
Related parties Grupa Azoty PKCh Sp. z o.o.
Related parties COMPO EXPERT

	Revenue	Receivables	Purchases	Liabilities
Related parties Grupa Azoty S.A.	353,948	301,995	150,131	31,589
Related parties Grupa Azoty Zakłady Chemiczne Police S.A.	121	35	19	4
Related parties Grupa Azoty Zakłady Azotowe Puławy S.A.	9,085	1,810	7,533	5,893
Related parties Grupa Azoty PKCh Sp. z o.o.	1,919	474	31,306	14,474
Related parties COMPO EXPERT	484	735	-	-
	365,557	305,049	188,989	51,960

In the six months ended June 30th 2019 and as at that date (unaudited)

Related parties Grupa Azoty S.A.
Related parties Grupa Azoty Zakłady Chemiczne Police S.A.
Related parties Grupa Azoty Zakłady Azotowe Puławy S.A.
Related parties Grupa Azoty PKCh Sp. z o.o.

	Revenue	Receivables	Purchases	Liabilities
Related parties Grupa Azoty S.A.	377,702	176,631	171,038	51,168
Related parties Grupa Azoty Zakłady Chemiczne Police S.A.	88	45	14	8
Related parties Grupa Azoty Zakłady Azotowe Puławy S.A.	5,949	133	1,757	355
Related parties Grupa Azoty PKCh Sp. z o.o.	1,624	420	33,230	18,221
	385,363	177,229	206,039	69,752

Other transactions

In the six months ended June 30th 2020 and as at that date (unaudited)

Related parties Grupa Azoty S.A.
Related parties Grupa Azoty Zakłady Chemiczne Police S.A.
Related parties Grupa Azoty Zakłady Azotowe Puławy S.A.
Related parties Grupa Azoty PKCh Sp. z o.o.
Related parties COMPO EXPERT

	Other income	Other expenses	Finance income	Finance costs
Related parties Grupa Azoty S.A.	1,103	157	184,054	8,286
Related parties Grupa Azoty Zakłady Chemiczne Police S.A.	-	-	2,880	150
Related parties Grupa Azoty Zakłady Azotowe Puławy S.A.	7	-	611	204
Related parties Grupa Azoty PKCh Sp. z o.o.	842	3,513	-	301
Related parties COMPO EXPERT	-	-	834	-
	1,952	3,670	188,379	8,941

In the six months ended June 30th 2019 and as at that date (unaudited)

Related parties Grupa Azoty S.A.
Related parties Grupa Azoty Zakłady Chemiczne Police S.A.
Related parties Grupa Azoty Zakłady Azotowe Puławy S.A.
Related parties Grupa Azoty PKCh Sp. z o.o.
Related parties Compo Expert

	Other income	Other expenses	Finance income	Finance costs
Related parties Grupa Azoty S.A.	814	104	51,817	5,153
Related parties Grupa Azoty Zakłady Chemiczne Police S.A.	-	-	-	1,013
Related parties Grupa Azoty Zakłady Azotowe Puławy S.A.	2	-	627	264
Related parties Grupa Azoty PKCh Sp. z o.o.	774	3,581	-	339
Related parties Compo Expert	-	-	799	-
	1,590	3,685	53,243	6,769

Remuneration of the Management Board members for holding office at the Company

	for the period from Jan 1 to Jun 30 2020	for the period from Jan 1 to Jun 30 2019
Short-term benefits	2,593	4,411
	2,593	4,411

Remuneration of the Supervisory Board members for holding office at the Company

	for the period Jan 1 – Jun 30 2020	for the period Jan 1 – Jun 30 2019
Short-term benefits	1,027	1,047

Loans to related parties

In H1 2020, the Company advanced loans totalling PLN 19,400 thousand, all of them to Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (in 2019: PLN 66,160 thousand advanced to Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.).

In H1 2020, the Company received timely repayments of loans previously granted, in the amount of PLN 28,336 thousand, including PLN 6,000 thousand from Grupa Azoty Zakłady Chemiczne Police S.A. and PLN 22,336 thousand from Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (2019: PLN 46,982 thousand, including PLN 6,000 thousand from Grupa Azoty Zakłady Chemiczne Police S.A. and PLN 40,982 thousand from Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.).

After the reporting date, the Company and its subsidiary Grupa Azoty Zakłady Chemiczne Police S.A. disbursed to Grupa Azoty POLYOLEFINS tranches of long-term loans totalling PLN 509.1m, of which PLN 469.9m was disbursed on August 26th 2020 to refinance Grupa Azoty POLYOLEFINS' liabilities towards Grupa Azoty S.A. under the cash pooling facility. On that date, Grupa Azoty POLYOLEFINS was excluded from the Grupa Azoty Group's cash pooling arrangement.

Cash pooling

As at June 30th 2020, the Company presented cash provided to other Group companies participating in the cash pooling services as cash equivalents of PLN 1,169,390 thousand, whereas cash received by the Company from other Group companies is presented as short-term borrowings of PLN 1,176,027 thousand as at June 30th 2020.

On August 26th 2020, the Company and Grupa Azoty Zakłady Chemiczne Police S.A. disbursed tranches of long-term loans to Grupa Azoty POLYOLEFINS to refinance its cash pooling liabilities totalling PLN 469.9m.

Transactions with owners

As at June 30th 2020, the Company had two loans from the EBRD, for a total amount of PLN 216,467 thousand (December 31st 2019: PLN 228,273 thousand).

Note 24 Investment commitments

In the period ended June 30th 2020, the Company signed contracts for new investment projects and for continuation of ongoing projects. The projects involve mainly the provision of chemical, construction, mechanical and electrical services, design services, and project supervision.

The largest capital commitments are as follows:

- construction of a concentrated Nitric Acid Plant II - as at June 30th 2020, the total amount of the Company's commitments under the contracts was PLN 20,669 thousand (December 31st 2019: PLN 16,038 thousand),
- construction of a turbogenerator set using steam from the Sulfuric Acid Department (WKS) and Technical Grade Dual Pressure Nitric Acid Department (KDC), and of a 4 MPa steam line from WKS to KDC - as at June 30th 2020, the total amount of the Company's commitments under the contracts was PLN 20,521 thousand (December 31st 2019: PLN 3,876 thousand),
- bringing the oleum storage facilities into compliance with the applicable regulations - as at June 30th 2020, the total amount of the Company's commitments under the contracts was PLN 5,896 thousand (December 31st 2019: PLN 6,713 thousand),

The total amount of commitments under the contracts was PLN 70,163 thousand (December 31st 2019: PLN 61,578 thousand).

Note 25 Events after the reporting period

Share capital increase at subsidiary

On August 3rd 2020, the District Court for Szczecin-Centrum of Szczecin, 13th Commercial Division of the National Court Register, registered an increase in the share capital of Grupa Azoty POLYOLEFINS. Following the registration, the share capital of Grupa Azoty POLYOLEFINS was increased from PLN 467,339,000 to PLN 599,283,310. Currently, the total number of shares of all issues is 59,928,331 (previously: 46,733,900). Their par value is PLN 10 per share.

The Company holds a direct 47.00% interest in the share capital of Grupa Azoty POLYOLEFINS. The other shareholder of Grupa Azoty POLYOLEFINS is Grupa Azoty Zakłady Chemiczne Police S.A., the Company's subsidiary.

Corporate approvals to execute transaction documents for financing of *Polimery Police* project

On July 30th 2020, the Company's Supervisory Board endorsed the proposal of the Company's Management Board that the Company's General Meeting grant consent for the Company to execute legal transactions that could result in disposal of the Company's non-current assets with a market value exceeding 5% of the Company's total assets, as provided for in the assumptions for the Share Pledge Agreement and the Assignment Agreement.

The Extraordinary General Meeting of the Company held on August 20th 2020 passed a resolution to approve the above legal transactions. The Extraordinary General Meeting also authorised the Management Board to take all formal and legal steps to execute the Share Pledge Agreement and the Assignment Agreement. Execution of the pledge agreement is another stage related to the Polimery Police financing agreement executed with a syndicate of Polish and international financial institutions on May 31st 2020.

Submission of request by general contractor for *Polimery Police* project, following outbreak of COVID-19 pandemic

In June 2020, the General Contractor notified Grupa Azoty POLYOLEFINS of the need to commence talks to discuss possible amendments to the EPC Contract due to the occurrence of unforeseen circumstances during the Project implementation related, among other factors, to the outbreak of the SARS-CoV 2 coronavirus pandemic. On July 28th 2020, Grupa Azoty POLYOLEFINS received a request from the General Contractor to amend the EPC Contract, e.g. by extending the scheduled deadline for completion of the Project and increasing the price payable to the General Contractor. As at the date of authorisation of these interim condensed separate financial statements for issue, negotiations were under way with all parties involved in the Project regarding possible amendments to the EPC Contract. Signing a relevant annex to the EPC Contract will depend on whether the negotiations held with all the parties are concluded, including whether the requisite approvals are given by the syndicate of institutions financing the *Polimery Police* Project and the required corporate approvals are obtained.

Remuneration policy for the Company's management and supervisory bodies

On August 20th 2020, the Extraordinary General Meeting of the Parent passed a resolution to adopt the Remuneration Policy for members of the Management Board and Supervisory Board of Grupa Azoty S.A. The remuneration policy defines the rules and terms of remuneration for members of the Management Board and Supervisory Board of Grupa Azoty S.A. within the meaning of the Act on Rules of Remunerating Persons Directing Certain Companies of June 9th 2016, as well as the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (consolidated text: Dz.U. of 2019, item 623, as amended).

Implementation of this Policy supports and ensures the implementation of the Company's business strategy, pursuit of the Company's long-term interests, stability and growth of the Company and increase in its value.

Note 26 Information on the effects of the COVID-19 pandemic

In connection with the Act of March 2nd 2020 on special arrangements to prevent, counteract and combat the COVID-19 infectious disease, other infectious diseases and crisis situations caused by them (Dz.U. of 2020, item 374, as amended) and the pandemic announced by the World Health Organisation due to the spread of coronavirus SARS-CoV-2 which causes the COVID-19 disease, the Group has taken immediate measures to protect its business against the consequences of the pandemic. In order to enable the Parent and other Group companies to operate in a possibly smooth manner, procedures have been put in place to ensure prompt response by relevant units. In addition, the Grupa issued instructions to mitigate the risk of infection among its employees, including in particular:

- detailed instructions and guidelines on monitoring the health of the Group's employees and the health of trading partners' employees who come in physical contact with the Group's employees,
- reducing the number of meetings as well as domestic and foreign business travel, and using teleconferencing, videoconferencing and instant messengers as much as possible,
- instructions to enable remote work to the extent it does not disrupt the work of individual organisational units,
- instructions to provide the Group employees with additional personal protection and hygiene supplies.

The Group also monitors the market situation with respect to sales of products and supplies of key raw materials and feedstock, as well as the situation on financial markets in the context of its currency and interest rate risk exposures. Measures of this type have been taken at the Parent and all its subsidiaries, including the COMPO EXPERT Group, with respect to operations at all locations where the companies are present.

Plastics

The Grupa Azoty Group's operations in the Plastics segment are directly related to the electrical engineering and automotive industries, where the effects of the pandemic have been the strongest. Administrative restrictions introduced at the end of March 2020 to limit the spread of COVID-19 affected demand and caused a drop in caprolactam and polyamide prices, both on the European and Asian markets. Before the demand for Grupa Azoty products declined, in March 2020 production activities were discontinued by certain manufacturers in all segments of the plastics value chain. In Q2 2020, the plastics segment reported a 43% year-on-year decline in revenue, attributable to the COVID-19 pandemic and disruption to the demand and supply balance on the market. A gradual recovery is expected after the traditional slowdown in summer months.

Agro Fertilizers

The COVID-19 pandemic had no material effect on the implementation of contract sales schedules in the second quarter of 2020. In Q2 2020, revenue fell by approximately 11% year on year despite higher sales volumes, due to lower prices.

However, there were delays in payments for the goods supplied, but their scale in the second quarter of 2020 was not significant.

Situation in the second half of 2020 will largely depend on the financial condition of the agricultural sector, where weaker competition is being recorded, which may adversely affect demand for fertilizers.

Chemicals

In April 2020, the prices of oxo products fell reflecting a downtrend in propylene prices and lower market demand caused by the COVID-19 situation. Since early June 2020, a recovery has been seen in the market of alcohols and plasticizers, accompanied by an increase in prices driven by higher prices of propylene. In Q2 2020, production of oxo alcohols was maintained at maximum levels, and in the case of plasticisers 75% of the production capacity was utilised. The Q2 2020 revenue from oxo alcohols was 32% down on the corresponding period of the previous year.

Deteriorated demand and price levels were also seen in the melamine market. In Q2 2020, revenue from melamine sales was 38% lower year on year. In H2 2020, demand for melamine is expected to recover gradually.

In the titanium white area, no significant impact of COVID-19 was identified in relation to the scale of the Grupa Azoty Group's business, despite a marked decline in demand on certain markets.

The crisis related to the spread of the COVID-19 pandemic also affected the RedNOx product market. Lower fuel consumption suppressed demand for NOx products (the main product in this business area). In other industries, such as power plants or glass, paper and cement manufacturers, where the segment's products are also used, revenue was also lower. In the case of RedNOx products, in Q2 2020 sales were down 5% year on year.

The Grupa Azoty Group is taking steps to minimise the impact of the COVID-19 pandemic on the Group's operations, for instance by using solutions available on the market to support working capital management, optimise the costs of feedstock procurement and adjust the production volumes to sales opportunities. Having recorded revenue declines, the Company and some of its subsidiaries took steps to benefit from the wage subsidy scheme under the Guaranteed Employee Benefits Fund. The estimated amount of support for the Grupa Azoty Group is approximately PLN 50m, and the funds are expected to be received by the Group companies mostly in Q3 2020.

It should be noted that the Group's financial condition is stable. The Group has additional sources of liquidity, namely cash held, whose amount as at June 30th 2020 was PLN 957m (including cash held as bank deposits), undrawn credit facilities, whose amount as at June 30th 2020 was PLN 2,550m, and available reverse factoring limit of PLN 242m, adding up to a total of PLN 3,749m. As at August 31st 2020, the amount of cash held was PLN 353m, the amount of available credit limits was PLN 2,443m, and the available limit of the reverse factoring facility was PLN 421m, adding up to a total of PLN 3,217m.

The decrease in the Group's total cash and available limits after the reporting date was largely attributable to the financing of expenditure on the *Polimery Police* project.

In the opinion of the Company's Management Board, the preventive measures taken have mitigated the risk to business continuity, but the observed impacts of the COVID-19 pandemic are bound to have a materially adverse short- and medium-term effect on the operations of the Grupa Azoty Group, especially in the Plastics and Chemicals segments. However, these effects will not jeopardise the Group's market position, its liquidity or ability to pursue strategic investment projects.

Signatures of members of the Management Board

Signed with qualified electronic signature

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Wojciech Wardacki, PhD

President of the Management Board

Signed with qualified electronic signature

.....

Signed with qualified electronic signature

.....

Witold Szczypiński

*Vice President of the Management Board,
Director General*

Signed with qualified electronic signature

.....

Paweł Łapiński
Vice President of the Management Board

Signed with qualified electronic signature

.....
Mariusz Grab
Vice President of the Management Board

Grzegorz Kądziaławski, PhD
Vice President of the Management Board

Signed with qualified electronic signature

.....
Tomasz Hryniewicz
Vice President of the Management Board

Signed with qualified electronic signature

.....
Artur Kopec
Member of the Management Board

Person responsible for maintaining accounting records

Signed with qualified electronic signature

.....
Piotr Kołodziej
*Head of the Corporate Finance
Department*

Tarnów, September 9th 2020