



Interim condensed separate financial statements
for the six months ended June 30th 2021
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 2021	for the period Jan 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2021	for the period Apr 1 – Jun 30 2020
		<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
<i>Profit/loss</i>					
Revenue	1	994,227	825,156	473,100	303,776
Cost of sales	2	(834,645)	(669,600)	(414,408)	(253,573)
Gross profit		159,582	155,556	58,692	50,203
Selling expenses	2	(48,914)	(48,686)	(21,576)	(19,629)
Administrative expenses	2	(99,052)	(87,717)	(54,781)	(45,482)
Other income	3	7,299	17,289	3,787	11,804
Other expenses	4	(8,845)	(10,768)	(4,468)	(6,739)
Operating profit/(loss)		10,070	25,674	(18,346)	(9,843)
Finance income	5	143,971	190,689	121,132	181,666
Finance costs	6	(29,954)	(72,335)	(9,993)	(8,432)
Net finance income		114,017	118,354	111,139	173,234
Profit before tax		124,087	144,028	92,793	163,391
Income tax	7	(5,727)	(14,410)	360	(3,046)
Net profit		118,360	129,618	93,153	160,345
<i>Other comprehensive income</i>					
Items that will not be reclassified to profit or loss					
Actuarial gains/(losses) from defined benefit plans		4,562	(2,057)	4,562	(2,062)
Tax on items that will not be reclassified to profit or loss	7	(867)	391	(867)	392
		3,695	(1,666)	3,695	(1,670)

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 2021	for the period Jan 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2021	for the period Apr 1 – Jun 30 2020
		<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		18,901	(40,156)	27,170	18,572
Income tax relating to items that are or will be reclassified to profit or loss	7	(3,591)	7,630	(5,162)	(3,529)
		15,310	(32,526)	22,008	15,043
Total other comprehensive income		19,005	(34,192)	25,703	13,373
Comprehensive income for the period		137,365	95,426	118,856	173,718
Earnings per share:					
Basic (PLN)		1.19	1.31	0.94	1.62
Diluted (PLN)		1.19	1.31	0.94	1.62

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 2021 <i>unaudited</i>	as at Dec 31 2020 <i>audited</i>
Assets			
Non-current assets			
Property, plant and equipment	8	1,663,504	1,642,695
Right-of-use assets	9	38,495	40,332
Investment property		20,880	21,911
Intangible assets	10	49,986	51,307
Shares	11.1	5,706,230	5,706,230
Other financial assets	11.2	1,161,721	1,233,971
Other receivables	13	28,863	32,318
Deferred tax assets	7.4	-	3,959
Total non-current assets		8,669,679	8,732,723
Current assets			
Inventories		267,380	201,730
Property rights	12	17,660	67,477
Derivative financial instruments		604	-
Other financial assets	11.2	155,202	131,432
Current tax assets		676	10,283
Trade and other receivables	13	599,272	237,628
Cash and cash equivalents	14	741,899	464,174
Assets held for sale		95	95
Total current assets		1,782,788	1,112,819
Total assets		10,452,467	9,845,542

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 2021 <i>unaudited</i>	as at Dec 31 2020 <i>audited</i>
Equity and liabilities			
Equity			
Share capital		495,977	495,977
Share premium		2,418,270	2,418,270
Hedging reserve		(32,177)	(47,487)
Retained earnings		2,164,461	2,042,406
Total equity		5,046,531	4,909,166
Liabilities			
Borrowings	15	2,882,904	2,861,537
Lease liabilities		31,068	31,134
Other financial liabilities	16	29,021	35,141
Employee benefit obligations	17	65,346	69,917
Provisions	18	31,255	31,255
Government grants received	20	50,415	51,505
Deferred tax liabilities	7.4	6,235	-
Total non-current liabilities		3,096,244	3,080,489
Borrowings	15	1,351,075	1,199,668
Lease liabilities		10,796	13,497
Derivative financial instruments		-	1,810
Other financial liabilities	16	496,099	295,067
Employee benefit obligations	17	4,942	5,100
Trade and other payables	19	368,619	328,465
Provisions	18	10,281	9,608
Government grants received	20	67,880	2,672
Total current liabilities		2,309,692	1,855,887
Total liabilities		5,405,936	4,936,376
Total equity and liabilities		10,452,467	9,845,542

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

Interim condensed separate statement of changes in equity

For the six months ended June 30th 2021

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at Jan 1 2021	495,977	2,418,270	(47,487)	2,042,406	4,909,166
<i>Profit or loss and other comprehensive income</i>					
Net profit	-	-	-	118,360	118,360
Other comprehensive income	-	-	15,310	3,695	19,005
Comprehensive income for the period	-	-	15,310	122,055	137,365
Balance as at Jun 30 2021 (unaudited)	495,977	2,418,270	(32,177)	2,164,461	5,046,531

For the six months 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 period	-	-	(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

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 2021	for the period Jan 1 – Jun 30 2020
	<i>unaudited</i>	<i>unaudited restated*</i>
Cash flows from operating activities		
Profit before tax	124,087	144,028
<i>Adjustments for:</i>		
Depreciation and amortisation	70,992	68,472
Impairment losses	476	1,011
Loss on investing activities	552	1,251
Interest, foreign exchange gains or losses	(13,511)	64,017
Dividends	(97,319)	(175,922)
Fair value (gain)/loss on financial assets at fair value	(10,233)	2,834
Increase in trade and other receivables	(264,383)	(6,017)
(Increase)/Decrease in inventories and property rights	(15,833)	5,407
Increase/(Decrease) in trade and other payables	615,936	(10,563)
Increase in provisions	672	-
Increase/(decrease) in employee benefit obligations	(167)	1,479
Increase in grants	63,841	27,851
Other adjustments	(3,500)	(3,500)
Income tax refunded/(paid)	9,618	(10,372)
Net cash from operating activities	481,228	109,976

* 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 2021	for the period Jan 1 – Jun 30 2020
	<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	798	4,237
Purchase of property, plant and equipment, intangible assets and investment property	(60,125)	(62,609)
Proceeds from sale of other financial assets	-	30
Purchase of other financial assets	-	(50,700)
Interest received	7,793	11,540
Loans	-	(19,650)
Repayments of loans	59,528	28,336
Other proceeds/(disbursements)	(1,255)	(1,572)
Net cash from investing activities	6,739	(90,388)
Cash flows from financing activities		
Proceeds from borrowings	1,000,000	851,967
Repayment of borrowings	(786,102)	(88,047)
Interest paid	(26,209)	(36,819)
Payment of lease liabilities	(7,128)	(6,955)
Repayment of reverse factoring liabilities	(397,093)	(185,304)
Other financing cash proceeds/(disbursements)	6,332	(18,993)
Net cash from financing activities	(210,200)	515,849
Total net cash flows	277,767	535,437
Cash and cash equivalents at beginning of period	464,174	1,158,379
Effect of exchange rate fluctuations on cash held	(42)	(156)
Cash and cash equivalents at end of period	741,899	1,693,660

* 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 2021 and contain comparative data for the six months ended June 30th 2020 and as at December 31st 2020.

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 2021 as well as the comparative data for the three months ended June 30th 2020 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 plastic products, and
- Activities of holding companies.

These interim condensed separate financial statements of the Company for the six months ended June 30th 2021 were authorised for issue by the Management Board on September 9th 2021.

The Company has also prepared interim condensed consolidated financial statements for the six months ended June 30th 2021, which were authorised for issue by the Management Board on September 9th 2021.

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 2020, which were authorised for issue on April 12th 2021.

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 27 to these interim condensed 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 2020.

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 IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform - Phase II.**

The amendments to these standards were issued on August 27th 2020 to complement the first phase of reporting amendments resulting from the reform of interbank reference rates of September 2019. The amendments are effective for annual periods beginning on or after January 1st 2021. Phase II amendments address issues that might affect financial reporting, e.g. relating to valuation of financial instruments and lease liabilities, when an existing interest rate benchmark is replaced with a new benchmark (i.e. replacement issues).

Furthermore, as of January 1st 2021, following endorsement by the European Commission in October 2020, the Company applies the Amendment to IFRS 16 *Leases: Covid-19-Related Rent Concessions*. The amendment was issued on May 28th 2020 and is effective for annual periods beginning on or after June 1st 2020, with earlier application permitted. The amendment to IFRS 16 introduces a practical expedient permitting a lease modification not to be recognised in the event of any changes in lease payments occurring (by June 30th 2021) as a consequence of the COVID-19 pandemic or lessees are granted other concessions changing the original financial terms of leases due the pandemic. No such events occurred in the case of the Company.

January 1st 2021 is the effective date of amendments to IFRS 4, issued on June 25th 2020, to defer the effective date of IFRS 9 *Financial Instruments* for insurers until January 1st 2023, in accordance with the deferred effective date of IFRS 17 *Insurance Contracts*.

The application of the above standards had no material effect on the financial statements.

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

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

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

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

- **IFRS 17 *Insurance Contracts***

The new standard was issued on May 18th 2017 and subsequently amended on June 25th 2020, and is effective for annual periods beginning on or after January 1st 2023. Early application is permitted as long as IFRS 15 and IFRS 9 are also applied. The standard supersedes earlier regulations on insurance contracts (IFRS 4). On June 25th 2020, IFRS 4 was also amended to defer the effective date of IFRS 9 *Financial Instruments* for insurers until January 1st 2023.

- **Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current***

Amendments to IAS 1 were issued on January 23rd 2020 with its effective date subsequently modified in July 2020, and are effective for annual periods beginning on or after January 1st 2023.

The amendment redefines the criteria for classifying liabilities as current. The amendment may affect the presentation of liabilities and their reclassification between current and non-current.

- **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.

- **Amendments to IAS 1 *Disclosure of Accounting Policies* and IAS 8 *Definition of Accounting Estimates***

The amendments were issued on February 12th 2021, and are effective for annual periods beginning on or after January 1st 2023. The purpose of these amendments is to place greater

emphasis on the disclosure of material accounting policies and to clarify how companies should distinguish between changes in accounting policies and changes in accounting estimates.

- **Amendment to IFRS 16 Leases - COVID-19-Related Rent Concessions granted after June 30th 2021**

The amendment to IFRS 16 was issued on March 31st 2021 and is effective for annual periods beginning on or after April 1st 2021. The only purpose of the amendment is to extend by one year (until June 30th 2022) the period in which the granting of COVID-19-related rent concessions does not need to involve a modification of the lease contract. This amendment is closely related to the already effective amendment to IFRS 16, issued in May 2020.

- **Amendment to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

The amendment to IAS 12 was issued on May 7th 2021 and is effective for annual periods beginning on or after April 1st 2023. The amendments clarify that the exemption relating to initial recognition of deferred tax does not apply to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences and entities are required to recognise deferred tax on such transactions. The amendments thus address the emerging doubts as to whether the exemption applies to transactions such as leases and decommissioning obligations.

The IFRSs as endorsed by the EU do not differ materially from the regulations adopted by the International Accounting Standards Board (IASB), save for the following standards, interpretations and amendments thereto, which were not yet adopted by EU Member States as at the date of authorisation of these financial statements for issue.

- IFRS 17 *Insurance Contracts* issued on May 18th 2017, as amended on June 25th 2020,
- Amendments to IAS 1 *Presentation of Financial Statements: Classification of liabilities as current and non-current*, issued on January 23rd 2020, as amended on July 15th 2020,
- Amendments to IAS 1 *Disclosure Initiative* and IAS 8 *Definition of Accounting Estimates*, issued on February 12th 2021.
- Amendment to IFRS 16 *Leases - COVID-19-Related Rent Concessions granted after June 30th 2021*, issued on March 31st 2021,
- Amendment to IAS 12 *Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, issued on May 7th 2021.

The Company will apply the amended standards as of their effective dates set by the EU. As at the date of these financial statements, the Company did not complete its assessment of the effect of applying the amended standards on its financial statements.

c) Accounting estimates and judgments

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 2020.

CO₂ emission allowances

The Company expects to receive free CO₂ emission allowances. This expectation is confirmed by a decision issued by the Ministry of Climate and Environment on July 7th 2021. The final size of the free allocation of CO₂ emission allowances will be adjusted on the basis of the average production volume in the two years preceding the year for which the emission allowances will be granted. For this reason the Company revised the estimates of the amount of free CO₂ emission allowances allocated. For detailed information, see Note 13 to these financial statements.

d) Change in comparative data presentation

Following changes in the presentation of data on the effect of changes in statement of financial position items in the statement of cash flows as at December 31st 2020, in order to provide more detailed information by presenting the effect of changes in the individual items of the statement of financial position instead of aggregated data, the Company presents below data restated accordingly as at June 30th 2020.

Interim condensed statement of cash flows

	for the period Jan 1 – Jun 30 2020	Change	for the period Jan 1 – Jun 30 2020 restated
Cash flows from operating activities			
Profit before tax	144,028	-	144,028
<i>Adjustments for:</i>			
Depreciation and amortisation	68,472	-	68,472
Impairment losses	1,011	-	1,011
Loss on investing activities	1,251	-	1,251
Interest, foreign exchange gains or losses	64,017	-	64,017
Dividends	(175,922)	-	(175,922)
Fair value loss on financial assets at fair value	2,834	-	2,834
Decrease/(Increase) in trade and other receivables	1,139	(7,156)	(6,017)
Decrease in inventories and property rights	5,407	-	5,407
Increase/(Decrease) in trade and other payables	49,850	(60,413)	(10,563)
Decrease in provisions, accruals and government grants	(38,239)	38,239	-
Increase in provisions	-	-	-
Increase in employee benefit obligations	-	1,479	1,479
Increase in grants	-	27,851	27,851
Other adjustments	(3,500)	-	(3,500)
Income tax paid	(10,372)	-	(10,372)
Net cash from operating activities	109,976	-	109,976

	for the period Jan 1 – Jun 30 2020	Change	for the period Jan 1 – Jun 30 2020 restated
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment, intangible assets and investment property	4,237	-	4,237
Purchase of property, plant and equipment, intangible assets and investment property	(62,609)	-	(62,609)
Proceeds from sale of other financial assets	30	-	30
Purchase of other financial assets	(50,700)	-	(50,700)
Interest received	11,540	-	11,540
Loans	(19,650)	-	(19,650)
Repayments of loans	28,336	-	28,336
Other cash used in investing activities	(1,572)	1,572	-
Other proceeds/(disbursements)	-	(1,572)	(1,572)
Net cash from investing activities	(90,388)	-	(90,388)
Cash flows from financing activities			
Proceeds from borrowings	851,967	-	851,967
Repayment of borrowings	(88,047)	-	(88,047)
Interest paid	(36,819)	-	(36,819)
Payment of lease liabilities	(6,955)	-	(6,955)
Repayment of reverse factoring liabilities	(185,304)	-	(185,304)
Other cash provided by financing activities	1,174	(1,174)	-
Other cash used in financing activities	(20,167)	20,167	-
Other financing cash proceeds/(disbursements)	-	(18,993)	(18,993)
Net cash from financing activities	515,849	-	515,849
Total net cash flows	535,437	-	535,437
Cash and cash equivalents at beginning of period	1,158,379	-	1,158,379
Effect of exchange rate fluctuations on cash held	(156)	-	(156)
Cash and cash equivalents at end of period	1,693,660	-	1,693,660

2. Selected notes and supplementary information

Business segment reporting

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

Fertilizers segment: manufacture and sale of 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) 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 2021 (unaudited)

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
External revenue	358,363	582,049	23,205	30,610	994,227
Intersegment revenue	156,348	171,689	302,855	21,401	652,293
Total revenue	514,711	753,738	326,060	52,011	1,646,520
Operating expenses, including: (-)	(530,076)	(735,497)	(326,148)	(43,183)	(1,634,904)
<i>selling and distribution expenses (-)</i>	(35,460)	(12,997)	(69)	(388)	(48,914)
<i>administrative expenses (-)</i>	(40,140)	(55,710)	(1,266)	(1,936)	(99,052)
Other income	272	1,035	1,787	4,205	7,299
Other expenses (-)	(816)	(923)	(2,032)	(5,074)	(8,845)
Segment's EBIT*	(15,909)	18,353	(333)	7,959	10,070
Finance income	-	-	-	-	143,971
Finance costs (-)	-	-	-	-	(29,954)
Profit before tax	-	-	-	-	124,087
Income tax	-	-	-	-	(5,727)
Net profit	-	-	-	-	118,360
EBIT	(15,909)	18,353	(333)	7,959	10,070
Depreciation and amortisation	29,207	22,148	7,022	5,884	64,261
Unallocated depreciation and amortisation	-	-	-	-	6,731
EBITDA	13,298	40,501	6,689	13,843	81,062

* 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 three months ended June 30th 2020 (unaudited)

	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 and distribution expenses (-)</i>	<i>(35,183)</i>	<i>(12,963)</i>	<i>(81)</i>	<i>(459)</i>	<i>(48,686)</i>
<i>administrative expenses (-)</i>	<i>(37,709)</i>	<i>(46,294)</i>	<i>(1,216)</i>	<i>(2,498)</i>	<i>(87,717)</i>
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' assets and liabilities as at June 30th 2021 (unaudited)

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
Segment's assets	856,513	983,938	376,815	200,098	2,417,364
Unallocated assets	-	-	-	-	8,035,103
Total assets	856,513	983,938	376,815	200,098	10,452,467
Segment's liabilities	297,015	440,438	223,547	100,229	1,061,229
Unallocated liabilities	-	-	-	-	4,344,707
Total liabilities	297,015	440,438	223,547	100,229	5,405,936

Operating segments' assets and liabilities as at December 31st 2020 (audited)

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
Segment's assets	708,101	851,894	357,515	208,354	2,125,864
Unallocated assets	-	-	-	-	7,719,678
Total assets	708,101	851,894	357,515	208,354	9,845,542
Segment's liabilities	121,124	205,521	162,857	90,419	579,921
Unallocated liabilities	-	-	-	-	4,356,455
Total liabilities	121,124	205,521	162,857	90,419	4,936,376

Other segmental information for the six months ended June 30th 2021 (unaudited)

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
Expenditure on property, plant and equipment	39,626	10,575	24,656	2,425	77,282
Expenditure on intangible assets	-	-	64	-	64
Unallocated expenditure	-	-	-	-	6,590
Total expenditure	39,626	10,575	24,720	2,425	83,936
Segment's depreciation and amortisation	29,207	22,148	7,022	5,884	64,261
Unallocated depreciation and amortisation	-	-	-	-	6,731
Total depreciation and amortisation	29,207	22,148	7,022	5,884	70,992

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

Note 1 Revenue from contracts with customers

	for the period Jan 1 – Jun 30 2021	for the period Jan 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2021	for the period Apr 1 – Jun 30 2020
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue from sale of products and services	973,071	793,013	459,812	294,762
Revenue from sale of merchandise and materials	21,079	31,782	13,288	8,857
Revenue from sale of property rights	77	361	-	157
	994,227	825,156	473,100	303,776

For the six months ended June 30th 2021 (unaudited)

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
Main product lines					
Revenue from sale of products and services	358,363	572,737	14,382	27,589	973,071
Revenue from sale of merchandise and materials	-	9,235	8,823	3,021	21,079
Revenue from sale of property rights	-	77	-	-	77
Total	358,363	582,049	23,205	30,610	994,227
Geographical regions					
Poland	236,002	93,574	23,205	24,713	377,494
Germany	40,588	203,053	-	359	244,000
Other EU countries	25,379	211,240	-	21	236,640
Asia	-	38,032	-	-	38,032
South America	8,394	9,477	-	-	17,871
Other countries	48,000	26,673	-	5,517	80,190
Total	358,363	582,049	23,205	30,610	994,227
Customer type					
Legal persons	358,011	582,049	22,753	30,608	993,421
Individuals	352	-	452	2	806
Total	358,363	582,049	23,205	30,610	994,227
Agreement type					
Fixed-price contracts	358,363	581,972	15,109	30,610	986,054
Other	-	77	8,096	-	8,173
Total	358,363	582,049	23,205	30,610	994,227
Customer relations					
Long-term	314,409	546,615	8,712	14,186	883,922
Short-term	43,954	35,434	14,493	16,424	110,305
Total	358,363	582,049	23,205	30,610	994,227
Revenue recognition timing					
Revenue recognised at a point in time	358,363	582,049	23,205	30,610	994,227
Total	358,363	582,049	23,205	30,610	994,227
Sale channels					
Direct sales	36,689	544,981	15,109	25,611	627,389
Intermediated sales	321,674	37,068	8,096	4,999	366,838
Total	358,363	582,049	23,205	30,610	994,227

For the six months ended June 30th 2020 (unaudited)

	Agro Fertilizers	Plastics	Energy	Other Activities	Total
Main product lines					
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
Geographical regions					
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
Customer type					
Legal persons	346,803	436,154	14,214	27,277	824,448
Individuals	353	-	346	9	708
Total	347,156	436,154	14,560	27,286	825,156
Agreement type					
Fixed-price contracts	347,156	435,793	12,676	27,286	822,911
Other	-	361	1,884	-	2,245
Total	347,156	436,154	14,560	27,286	825,156
Customer relations					
Long-term	293,830	402,307	7,458	11,788	715,383
Short-term	53,326	33,847	7,102	15,498	109,773
Total	347,156	436,154	14,560	27,286	825,156
Revenue recognition timing					
Revenue recognised at a point in time	347,156	436,154	14,560	27,286	825,156
Total	347,156	436,154	14,560	27,286	825,156
Sale channels					
Direct sales	39,291	23,358	12,676	27,286	102,611
Intermediated sales	307,865	412,796	1,884	-	722,545
Total	347,156	436,154	14,560	27,286	825,156

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 2021	for the period Jan 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2021	for the period Apr 1 – Jun 30 2020
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Depreciation and amortisation	70,204	67,669	35,339	34,548
Raw materials and consumables used	659,853	422,368	356,010	157,068
Services	116,249	116,469	60,000	58,645
Taxes and charges	35,464	37,712	12,301	21,193
Salaries and wages	106,401	90,867	58,316	46,265
Social security and other employee benefits	27,765	23,901	14,805	11,779
Other expenses	11,742	9,622	7,178	4,175
Costs by nature of expense	1,027,678	768,608	543,949	333,673
Change in inventories of finished goods (+/-)	(62,865)	6,898	(64,525)	(23,474)
Work performed by the entity and capitalised (-)	(1,265)	(675)	(540)	(318)
Selling and distribution expenses (-)	(48,914)	(48,686)	(21,576)	(19,629)
Administrative expenses (-)	(99,052)	(87,717)	(54,781)	(45,482)
Cost of merchandise and materials sold	19,063	31,172	11,881	8,803
Cost of sales	834,645	669,600	414,408	253,573
including excise duty	534	538	252	254

Changes in costs:

- The increase in raw materials and consumables used was attributable to higher prices of key feedstocks (gas, ammonia and petrochemical feedstocks) and energy purchased. Raw materials and consumables used were also affected by an increase in consumption of purchased caprolactam caused by higher polyamide production;
- Salaries and wages grew as a result of a positive balance of provisions for employee benefits and payment of special bonuses for employees in May 2021;
- The increase in other expenses was mainly attributable to higher expenditure on advertising and property insurance;
- The change in inventories of finished goods was attributable to a higher value of inventories compared with the first half of 2020, which increased mainly due to higher feedstock and selling prices.

Note 3 Other income

	for the period Jan 1 – Jun 30 2021	for the period Jan 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2021	for the period Apr 1 – Jun 30 2020
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Gain on disposal of property, plant and equipment	-	-	(332)	-
Reversal of impairment losses on receivables	9	5	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	3,604	3,217	1,843	1,595
Received compensation	2,086	168	1,522	63
Government grants received	1,325	1,118	662	559
Other	275	409	87	314
	7,299	17,289	3,787	11,804

As at June 30th 2020, the Company recognised in other income compensation of PLN 12,372 thousand for the increase in electricity prices due to higher prices of CO₂ emission allowances for 2019. As at June 30th 2021, the expected compensation amounts for the current period of PLN 3,693 thousand were recognised as a decrease in current costs of electricity used. Compensation amounts for the first half of 2020, which reduced costs of electricity used by PLN 7,571 thousand, were recognised in the same manner.

Note 4 Other expenses

	for the period Jan 1 – Jun 30 2021	for the period Jan 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2021	for the period Apr 1 – Jun 30 2020
	<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	381	1,251	381	367
	381	1,251	381	367
Recognised impairment losses on:				
Property, plant and equipment	345	1,011	1	1,011
Investment property	131	-	131	-
Other receivables	82	4	8	-
	558	1,015	140	1,011
Other expenses:				
Investment property maintenance costs	2,748	2,609	1,279	1,203
Failure recovery costs	4,494	4,692	2,179	3,485
Other	664	1,201	489	673
	7,906	8,502	3,947	5,361
	8,845	10,768	4,468	6,739

Note 5 Finance income

	for the period Jan 1 – Jun 30 2021	for the period Jan 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2021	for the period Apr 1 – Jun 30 2020
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Interest income:				
Interest on bank deposits	3	2	2	-
Interest on cash pooling	939	7,025	410	2,358
Interest on non-bank borrowings	19,605	4,513	16,150	1,843
Interest on trade receivables	28	-	19	-
Other interest income	3	99	1	47
	20,578	11,639	16,582	4,248
Gains on measurement of financial assets and liabilities:				
Gains on measurement of financial assets at fair value through profit or loss	3,131	-	(1,219)	-
Gains on measurement of derivatives hedging fair value	8,902	-	(4,315)	-
	12,033	-	(5,534)	-
Other finance income:				
Foreign exchange gains	11,355	-	11,355	-
Dividends	97,319	175,922	97,319	175,922
Surety for credit facilities	2,645	3,037	1,384	1,440
Other finance income	41	91	26	56
	111,360	179,050	110,084	177,418
	143,971	190,689	121,132	181,666

Foreign exchange gains of PLN 11,355 thousand (first half of 2020: foreign exchange losses of PLN 26,966 thousand) comprised:

- net realised foreign exchange losses of PLN 2,151 thousand (first half of 2020: net realised foreign exchange losses of PLN 18,621 thousand),
- net foreign exchange losses on realised transactions in currency derivatives of PLN 515 thousand (first half of 2020: net foreign exchange losses of PLN 194 thousand),
- net foreign exchange gains on measurement of receivables and liabilities denominated in foreign currencies of PLN 13,979 thousand as at the reporting date (first half of 2020: net foreign exchange losses on measurement of receivables and liabilities denominated in foreign currencies of PLN 7,991 thousand as at the reporting date),
- net foreign exchange gains on measurement of other items of PLN 42 thousand as at the reporting date (first half of 2020: net foreign exchange losses on measurement of other items of PLN 160 thousand as at the reporting date).

PLN 97,319 thousand for the first half of 2021 comprised, among others, dividends due from:

- Grupa Azoty KĘDZIERZYN of PLN 66,084 thousand,
- COMPO EXPERT Holding GmbH of PLN 27,181 thousand, and
- Grupa Azoty Compounding Sp. z o.o. of PLN 4,000 thousand.

PLN 175,922 thousand for the first half of 2020 comprises dividends due from:

- Grupa Azoty ATT Polymers GmbH of PLN 5,058 thousand,
- Grupa Azoty KĘDZIERZYN of PLN 70,880 thousand, and
- Grupa Azoty PUŁAWY of PLN 99,984 thousand.

Note 6 Finance costs

	for the period Jan 1 – Jun 30 2021	for the period Jan 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2021	for the period Apr 1 – Jun 30 2020
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Interest expense:				
Interest on bank borrowings and overdraft facilities	21,299	30,203	12,252	14,551
Interest on cash pooling	1,882	5,646	1,017	1,584
Interest on liabilities under leases, factoring, discount of receivables	2,071	2,018	1,027	828
Other interest expense	473	698	257	380
	25,725	38,565	14,553	17,343
Foreign exchange losses	-	26,966	(6,279)	(8,126)
Loss on measurement of financial assets and liabilities:	-	2,834	-	(2,749)
Cost of sureties	3,283	3,566	1,655	1,799
Other finance costs:	946	404	64	165
	4,229	33,770	(4,560)	(8,911)
	29,954	72,335	9,993	8,432

Note 7 Income tax

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

	for the period Jan 1 – Jun 30 2021	for the period Jan 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2021	for the period Apr 1 – Jun 30 2020
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Current income tax:				
Current income tax expense	(10)	4,968	(10)	(4,435)
Adjustments to current income tax for previous years	-	(1,183)	-	15
	(10)	3,785	(10)	(4,420)
Deferred income tax:				
Deferred income tax associated with origination and reversal of temporary differences	5,737	10,625	(350)	7,466
	5,737	10,625	(350)	7,466
Income tax disclosed in the statement of profit or loss	5,727	14,410	(360)	3,046

Note 7.2 Effective tax rate

	for the period Jan 1 – Jun 30 2021	for the period Jan 1 – Jun 30 2020	for the period Apr 1 – Jun 30 2021	for the period Apr 1 – Jun 30 2020
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Profit before tax	124,087	144,028	92,793	163,391
Tax calculated at the applicable tax rate	23,577	27,365	17,631	31,044
Effect of tax-exempt income (+/-)	(19,805)	(24,101)	(21,896)	(24,080)
Effect of non tax-deductible expenses (+/-)	1,714	(9,678)	2,851	(9,195)
Tax effect of inclusion of property, plant and equipment into operations in Special Economic Zone	951	937	481	630
Other (+/-)	(710)	19,887	573	4,647
Income tax disclosed in the statement of profit or loss	5,727	14,410	(360)	3,046
Effective tax rate	4.62%	10.00%	(0.39%)	1.86%

Note 7.3 Income tax disclosed in other comprehensive income

	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Jan 1 – Jun 30 2020 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2020 <i>unaudited</i>
Tax on items that will not be reclassified to profit or loss (+/-)	867	(391)	867	(392)
Remeasurement of net defined benefit obligation/asset	867	(391)	867	(392)
Tax on items that are or may be reclassified to profit or loss (+/-)	3,591	(7,630)	5,162	3,529
Cash flow hedging - effective portion of fair value changes	3,591	(7,630)	5,162	3,529
Income tax disclosed in other comprehensive income	4,458	(8,021)	6,029	3,137

Note 7.4 Deferred tax assets and liabilities

	Assets (-)		Liabilities (+)	
	Jun 30 2021 <i>unaudited</i>	Dec 31 2020 <i>audited</i>	Jun 30 2021 <i>unaudited</i>	Dec 31 2020 <i>audited</i>
Property, plant and equipment	(10,921)	(10,921)	45,429	44,266
Right-of-use assets	-	-	7,983	8,363
Intangible assets	-	-	7,232	7,360
Financial assets	(1,057)	(1,057)	105	105
Inventories and property rights	(2,155)	(1,661)	3,471	12,821
Trade and other receivables	(319)	(326)	29,252	4,173
Trade and other payables	(30,372)	(20,757)	422	370
Employee benefits	(18,846)	(18,036)	-	-
Provisions	(7,891)	(7,763)	147	1,213
Borrowings	(1,749)	(2,172)	183	110
Lease liabilities	(7,684)	(8,130)	-	-
Measurement of hedging instruments through hedge accounting	(7,548)	(11,483)	-	-
Other	(398)	(487)	951	53
Deferred tax assets (-)/liabilities (+)	(88,940)	(82,793)	95,175	78,834
Offset	88,940	78,834	(88,940)	(78,834)
Deferred tax assets (-)/liabilities (+) recognised in the statement of financial position	-	(3,959)	6,235	-

Note 8 Property, plant and equipment

Carrying amount

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Land	572	572
Buildings and structures	484,080	484,094
Plant and equipment	976,863	998,570
Vehicles	612	594
Other property, plant and equipment	45,284	47,270
	1,507,411	1,531,100
Property, plant and equipment under construction	156,093	111,595
	1,663,504	1,642,695

As at June 30th 2021, 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 2020, 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) within the Company did not change,
- the value of assets of each CGU did not change materially relative to the respective amounts as at December 31st 2020,
- the Company's EBITDA and cash flows for the six months to June 30th 2021 for the tested CGUs (Fertilizers, Plastics) were higher than those assumed in the impairment tests as at the end of 2020,
- the projected financial results for 2021 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 2020,
- the risk-free interest rate (yield on 10-year Treasury bonds) rose from 1.23% at the end of 2020 to 1.63% at the end of June 2021, driving up the weighted average cost of capital for the Grupa Azoty Group, but the discount rate increase does not materially reduce the recoverable amount of individual CGUs,
- the gas cost dynamics were to a large extent reflected on the income side,
- simulations based on the assumptions of the test carried out at the end of 2020, updated by projected price paths for CO₂ emission allowances, planned allocation volumes and consumption of CO₂ emission allowances, as well as a higher discount rate indicate that recoverable amounts of the assets of the Fertilizers and Plastics CGUs exceed their carrying amount.

Given the above, it was concluded that the recoverable amount estimates resulting from the previous tests in respect of non-current assets and shares held in subsidiaries remained valid as at June 30th 2021, 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.

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 2020.

As at June 30th 2021, there were no indications for reversal of the impairment loss on the assets of the Tarnoform cash-generating unit, which manufactures polyoxymethylene ("POM"). The Company decided to discontinue the POM business as following an analysis it was concluded that this business line will not be economically viable in the foreseeable future. The impairment loss on the Tarnoform CGU was recognised in the financial statements as at December 31st 2013. The agreement to sell the POM business, comprising technology, customer relations, inventories and selected property, plant and equipment, was executed on July 9th 2021. In accordance with the sale agreement, the POM business was discontinued as of August 2021. For more information on the discontinuation of the POM business, see Note 26 to these interim condensed financial statements.

The POM business is not treated as discontinued operations due to its immateriality.

For information on risks related to the consequences of COVID-19 and remedial actions taken by the Group companies, see Note 27 to these interim condensed financial statements.

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 2021	572	484,094	998,570	594	47,270	111,595	1,642,695
<i>Increase, including:</i>	-	13,303	23,149	97	958	82,217	119,724
Purchase, production, commissioning	-	12,865	22,966	97	957	82,217	119,102
Reversal of impairment losses	-	23	183	-	1	-	207
Other increase	-	415	-	-	-	-	415
<i>Decrease, including: (-)</i>	-	(13,317)	(44,856)	(79)	(2,944)	(37,719)	(98,915)
Depreciation and amortisation	-	(13,292)	(44,640)	(78)	(2,941)	-	(60,951)
Disposal or retirement	-	(23)	(191)	(1)	(2)	-	(217)
Commissioning	-	-	-	-	-	(37,402)	(37,402)
Recognition of impairment loss	-	(2)	(25)	-	(1)	(317)	(345)
Net carrying amount as at Jun 30 2021 (<i>unaudited</i>)	572	484,080	976,863	612	45,284	156,093	1,663,504

	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:	-	38,730	51,409	-	4,549	102,445	197,133
Purchase, production, commissioning	-	38,708	49,520	-	4,545	102,445	195,218
Reversal and use of impairment losses	-	22	1,010	-	4	-	1,036
Other increase	-	-	879	-	-	-	879
Decrease, including: (-)	-	(26,225)	(90,093)	(282)	(5,987)	(93,412)	(215,999)
Depreciation and amortisation	-	(25,234)	(88,036)	(269)	(5,980)	-	(119,519)
Disposal or retirement	-	(22)	(1,005)	(13)	(4)	-	(1,044)
Commissioning	-	-	-	-	-	(93,192)	(93,192)
Recognition of impairment loss	-	(90)	(1,040)	-	(3)	(220)	(1,353)
Other decrease	-	(879)	(12)	-	-	-	(891)
Net carrying amount as at Dec 31 2020 (audited)	572	484,094	998,570	594	47,270	111,595	1,642,695

Note 9 Right-of-use assets

Carrying amount

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Perpetual usufruct of land	22,003	21,948
Land	10	-
Buildings and structures	-	54
Plant and equipment	118	257
Vehicles	16,364	17,996
	38,495	40,255
Right-of-use assets under construction	-	77
	38,495	40,332

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 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Patents and licences	30,747	32,408
Software	6,004	6,251
Development costs	191	208
Other intangible assets	1,859	1,987
	38,801	40,854
Intangible assets under development	11,185	10,453
	49,986	51,307

Note 11 Financial assets

Note 11.1 Shares

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Shares in subsidiaries	5,699,604	5,699,604
Shares in other entities	6,626	6,626
	5,706,230	5,706,230
including		
Long-term	5,706,230	5,706,230

For information on shares held, see Note 14 to the separate financial statements of Grupa Azoty Spółka Akcyjna for the 12 months ended December 31st 2020.

Impairment testing

Following an analysis of the validity of the estimate of impairment of shares held, consistent with an analysis of impairment of property, plant and equipment of subsidiaries as at June 30th 2021, no need to recognise or reverse impairment of shares held was identified.

Note 11.2 Other financial assets

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Loans	1,269,280	1,321,478
Other	47,643	43,925
	1,316,923	1,365,403
including		
Long-term	1,161,721	1,233,971
Short-term	155,202	131,432
	1,316,923	1,365,403

Other financial assets comprise mainly loans advanced to Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN, Grupa Azoty POLYOLEFINS and COMPO EXPERT Holding GmbH in 2020.

Loans advanced to Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN were granted under the Intra-Group Financing Agreement to finance investment programmes and other objectives specified in the Group's Strategy.

Grupa Azoty POLYOLEFINS received the loan in connection with the implementation of the Polimery Police project.

COMPO EXPERT Holding GmbH was granted the loan in order to refinance some of the debt of the COMPO EXPERT Group companies in Grupa Azoty Group's cash pooling facility.

As at June 30th 2021, other financial assets included a measurement of the call option over shares in Grupa Azoty POLYOLEFINS of PLN 46,919 thousand.

For a description of the financial instrument, see Note 22 to these interim condensed financial statements.

Note 12 Property rights

	as at Jun 30 2021	as at Dec 31 2020
CO ₂ emission allowances	17,138	66,884
Energy certificates	522	593
Total property rights	17,660	67,477

CO₂ emission allowances held (number of units)

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Balance at beginning of period (units held)	665,205	607,983
Settled for the previous year	(915,904)	(1,011,880)
Free allocation of CO ₂ emission allowances granted during the reporting period	-	504,727
Purchased	432,985	564,375
Balance at end of period (units held)	182,286	665,205
Free allocation of CO ₂ emission allowances expected to be received for 2021 (recognised as receivables)	503,695	-
Emissions in the reporting period	427,494	901,595

By June 30th 2021, no free CO₂ emission allowances due to the Company for 2021 were credited to the EU ETS installation accounts. For detailed information on estimating the amounts due, see Note 13 to these interim condensed financial statements.

Note 13 Trade and other receivables

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Trade receivables - related parties	226,347	137,839
Trade receivables - other entities	54,831	40,332
Receivables from state budget, except for income tax	52,537	32,230
Prepayments for deliveries of property, plant and equipment - related parties	21,174	21,501
Prepayments for deliveries of property, plant and equipment - other entities	7,689	10,817
Prepayments for deliveries of materials, goods and services - related parties	27	-
Prepayments for deliveries of materials, goods and services - other entities	2,167	1,120
Prepaid expenses - other entities	10,037	2,431
Other receivables - related parties	98,059	534
Receivables under the Act on Compensation Scheme for Energy-Intensive Sectors and Subsectors	25,522	21,828
Other receivables - other entities	129,745	1,314
	628,135	269,946
including		
Long-term	28,863	32,318
Short-term	599,272	237,628
	628,135	269,946

Other receivables from related parties include dividend receivable of PLN 97,209 thousand.

Other receivables from other entities include free allocation of CO₂ emission allowances expected to be received, in the amount of PLN 128,360 thousand (December 31st 2020: PLN 0 thousand). The need to recognise estimated amounts follows from the fact that no free CO₂ emission allowances for 2021 were allocated by the reporting date. On July 7th 2021, the Ministry of Climate and Environment published a list of installations together with an annual number of emission allowances allocated for 2021-2025. The list contains expected free allocations of CO₂ emission allowances to eligible companies of the Grupa Azoty Group. The final size of the free allocation of CO₂ emission allowances

for individual installations will be adjusted on the basis of the average production volume in the two years preceding the year for which the emission allowances will be allocated. In the first half of 2021, the Grupa Azoty Group companies submitted to the National Centre for Emissions Balancing and Management reports on actual emissions from their respective installations in 2019-2020, specifying the requested allocation for 2021-2025. The information contained in these reports will be the basis for adjusting free allocations of CO₂ emission allowances to the maximum level defined for each eligible installation in the published list referred to above. In view of the above, the expected allocation of free CO₂ emission allowances for 2021 was determined in accordance with the applications submitted.

Note 14 Cash

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Cash in hand	92	6
Bank balances in PLN	360,196	52,837
Bank balances in foreign currencies (translated to PLN)	49,536	807
Bank deposits – up to 3 months	100,002	60,991
Cash and cash equivalents under cash pooling	232,073	349,533
	741,899	464,174
Cash and cash equivalents in the statement of financial position	741,899	464,174
Cash and cash equivalents in the statement of cash flows	741,899	464,174

As at June 30th 2021 and December 31st 2020, the Company held no restricted cash.

As at December 31st 2021, the amount of funds in the VAT account (split payment) was PLN 21,908 thousand (December 31st 2020: PLN 12,938 thousand).

Note 15 Borrowings

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Bank borrowings	3,200,214	3,007,852
Loans	1,033,765	1,053,353
	4,233,979	4,061,205
including		
Long-term	2,882,904	2,861,537
Short-term	1,351,075	1,199,668
	4,233,979	4,061,205

Maturities and currencies of borrowings

As at Jun 30 2021 (unaudited)

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	2,366,879	2,366,879	855,105	312,930	1,165,619	33,225
EUR	fixed	172,919	781,221	143,483	140,833	346,320	150,585
EUR	variable	241,465	1,085,879	352,487	11	733,381	-
			4,233,979	1,351,075	453,774	2,245,320	183,810

As at Dec 31 2020 (audited)

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	2,122,919	2,122,919	735,460	127,112	1,220,503	39,844
EUR	fixed	182,000	839,311	115,692	145,229	393,916	184,474
EUR	variable	238,859	1,098,975	348,516	(736)	751,195	-
			4,061,205	1,199,668	271,605	2,365,614	224,318

As part of debt under borrowings maturing in up to one year from the reporting date, i.e. by June 30th 2022, the Company presented PLN and EUR-denominated debt of PLN 1,033,765 thousand under cash pooling, owed to related entities (PLN 1,053,353 thousand as at December 31st 2020), and under umbrella working capital facilities as at June 30th 2021, of PLN 1 thousand (December 31st 2020: PLN 1,929 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 16 Other financial liabilities

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Liabilities under sale of receivables	113,017	110,012
Liabilities under reverse factoring agreements	379,582	181,555
Other	32,521	38,641
	525,120	330,208
including		
Long-term	29,021	35,141
Short-term	496,099	295,067
	525,120	330,208

Note 17 Employee benefit obligations

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Pension benefit obligations	42,212	44,447
Jubilee benefit obligations	21,162	22,129
Pensioner Social Fund benefit obligations	4,258	5,629
Other	2,656	2,812
	70,288	75,017
including		
Long-term	65,346	69,917
Short-term	4,942	5,100
	70,288	75,017

The decrease in employee benefit obligations follows from changes in actuarial assumptions, and mainly from an increase in the discount rate (to 1.63%) (December 31st 2020: 1.24%).

Changes in defined employee benefit obligations

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
At beginning of period	52,888	46,994
Current service cost (+)	1,239	2,044
Interest expense (+)	314	935
Remeasurement of net defined benefit obligation/asset	(4,562)	4,609
Benefits paid (-)	(753)	(1,694)
At end of period	49,126	52,888

Changes in other long-term employee benefit obligations

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
At beginning of period	22,129	21,764
Current service cost (+)	439	853
Interest expense (+)	133	429
Actuarial gains and losses recognised in profit or loss for the period (+/-)	(754)	1,368
Benefits paid (-)	(785)	(2,285)
At end of period	21,162	22,129

Note 18 Provisions

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Provision for litigation	8,058	7,031
Provision for environmental liabilities	32,779	32,779
Other	699	1,053
	41,536	40,863
including		
Long-term	31,255	31,255
Short-term	10,281	9,608
	41,536	40,863

Note 19 Trade and other payables

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Trade payables - related parties	68,408	35,992
Trade payables - other entities	111,183	116,094
Liabilities to state budget, except for income tax	16,403	18,685
Salaries and wages payable	8,770	9,652
Liabilities under purchases of property, plant and equipment, intangible assets, investment properties - related parties	13,098	5,203
Liabilities under purchases of property, plant and equipment, intangible assets, investment properties - other entities	18,973	6,624
Prepayments for deliveries - other entities	2,564	5,297
Other liabilities - related parties	56	55
Other liabilities - other entities	10,128	8,043
Accrued expenses	110,430	113,979
Liabilities under bonuses	8,318	8,694
Deferred income	288	147
	368,619	328,465
including		
Short-term	368,619	328,465
	368,619	328,465

Note 20 Grants

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Government grants received	118,295	54,177
including		
Long-term	50,415	51,505
Short-term	67,880	2,672
	118,295	54,177

The increase in government grants received as at June 30th 2021 is attributable to the recognition by the Company of free CO₂ emission allowances due but not received for 2021, which are accounted for as a reduction in cost of sales (taxes and charges) during the year in proportion to estimated CO₂ emissions. As at June 30th 2021, the outstanding grant of CO₂ emission allowances was PLN 65,159 thousand.

Note 21 Other information

Dividend

On June 30th 2021, 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 125,628 thousand, to the Company's reserve funds.

Lease liabilities

In the first half of 2021, the Company did not enter into any new material lease agreements.

Note 22 Financial instruments

Categories of financial instruments

Financial assets

	as at Jun 30 2021	as at Dec 31 2020
	<i>Unaudited</i>	<i>audited</i>
At fair value through profit or loss	47,523	43,342
At amortised cost	2,354,067	1,981,344
At fair value through other comprehensive income	45,083	13,363
	2,446,673	2,038,049
Recognised in the statement of financial position as:		
Shares	6,625	6,625
Trade and other receivables	380,622	201,847
Cash and cash equivalents	741,899	464,174
Derivative financial instruments	604	-
Other financial assets	1,316,923	1,365,403
	2,446,673	2,038,049

Financial liabilities

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
At fair value through profit or loss	15,512	20,848
At amortised cost	5,024,277	4,607,255
	5,039,789	4,628,103
Recognised in the statement of financial position as:		
Long-term borrowings	2,882,904	2,861,537
Short-term borrowings	1,351,075	1,199,668
Non-current lease liabilities	31,068	31,134
Current lease liabilities	10,796	13,497
Derivative financial instruments	-	1,810
Other non-current financial liabilities	29,021	35,141
Other current financial liabilities	496,099	295,067
Trade and other payables	238,826	190,249
	5,039,789	4,628,103

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 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
At fair value through profit or loss	47,523	43,342
At amortised cost	2,354,067	1,981,344
At fair value through other comprehensive income	38,458	6,738
	2,440,048	2,031,424

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.

Matrix of impairment losses on trade receivables

	Percentage of expected impairment	
	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Not past due	0.01%	0.01%
Past due up to 90 days	0.45%	32.58%
Past due 91-180 days	0.00%	4.68%
Past due 181-360 days	100.00%	26.67%
Past due more than 360 days	99.94%	99.97%

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 780,112 thousand, and their fair value is ca. PLN 803,406 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 2021 (*unaudited*):

Hierarchy level	Level 2	Level 3
Financial assets at fair value, including:	604	92,002
at fair value through profit or loss	-	46,919
measured at fair value through other comprehensive income, including:	-	45,083
<i>shares</i>	-	6,625
<i>trade receivables</i>	-	38,458
<i>derivative financial instruments</i>	604	-
Financial liabilities at fair value including:	-	15,512
at fair value through profit or loss	-	15,512

The table below presents the Company's financial instruments carried at fair value by levels in the fair value hierarchy as at December 31st 2020 (*audited*):

Hierarchy level	Level 2	Level 3
Financial assets at fair value, including:		
at fair value through profit or loss	-	56,704
including:	-	43,342
derivative financial instruments	-	43,342
measured at fair value through other comprehensive income, including:	-	13,362
<i>shares</i>	-	6,625
<i>trade receivables</i>	-	6,737
Financial liabilities at fair value including:	1,810	19,038
at fair value through profit or loss		
including:	1,810	19,038
<i>derivative financial instruments</i>	1,810	19,038

There were no transfers between the levels in the first half of 2021 or in 2020.

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 the first half of 2021 and in 2020, 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.

The fair value of the shares (equity investments) was measured using the discounted cash flow method.

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 2021, the notional amount of the Company's open currency derivatives (forwards) was EUR 21m. As at December 31st 2020, the notional amount of open FX forwards was EUR 17m.

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.

Derivatives under Grupa Azoty POLYOLEFINS shareholder agreement

Right and obligation to repurchase shares in Grupa Azoty POLYOLEFINS from non-controlling shareholders - call and put options

On May 31st 2020, the Company, Grupa Azoty POLICE (jointly referred to as the "Original Sponsors") and Grupa Azoty POLYOLEFINS entered into agreements with Grupa LOTOS, Hyundai and KIND (where Grupa LOTOS, Hyundai and KIND are referred to jointly as the "Co-Sponsors", and together with the Original Sponsors and Grupa Azoty POLYOLEFINS as the "Parties") concerning the terms and conditions of an equity investment and subordinated debt financing ("Transaction Documents") in connection with Grupa Azoty's strategic Polimery Police project implemented by Grupa Azoty POLYOLEFINS.

As part of the Transaction Documentation, investment agreements, loan agreements, shareholders' agreement between all of the Parties (the "Shareholders' Agreement") were signed.

In the Shareholders' Agreement, the Parties agreed that the lock-up period during which Hyundai and KIND would not be able, as a rule, to dispose of their Grupa Azoty POLYOLEFINS shares would last until the expiry of three years from the date of the Polimery Police project completion, and in the case of LOTOS - until full repayment of all liabilities under the Debt Financing Agreement, but not longer than until December 15th 2035. The Parties also agreed on a procedure for sale of Grupa Azoty POLYOLEFINS shares by the Co-Sponsors after expiry of the lock-up periods.

The Transaction Documents provide that the Original Sponsors may carry out a public offering of Grupa Azoty POLYOLEFINS shares after the expiry of the lock-up period. In addition, the Parties agreed on a put option for Hyundai and KIND towards the Original Sponsors and a call option for the Original Sponsors towards Hyundai, in each case with respect to Grupa Azoty POLYOLEFINS shares, with a total value (calculated based on the price originally paid by Hyundai and KIND for the shares) of up to USD 70,000,000, for the same amount expressed in USD, and in the case of the put option - additionally reduced by any dividends paid to Hyundai and KIND by the put option exercise date. The Parties agreed that the options would expire on or before December 31st 2035.

Therefore, the put option granted to Hyundai and KIND and the call option granted to the Original Sponsors are, from the Company's perspective, financial derivatives whose value depends on the value of the underlying asset, i.e. the value of Grupa Azoty POLYOLEFINS shares, market parameters and the duration of the options.

The call and put options were remeasured as at June 30th 2021 and the result of the remeasurement was charged to the statement of profit or loss.

The Company recognised in its financial statements financial assets under a derivative instrument - the call option, of PLN 46,919 thousand, and financial liabilities under a derivative instrument - the put option, of PLN 15,512 thousand. The effect on profit or loss was PLN 7,103 thousand.

For detailed information on these derivative instruments, see Note 30.6 to the separate financial statements of Grupa Azoty Spółka Akcyjna for the 12 months ended December 31st 2020.

Recognition of an instrument resulting from the mechanism to stabilise the return on the Co-Sponsors' investment in Grupa Azoty POLYOLEFINS shares not covered by the call or put option

The Shareholders' Agreement provides for additional exit mechanisms for the Co-Sponsors as shareholders of Grupa Azoty POLYOLEFINS. In particular, these mechanisms include a public issue of Grupa Azoty POLYOLEFINS shares; joint sale of Grupa Azoty POLYOLEFINS shares to third-party investors; first refusal rights over Grupa Azoty POLYOLEFINS shares granted to the Original Sponsors; an option for Grupa LOTOS to acquire a majority interest in Grupa Azoty POLYOLEFINS if the co-financing necessary to complete the Polimery Police project is not possible; and the exit mechanism for Grupa LOTOS, Hyundai and KIND, with respect to the shares not covered by the put option and the call option, through repurchase of such shares by Grupa Azoty POLYOLEFINS at fair value for subsequent cancellation. The shares should be repurchased using funds generated and accumulated by Grupa Azoty POLYOLEFINS once the senior debt financing has been fully repaid. The share repurchase is expected after 2035, in line with the current financial model adopted for the Polimery Police project. The repurchase price based on the future fair value of Grupa Azoty POLYOLEFINS shares as at the repurchase date, taking into account earlier dividend payments, will ensure that the Co-Sponsors receive the rate of return specified in the Shareholders' Agreement with respect to the contribution made on November 16th 2020 towards the Grupa Azoty POLYOLEFINS share capital increase, covered by the mechanism. If the rate of return is lower than agreed, the Original Sponsors

will be jointly and severally obliged to make supplementary payments to the Co-Sponsors so as to increase the rate of return on the Co-Sponsors' investments covered by the share repurchase-based exit mechanism to the agreed level, but in any case by no more than a specified number of percentage points. Similarly, if the rate of return on the Co-Sponsors' investments in the shares covered by the share repurchase-based exit mechanism exceeds the level expected by the Co-Sponsors, they will be obliged to make payments to the Original Sponsors so as to reduce the rate of return on the Co-Sponsors' investments to the agreed level, but in any case by no more than a specified number of percentage points (the same as in the above-mentioned case where the rate of return on the Co-Sponsors' investments is increased by the Original Sponsors).

The mechanism described above, intended to stabilise the rate of return on the Co-Sponsors' investments in Grupa Azoty POLYOLEFINS shares covered by the share repurchase-based exit mechanism, results in the creation of a financial instrument at the Original Sponsors, whose value may be either positive (i.e. may become a financial asset if the Co-Sponsors anticipate a rate of return higher than agreed in the Shareholders' Agreement and, consequently, return payments to be made to the Original Sponsors) or negative (i.e. may become a financial liability if supplementary payments from the Original Sponsors to the Co-Sponsors are anticipated following the share repurchase).

Under the current baseline financial model of the Polimery Police project, which served as the basis for investment and credit decisions, it is expected that the Co-Sponsors will achieve a rate of return not lower than specified in the Shareholders' Agreement. Therefore, no supplementary payments are currently expected to be made by the Original Sponsors to the Co-Sponsors after the shares are repurchased for cancellation following repayment of the senior debt financing.

At the same time, given the current status of the Polimery Police project, i.e. the stage of completion of approximately 67.6% as at June 30th 2021, there are no indications of any material risks to the expected rate of return relative to the baseline scenario, a number of micro- and macroeconomic factors affecting the delivery and profitability of the Polimery Police project, as well as a distant date for the exercise of rights or discharge of obligations under the said rate-of-return stabilisation mechanism, which makes the estimation of final settlement highly uncertain, Group Azoty S.A. decided not to recognise a financial asset on that account. This decision will be reviewed and revised in subsequent periods, in keeping with the progress of the Polimery Police project.

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 2021 to September 2028. The hedging covers currency risk. The hedge are two euro-denominated credit facilities of:

- EUR 72,648 thousand as at June 30th 2021 (December 31st 2020: EUR 81,729 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 2021 (December 31st 2020: EUR 100,000 thousand), repayable from September 2021 to September 2028 in 15 equal half-yearly instalments of EUR 6,666 thousand each.

As at June 30th 2021, the carrying amount of both these credit facilities was PLN 780,112 thousand (December 31st 2020: PLN 838,187 thousand). As at June 30th 2021, the hedging reserve included PLN (39,725) thousand (December 31st 2020: PLN (58,626) thousand) on account of the effective hedge. In the first half of 2021, the Company reclassified PLN 1,799 thousand from other comprehensive income to the statement of profit or loss in connection with the settlement of a hedging relationship with respect to payment of currency loan instalments against proceeds from sales in the euro.

Note 23 Contingent liabilities, contingent assets, sureties and guarantees

Contingent liabilities and guarantees/sureties

	as at Jun 30 2021	as at Dec 31 2020
	<i>unaudited</i>	<i>audited</i>
Sureties	8,137	8,307

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.

The support loan provision guarantee was provided on the date of fulfilment of the conditions precedent to the Credit Facilities Agreement for the financing of the Polimery Police project, notified by Bank Pekao S.A. to Grupa Azoty POLYOLEFINS on February 5th 2021. In the first half of 2021 and until the issue date of these financial statements, there were no circumstances which would entitle the security agent to demand payment under the support loan.

Note 24 Related-party transactions

Trade transactions with subsidiaries

Trade transactions

In the six months ended June 30th 2021 and as at that date (unaudited)

Related parties Grupa Azoty S.A.
Related parties Grupa Azoty POLICE
Related parties Grupa Azoty PUŁAWY
Related parties Grupa Azoty PKCh Sp. z o.o.
Related parties COMPO EXPERT

	Revenue	Receivables	Purchases	Liabilities
Related parties Grupa Azoty S.A.	523,300	342,130	233,593	60,473
Related parties Grupa Azoty POLICE	154	72	14	-
Related parties Grupa Azoty PUŁAWY	7,195	520	2,183	549
Related parties Grupa Azoty PKCh Sp. z o.o.	2,075	2,727	40,947	21,743
Related parties COMPO EXPERT	56	158		
	532,780	345,607	276,737	82,765

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

Related parties Grupa Azoty S.A.
Related parties Grupa Azoty POLICE
Related parties Grupa Azoty PUŁAWY
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 POLICE	121	35	19	4
Related parties Grupa Azoty PUŁAWY	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

Other transactions

In the six months ended June 30th 2021 (unaudited)

Related parties Grupa Azoty S.A.
 Related parties Grupa Azoty POLICE
 Related parties Grupa Azoty PUŁAWY
 Related parties Grupa Azoty PKCh Sp. z o.o.

	Other income	Other expenses	Finance income	Finance costs
Related parties Grupa Azoty S.A.	1,227	96	107,668	4,255
Related parties Grupa Azoty POLICE	7	-	12,609	71
Related parties Grupa Azoty PUŁAWY	-	-	175	105
Related parties Grupa Azoty PKCh Sp. z o.o.	902	2,471	-	118
	2,136	2,567	120,452	4,549

In the six months ended June 30th 2020 (unaudited)

Related parties Grupa Azoty S.A.
 Related parties Grupa Azoty POLICE
 Related parties Grupa Azoty PUŁAWY
 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 POLICE	-	-	2,880	150
Related parties Grupa Azoty PUŁAWY	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

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

	for the period Jan 1 - Jun 30 2021	for the period Jan 1 - Jun 30 2020
	<i>unaudited</i>	<i>unaudited</i>
Short-term benefits	4,991	2,593
Post-employment benefits	360	-
	5,351	2,593

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

	for the period Jan 1 - Jun 30 2021	for the period from Jan 1 to Jun 30 2020
	<i>unaudited</i>	<i>unaudited</i>
Short-term benefits	987	1,027

Loans to related parties

In the first half of 2021, the Company did not advance any loans (in 2020, the Company advanced loans totalling PLN 1,027,172 thousand, of which PLN 56,400 thousand was granted to Grupa Azoty KĘDZIERZYN, PLN 349,420 thousand to Grupa Azoty POLICE, EUR 60,000 thousand to COMPO EXPERT Holding GmbH, and PLN 344,464 thousand to Grupa Azoty POLYOLEFINS).

In the first half of 2021, the Company received timely repayments of loans previously granted, in the amount of PLN 59,528 thousand, including PLN 13,525 thousand from Grupa Azoty POLICE, PLN 26,769 thousand from Grupa Azoty KĘDZIERZYN, and EUR 4,333 thousand from COMPO EXPERT Holding GmbH (2020: PLN 64,313 thousand, including PLN 18,271 thousand from Grupa Azoty POLICE and PLN 46,042 thousand from Grupa Azoty KĘDZIERZYN).

Cash pooling

As at June 30th 2021, the Company presented cash provided to other Group companies participating in the cash pooling services as cash equivalents of PLN 232,073 thousand, whereas cash received by the Company from other Group companies is presented as short-term borrowings of PLN 1,033,765 thousand as at June 30th 2021.

Note 25 Investment commitments

In the period ended June 30th 2021, 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:

- upgrade of in-house power generation: peak-load/reserve boiler - as at June 30th 2021, the total amount of commitments under executed contracts was PLN 46,772 thousand (December 31st 2020: PLN 56,660 thousand),
- construction of a concentrated Nitric Acid Plant II - as at June 30th 2021, the total amount of commitments under executed contracts was PLN 20,629 thousand (December 31st 2020: PLN 26,119 thousand),
- adjustment of the FGD absorption unit to the requirements of BAT conclusions - as at June 30th 2021, the total amount of commitments under executed contracts was PLN 20,811 thousand (December 31st 2020: PLN 12,976 thousand),
- installation of the second polyamide 6 surface modification line - as at June 30th 2021, the total amount of commitments under executed contracts was PLN 7,897 thousand (December 31st 2020: PLN 5,041 thousand),
- construction of a turbogenerator set using steam from the Sulfuric Acid Department and the Nitric Acid Unit, and of a 4 MPa steam line from the Sulfuric Acid Department to the Nitric Acid Unit - as at June 30th 2021, the total amount of commitments under executed contracts was PLN 4,828 thousand (December 31st 2020: PLN 13,797 thousand),

- bringing the oleum storage facilities into compliance with the applicable regulations - as at June 30th 2021, the total amount of commitments under executed contracts was PLN 3,859 thousand (December 31st 2020: PLN 4,865 thousand),

The total amount of commitments under executed contracts was PLN 120,770 thousand (December 31st 2020: PLN 137,782 thousand).

Note 26 Events after the reporting date

Discontinuation of polyoxymethylene (POM) business

On June 9th 2021, the Management Board decided that the Company's activity in the polyoxymethylene business would be discontinued.

An analysis revealed that the POM business would not be economically viable in the foreseeable future, which is an indication that the Plastics Segment's POM business should be discontinued and its selected assets should be disposed of.

Consolidated revenue from sales of POM products to external customers in the first half of 2021 amounted to PLN 34.6m, accounting for 3.5% of the Company's total revenue (compared with PLN 54.1m, or 3.4%, in the first half of 2020). The discontinuation of the POM business will improve operating performance and reduce the Company's total CO₂ emissions.

The decision to exit the POM business will have no material impact on any other operations of the Plastics Segment.

The agreement to sell the POM business, comprising technology, customer relations, inventories and selected property, plant and equipment, was executed on July 9th 2021. Consequently, the POM business was discontinued as of August 2021 and its assets are being gradually disposed of or utilised otherwise.

Announcement of a list of installations and annual number of emission allowances

On July 7th 2021, acting pursuant to Art. 26e.3 of the Act on a Trading System for Greenhouse Gas Emissions Allowances of June 12th 2015 (Dz.U. of 2021, items 332 and 1047), the Ministry of Climate and Environment announced the list of installations and the number of emission allowances allocated for 2021-2025.

Hyundai's proposal to amend the EPC Contract

On August 27th 2021, the Company's Management Board announced that on August 27th 2021 Grupa Azoty POLYOLEFINS received a letter from Hyundai Engineering Co., Ltd., the general contractor for the Polimery Police project (the "Contractor"), concerning the initiation of a procedure to amend (the "Amendment Proposal") the contract of May 11th 2019 for turnkey execution of the Polimery Police project (the "EPC Contract").

The Contractor proposes to amend the EPC Contract by:

- increasing the Contractor's fee by a total amount of EUR 127.4m,
- changing the Polimery Police project execution schedule through extension of the project's execution period by 181 days.
- amending an appendix to the EPC Contract where it relates to, among others, the scope of work provided for in the EPC Contract.

In the Contractor's opinion, the reason for submitting the Amendment Proposal is, in particular, the impact of the COVID-19 pandemic on the Polimery Police project.

The Amendment Proposal will be thoroughly reviewed and verified in terms of its appropriateness under the EPC Contract, in accordance with the procedure provided for in the EPC Contract, and under other agreements between Grupa Azoty POLYOLEFINS and the Contractor, as well as in the light of facts.

Note 27 Information on the effects of the COVID-19 pandemic

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

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

The pandemic situation led to changes in the work organisation systems, designed to limit physical contacts between employees in order to minimise the risk of infection.

The Grupa Azoty Group companies provided additional protective and hygienic materials for the employees of the Group companies, and also enabled employees to do rapid COVID-19 tests in cases of suspected infection or contact with an infected person.

In June 2021, the Grupa Azoty Group organised preventive vaccinations against COVID-19 for employees of the Company and its subsidiaries and for their families.

In the six months to June 30th 2021, the Company was not affected by an increase in employee sick absence rates which would disrupt operations.

The Grupa Azoty Group is taking steps to minimise the impact of the COVID-19 pandemic on its 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.

In the reporting period, no significant disruptions were recorded in the supply chain of raw materials and products.

In the first half of 2021, the Company did not report any material adverse effects of the COVID-19 pandemic on its financial results.

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

Signatures of members of the Management Board

.....
Tomasz Hinc
President of the Management Board

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

.....
Filip Grzegorzczak, PhD
Vice President of the Management Board

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

.....
Grzegorz Kądziałowski, PhD
Vice President of the Management Board

.....
Marek Wadowski
Vice President of the Management Board

.....
Zbigniew Paprocki
*Member of the Management Board Director
General*

Person responsible for maintaining accounting records

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

Tarnów, September 9th 2021