



Consolidated interim report
of the Grupa Azoty Group
for Q3 2019

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Interim condensed consolidated financial statements for
the three and nine months ended
September 30th 2019

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

	Note	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018	for the period Jul 1– Sep 30 2019	for the period Jul 1– Sep 30 2018
Profit/loss		<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue	1	8,666,404	7,201,697	2,563,895	2,324,668
Cost of sales		(6,686,873)	(6,074,741)	(2,036,968)	(2,105,594)
Gross profit		1,979,531	1,126,956	526,927	219,074
Selling and distribution expenses		(668,228)	(466,230)	(210,685)	(156,070)
Administrative expenses		(636,660)	(568,893)	(209,758)	(186,488)
Other income		43,119	35,253	14,462	10,923
Other expenses		(76,645)	(56,951)	(15,317)	(13,759)
Operating profit/(loss)		641,117	70,135	105,629	(126,320)
Finance income		14,508	44,664	1,207	(3,499)
Finance costs		(70,856)	(83,929)	(27,115)	216
Net finance costs		(56,348)	(39,265)	(25,908)	(3,283)
Share of profit of equity-accounted investees		9,286	10,016	3,159	2,825
Profit before tax		594,055	40,886	82,880	(126,778)
Income tax		(138,130)	(33,233)	(21,909)	9,958
Net profit/(loss)		455,925	7,653	60,971	(116,820)
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial losses from defined benefit plans		(12,249)	(13,016)	739	-
Tax on items that will not be reclassified to profit or loss		2,328	2,472	(140)	-
		(9,921)	(10,544)	599	-

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

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

Note	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018	for the period Jul 1– Sep 30 2019	for the period Jul 1– Sep 30 2018
	<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	(18,537)	(12,777)	(26,604)	11,467
Exchange differences on translating foreign operations	19,228	2,406	30,167	(322)
Tax on items that are or may be reclassified to profit or loss	3,521	2,428	5,054	(2,179)
	4,212	(7,943)	8,617	8,966
Total other comprehensive income	(5,709)	(18,487)	9,216	8,966
Comprehensive income for the year	450,216	(10,834)	70,187	(107,854)
Net profit attributable to:				
Owners of the Parent	422,483	18,069	59,701	(105,569)
Non-controlling interests	33,442	(10,416)	1,270	(11,251)
Comprehensive income for the year attributable to:				
Owners of the Parent	417,473	838	68,873	(98,593)
Non-controlling interests	32,743	(11,672)	1,314	(9,261)
Earnings per share:				
Basic (PLN)	4.26	0.18	0.60	(1.06)
Diluted (PLN)	4.26	0.18	0.60	(1.06)

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

Interim condensed consolidated statement of financial position

	Note/ Section	as at Sep 30 2019 <i>unaudited</i>	as at Dec 31 2018 restated* <i>audited</i>
Assets			
Non-current assets			
Property, plant and equipment	1	7,854,025	7,757,071
Perpetual usufruct of land	2.2	-	470,178
Right-of-use assets	2	873,248	-
Investment property		41,330	43,799
Intangible assets		1,020,382	1,048,461
Goodwill	3	316,352	311,280
Shares		9,113	9,113
Equity-accounted investees		85,577	89,496
Other financial assets		2,431	2,377
Other receivables		250,878	185,397
Deferred tax assets		99,899	75,579
Other assets		482	363
Total non-current assets		10,553,717	9,993,114
Current assets			
Inventories		1,440,696	1,505,024
Property rights	3	457,665	261,767
Derivative financial instruments		28	2,017
Other financial assets	3	326,474	15,061
Current tax assets		13,992	67,217
Trade and other receivables		1,488,462	1,551,652
Cash and cash equivalents		551,990	846,532
Other assets		16,127	14,578
Assets held for sale		21,576	9,050
Total current assets		4,317,010	4,272,898
Total assets		14,870,727	14,266,012

* In accordance with the information provided in sections 2.2.a and 2.2.c

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

Interim condensed consolidated statement of financial position (continued)

	Note/ Section	as at Sep 30 2019 <i>unaudited</i>	as at Dec 31 2018 restated* <i>audited</i>
Equity and liabilities			
Equity			
Share capital		495,977	495,977
Share premium		2,418,270	2,418,270
Hedging reserve		(13,155)	1,861
Translation reserve		22,011	2,789
Retained earnings, including: <i>Net profit for the year</i>		4,188,077 422,483	3,783,874 9,869
Equity attributable to owners of the Parent		7,111,180	6,702,771
Non-controlling interests		658,324	625,188
Total equity		7,769,504	7,327,959
Liabilities			
Borrowings		2,650,811	2,488,353
Lease liabilities	2.2	381,837	16,806
Other financial liabilities		18,883	21,930
Employee benefit obligations		426,783	394,677
Trade and other payables		6,635	12,446
Provisions		157,982	143,772
Government grants received		197,030	136,002
Deferred tax liabilities		483,897	448,600
Total non-current liabilities		4,323,858	3,662,586
Borrowings		460,873	362,620
Lease liabilities	2.2	55,855	8,866
Derivative financial instruments		2,119	188
Other financial liabilities		23,835	189,272
Employee benefit obligations		39,287	45,630
Current tax liabilities		54,336	18,178
Trade and other payables		2,025,084	2,598,289
Provisions		36,214	44,425
Government grants received		79,762	7,999
Total current liabilities		2,777,365	3,275,467
Total liabilities		7,101,223	6,938,053
Total equity and liabilities		14,870,727	14,266,012

* In accordance with the information provided in sections 2.2.a and 2.2.c

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

Interim condensed consolidated statement of changes in equity

for the period ended September 30th 2019

	Share capital	Share premium	Hedging reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2019	495,977	2,418,270	1,861	3,166	3,783,764	6,703,038	625,188	7,328,226
Correction of errors	-	-	-	(377)	110	(267)	-	(267)
Balance as at January 1st 2019, adjusted	495,977	2,418,270	1,861	2,789	3,783,874	6,702,771	625,188	7,327,959
<i>Profit or loss and other comprehensive income</i>								
Net profit	-	-	-	-	422,483	422,483	33,442	455,925
Other comprehensive income	-	-	(15,016)	19,222	(9,216)	(5,010)	(699)	(5,709)
Comprehensive income for the year	-	-	(15,016)	19,222	413,267	417,473	32,743	450,216
<i>Transactions with owners, recognised directly in equity</i>								
Dividends	-	-	-	-	-	-	(2,695)	(2,695)
Total contributions by and distributions to owners	-	-	-	-	-	-	(2,695)	(2,695)
Changes in the Group's structure	-	-	-	-	(11,056)	(11,056)	4,319	(6,737)
Total transactions with owners	-	-	-	-	(11,056)	(11,056)	4,319	(6,737)
Other	-	-	-	-	1,992	1,992	(1,231)	761
Balance as at September 30th 2019 (unaudited)	495,977	2,418,270	(13,155)	22,011	4,188,077	7,111,180	658,324	7,769,504

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

for the period ended September 30th 2018

	Share capital	Share premium	Hedging reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2018	495,977	2,418,270	15,407	(233)	3,918,949	6,848,370	587,238	7,435,608
<i>Profit or loss and other comprehensive income</i>								
Net profit	-	-	-	-	18,069	18,069	(10,416)	7,653
Other comprehensive income	-	-	(10,349)	2,273	(9,155)	(17,231)	(1,256)	(18,487)
Comprehensive income for the year	-	-	(10,349)	2,273	8,914	838	(11,672)	(10,834)
<i>Transactions with owners, recognised directly in equity</i>								
Dividends	-	-	-	-	(123,995)	(123,995)	(20,369)	(144,364)
Total contributions by and distributions to owners	-	-	-	-	(123,995)	(123,995)	(20,369)	(144,364)
Changes in the Group's structure	-	-	-	-	(8,737)	(8,737)	2,589	(6,148)
Total transactions with owners	-	-	-	-	(132,732)	(132,732)	(17,780)	(150,512)
Loss of control over a subsidiary	-	-	-	-	-	-	60,889	60,889
Other	-	-	-	-	(320)	(320)	(12)	(332)
Balance as at September 30th 2018 (unaudited)	495,977	2,418,270	5,058	2,040	3,794,811	6,716,156	618,663	7,334,819

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

Interim condensed consolidated statement of cash flows

	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from operating activities		
Profit before tax	594,055	40,886
<i>Adjustments for:</i>	<i>701,749</i>	<i>547,848</i>
Depreciation and amortisation	616,147	502,918
(Reversal of)/impairment losses on assets	23,189	(5,202)
Loss on investing activities	1,237	49,741
Gain on disposal of financial assets	(478)	(109)
Share of profit of equity-accounted investees	(9,286)	(10,016)
Interest, foreign exchange gains or losses	67,976	9,970
Dividends	(159)	(447)
Fair value loss on financial assets at fair value	3,123	993
	1,295,804	588,734
Increase in trade and other receivables	(13,951)	(190,009)
(Increase)/Decrease in inventories and property rights	(129,361)	13,990
(Decrease)/Increase in trade and other payables	(551,528)	121,709
Increase in provisions, accruals and government grants	236,878	66,382
Other adjustments	376,300	(489)
Cash generated from operating activities	1,214,142	600,317
Income tax paid	(35,872)	(19,876)
Net cash from operating activities	1,178,270	580,441

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

Interim condensed consolidated statement of cash flows (continued)

	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	6,525	1,514
Acquisition of property, plant and equipment, intangible assets and investment property	(748,694)	(770,708)
Dividend received	11	13,108
Acquisition of financial assets	(415,252)	(87,065)
Proceeds from sale of financial assets	101,564	247,709
Interest received	16,858	14,464
Government grants received	754	3,808
Repayments of loans advanced	82	-
Other disbursements	(1,652)	(2,038)
Net cash from investing activities	(1,039,804)	(579,208)
Cash flows from financing activities		
Dividends paid	(2,717)	(144,364)
Proceeds from borrowings	383,668	140,010
Repayment of borrowings	(171,084)	(145,561)
Interest paid	(74,797)	(53,381)
Payment of lease liabilities	(52,269)	(7,708)
Other cash (used in) financing activities	(527,840)	(2,460)
Net cash from financing activities	(445,039)	(213,464)
Total net cash flows	(306,573)	(212,231)
Cash and cash equivalents at beginning of period	846,532	1,085,885
Effect of exchange rate fluctuations on cash held	12,031	4,056
Cash and cash equivalents at end of period	551,990	877,710

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

Supplementary information to the interim condensed consolidated financial statements

1. Description of the Group

1.1. The Group's organisational structure

As at September 30th 2019, the Grupa Azoty Group (the "Group") comprised: Grupa Azoty S.A. (the Parent), direct subsidiaries:

- COMPO EXPERT Holding GmbH ("COMPO EXPERT", formerly Goat TopCo GmbH) - wholly-owned,
- Grupa Azoty ATT Polymers GmbH - wholly-owned,
- Grupa Azoty Compounding Sp. z o.o. - wholly-owned,
- Grupa Azoty Folie Sp. z o.o. - wholly-owned,
- Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKOPOL) - a 99.39% interest,
- Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY) - a 95.98% interest,
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty KĘDZIERZYN) - a 93.48% interest,
- Grupa Azoty Zakłady Chemiczne Police S.A. (Grupa Azoty POLICE) - a 66% interest,
- Grupa Azoty Koltar Sp. z o.o. (Grupa Azoty KOLTAR) - a 60% interest, with Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN each holding a 20% interest,
- Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. (Grupa Azoty PKCh Sp. z o.o.) - a 63.27% interest, with Grupa Azoty KĘDZIERZYN holding a 36.73% interest,

as well as the indirect subsidiaries and associates presented in the charts on the next pages.

The Parent was entered in the Register of Businesses in the National Court Register (entry No. KRS 0000075450) on December 28th 2001, pursuant to a ruling of the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register, dated December 28th 2001. The Parent's REGON number for public statistics purposes is 850002268.

Since April 22nd 2013, the Parent has been trading under the name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).

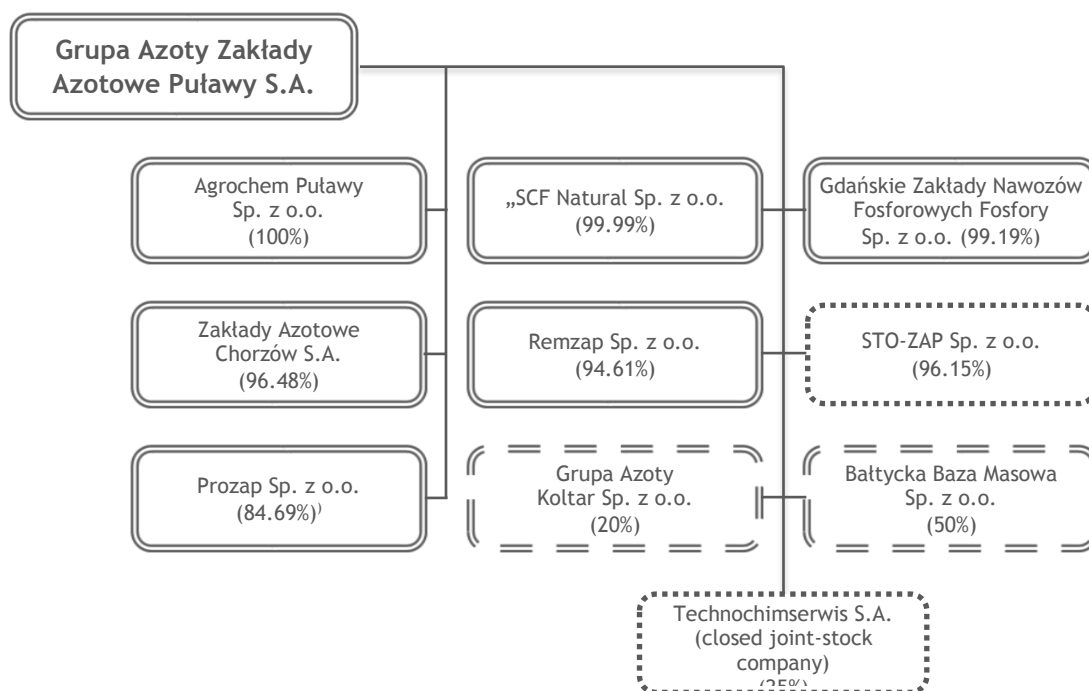
The Group's business includes in particular:

- processing of nitrogen products,
- manufacture and sale of fertilizers,
- manufacture and sale of plastics,
- manufacture and sale of OXO alcohols,
- manufacture and sale of titanium white,
- manufacture and sale of melamine,
- production of sulfur and processing of sulfur-based products.

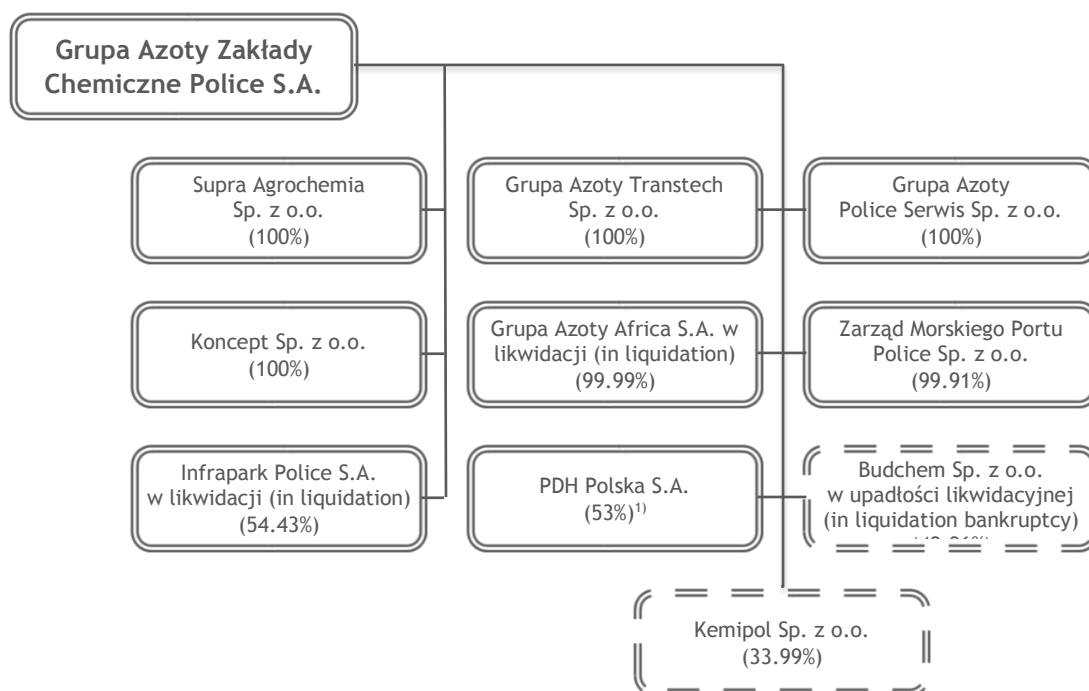
The Parent and the Group companies were incorporated for unlimited period.

These interim condensed consolidated financial statements were authorised for issue by the Parent's Management Board on November 12th 2019.

Structure of Grupa Azoty PUŁAWY as at September 30th 2019:






Structure of Grupa Azoty POLICE as at September 30th 2019



¹⁾ The Parent holds 47% of shares in PDH Polska S.A. (since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.).

Legend:

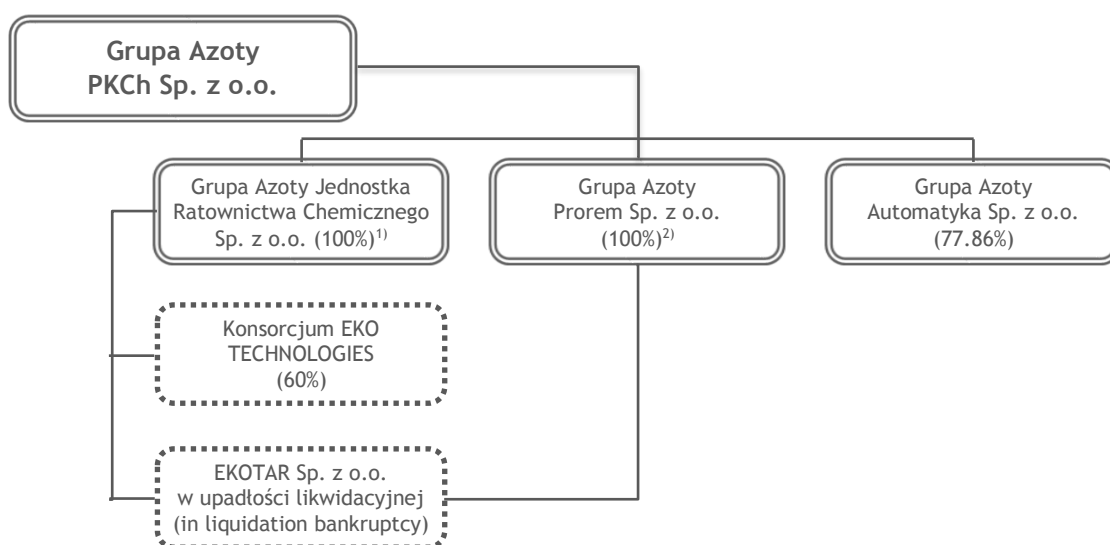
-  Fully-consolidated entities
-  Equity-accounted entities
-  Non-consolidated entities

Structure of Grupa Azoty KĘDZIERZYN as at September 30th 2019



¹⁾ Grupa Azoty KOLTAR Sp. z o.o holds 0.783% of shares in ZAKSA S.A.

Structure of Grupa Azoty PKCh Sp. z o.o. as at September 30th 2019




¹⁾ Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. holds 12% of the shares in EKOTAR Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy).

²⁾ Grupa Azoty Prorem Sp. z o.o. holds 12% of the shares in EKOTAR Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy).

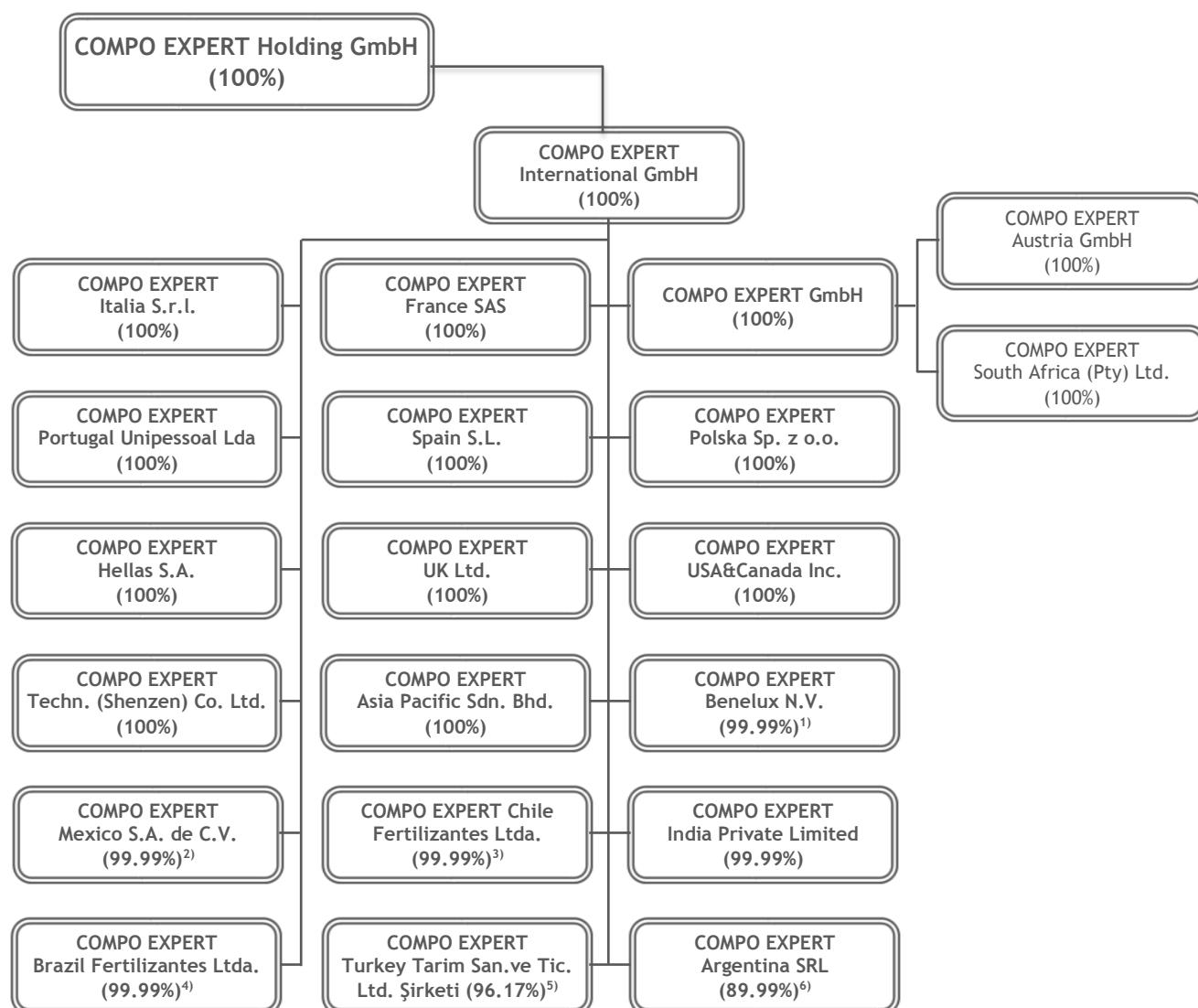
Legend:

 Fully-consolidated entities

 Equity-accounted entities

 Non-consolidated entities

Structure of the COMPO EXPERT Group as at September 30th 2019



¹⁾ COMPO EXPERT Benelux N.V. - COMPO EXPERT GmbH holds 0.0103% of the shares.

²⁾ COMPO EXPERT Mexico S.A. de C.V. - COMPO EXPERT GmbH holds 0.000311% of the shares.

³⁾ COMPO EXPERT Chile Fertilizantes Ltda. - COMPO EXPERT GmbH holds 0.01% of the shares.


⁴⁾ COMPO EXPERT Brazil Fertilizantes Ltda. - COMPO EXPERT GmbH holds 0.000003% of the shares.

⁵⁾ COMPO EXPERT Turkey Tarim San.ve Tic. Ltd. Şirketi - COMPO EXPERT GmbH holds 3.83% of the shares.

⁶⁾ COMPO EXPERT Argentina SRL - COMPO EXPERT GmbH holds 10.000024% of the shares.

Legend:

 Fully-consolidated entities

 Equity-accounted entities

 Non-consolidated entities

1.2. Changes in the Group's structure

Changes in the Group's structure in Q3 2019, including changes resulting from business combinations, acquisitions or disposals of Group entities, as well as long-term investments, demergers, restructuring or discontinuation of operations in the reporting period.

Registration of amendments to the COMPO EXPERT Group companies' deeds of incorporation

On July 10th 2019, amendments to the articles of association of Goat HoldCo GmbH, Goat BidCo GmbH and COMPO EXPERT GmbH, concerning the establishment of supervisory boards at these companies, change of their financial years (introduction of the financial year corresponding to the calendar year in line with the rules applicable at the Grupa Azoty Group), and implementation of the provisions following from the Act on State Property Management of December 16th 2016, were registered in the German Commercial Register (HRB) .

At the same time, the following name changes were registered:

- the change of Goat HoldCo GmbH to COMPO EXPERT Holding GmbH
- the change of Goat BidCo GmbH to COMPO EXPERT International GmbH.

Liquidation of Infrapark Police S.A. w likwidacji (in liquidation)

On July 18th 2019, following completion of all liquidation proceedings, the Liquidators of Infrapark Police S.A. w likwidacji (in liquidation) filed an application with the District Court to remove the company from the Business Register.

Merger of COMPO EXPERT Holding GmbH and Goat TopCo GmbH

On July 29th 2019, the Deed of Merger between COMPO EXPERT Holding GmbH (formerly Goat HoldCo GmbH) and Goat TopCo GmbH was signed, with COMPO EXPERT Holding GmbH as the acquirer. The acquiree (Goat TopCo GmbH) transferred all its assets, rights and obligations through dissolution without liquidation to the acquirer by way of a merger. The merger was carried out based on balance sheets prepared as at December 31st 2018 and became official upon its registration in the commercial register on August 6th 2019, with effect as of January 1st 2019.

Share capital increase at PDH Polska S.A. *)

On August 7th 2019, the District Court for Szczecin-Centrum of Szczecin, 13th Commercial Division of the National Court Register, registered an increase in the share capital of PDH Polska S.A. *)

The new shares were taken up by way of a private placement by:

- Grupa Azoty POLICE, which took up shares with a par value of PLN 65,510,920,
- the Parent, which took up shares with a par value of PLN 97,828,080.

Following the registration of the share capital increase, Grupa Azoty POLICE holds a total of 24,768,967 shares in that company, representing 53% of its share capital, while the Parent holds a total of 21,964,933 shares (47% of the share capital).

Share capital increase at Grupa Azoty POLICE

On August 26th 2019, the Management Board of Grupa Azoty POLICE decided to resume the secondary public offering and passed a resolution to increase the company's share capital through the issue of new shares with pre-emptive rights and to amend the Articles of Association, and repealed the previous resolution of March 4th 2019.

The proposed share capital increase will be effected through a secondary public offering addressed to the existing shareholders. The proposed share capital increase should be effected by the end of 2019.

On September 23rd 2019, the General Meeting of Grupa Azoty POLICE passed resolutions concerning an increase in the company's share capital by way of an issue of new shares with pre-emptive rights, public offering of the new shares, setting the record date for pre-emptive rights in respect of the new shares for November 7th 2019, conversion into book-entry form and seeking of admission and introduction of the pre-emptive rights, allotment certificates and new shares to trading on the regulated market operated by the Warsaw Stock Exchange, and amendments to the company's Articles of Association.

*) Since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.

In connection with the resolution passed by the Extraordinary General Meeting of Grupa Azoty POLICE on September 23rd 2019, on October 10th 2019 the Parent's Management Board passed a resolution to request the Company's General Meeting to:

- grant its consent to the Company's acquisition of the Planned Issue shares for the issue price determined by the Management Board of Grupa Azoty POLICE, as part of a rights issue, to the extent required for Grupa Azoty S.A. to retain operational control and ownership of Grupa Azoty POLICE, with the proviso that upon registration by the court of the increase in Grupa Azoty POLICE's share capital in connection with the Planned Issue, the Parent's equity interest in Grupa Azoty POLICE should not exceed 66%;
- authorise the Management Board to undertake all formal and legal steps connected with the acquisition of offer shares in the exercise of pre-emptive rights or as a result of placing additional subscription orders for offer shares or acquiring offer shares not acquired by investors as part of the offering with pre-emptive rights, including determination of the final number of offer shares to be acquired as part of the Planned Issue, and possible purchase or sale by the Company of pre-emptive rights or Grupa Azoty POLICE shares, subject to the Company Supervisory Board's prior consent for any such transaction where the transaction value exceeds PLN 6m.

On October 24th 2019, the Company's Supervisory Board issued a positive opinion on the request submitted by the Company's Management Board to the Extraordinary General Meeting for consent to the acquisition by the Company of shares in the increased share capital of Grupa Azoty POLICE.

On November 4th 2019, the Management Board of Grupa Azoty POLICE passed a resolution under which:

- the issue price of Series C ordinary bearer shares (the "New Shares") was set at PLN 10.20 per New Share,
- the number of pre-emptive rights entitling their holder to subscribe for one New Share was set at 0.68181818181,
- one pre-emptive right entitles its holder to subscribe for 1.46666666667 New Shares.

At the same time, the Management Board of Grupa Azoty POLICE decided not to exercise the authorisation granted under Art. 432.4 of the Commercial Companies Code and the Resolution of the Extraordinary General Meeting of Grupa Azoty POLICE to determine the final amount by which the Company's share capital is to be increased. Therefore, the final number of New Shares is equal to the maximum number of New Shares specified in the Resolution of the Company's Extraordinary General Meeting, i.e. 110,000,000 New Shares.

On November 5th 2019, the Polish Financial Supervision Authority approved the issue prospectus of Grupa Azoty POLICE prepared for the purposes of the Company's public offering.

On November 8th 2019, the Extraordinary General Meeting of the Parent passed a resolution to approve the acquisition by the Company of shares in the increased share capital of Grupa Azoty POLICE.

Transtech Usługi Sprzętowe i Transportowe Sp. z o.o. name change

On August 27th 2019, the District Court registered the change of the name of Transtech Usługi Sprzętowe i Transportowe Sp. z o.o. to Grupa Azoty Transtech Sp. z o.o. (pursuant to a resolution of the Extraordinary General Meeting).

Share capital increase at Grupa Azoty SIARKOPOL

On August 28th 2019, an increase in Grupa Azoty SIARKOPOL's share capital was registered. The share capital was increased by PLN 1,791,530 to PLN 60,620,090. All the new shares were taken up by the Parent. As a result, Grupa Azoty S.A. holds 6,025,212 shares in Grupa Azoty SIARKOPOL, representing 99.99% of its share capital.

Merger of Koncept Sp. z o.o. and Prozap Sp. z o.o.

On August 30th 2019, the management boards of Koncept Sp. z o.o. and Prozap Sp. z o.o. agreed and signed a plan to merge the companies.

The merger plan, disclosed to the public on the websites of both companies as of August 30th 2019, envisages that:

- the merger will be effected pursuant to Art. 492.1.1 of the Commercial Companies Code (merger by acquisition), i.e. by transferring all the assets of Koncept Sp. z o.o. (the acquiree) to Prozap Sp. z o.o. (the acquirer),

- at the same time, the acquirer's share capital will be increased by PLN 65.5 thousand by creating new shares which will be issued by the acquirer to the shareholders of the acquiree, in accordance with the exchange ratio defined in the merger plan,
- the merger will require a resolution of the General Meeting of each of the merging companies, approving the merger plan and proposed amendments to the Articles of Association of Prozap Sp. z o.o.,
- Prozap Sp. z o.o. will assume all rights and obligations of Koncept Sp. z o.o.,
- the merger will be effected on the date of registration of the merger in the National Court Register entry maintained for the acquirer,
- Koncept Sp. z o.o. will be dissolved, without conducting liquidation proceedings, on the date of its deletion from the business register of the National Court Register.

On October 7th 2019, Koncept Sp. z o.o. received a decision of the court to include the merger plan in the company's registration files. At the same time, at the request of Prozap Sp. z o.o., the District Court issued a decision to include the merger plan in the company's registration files and appoint an auditor to examine the correctness and reliability of the merger plan.

Cancellation of shares in Remzap Sp. z o.o.

On September 30th 2019, 15 shares in REMZAP Sp. z o.o. were cancelled following the death of its shareholders.

As a result, the percentage of voting rights held by Grupa Azoty PUŁAWY at the Remzap Sp. z o.o. General Meeting rose from 96.33% to 96.39%. Grupa Azoty PUŁAWY's interest in Remzap Sp. z o.o.'s share capital did not change.

Events after the reporting date

Change of name of PDH Polska S.A. to Grupa Azoty Polyolefins S.A.

On October 8th 2019, the District Court registered the change of name of PDH Polska S.A. In accordance with the resolution of the company's Extraordinary General Meeting of September 30th 2019, the new name of the company is Grupa Azoty Polyolefins Spółka Akcyjna.

Share capital increase at Grupa Azoty Compounding Sp. z o.o.

On October 28th 2019, the Extraordinary General Meeting of Grupa Azoty Compounding Sp. z o.o. passed a resolution to increase the share capital from PLN 36,000,000 to PLN 72,007,700, i.e. by PLN 36,007,700, through the creation of 360,077 new shares with a par value of PLN 100 per share, which will be acquired by the sole shareholder - the Parent:

- 190,000 shares with a par value of PLN 100 per share, for PLN 19,000,000 in cash,
- 170,077 shares with a par value of PLN 100 per share, for a non-cash contribution of PLN 17,007,740.

The share premium of PLN 40 will be used to increase the statutory reserve funds of Grupa Azoty Compounding Sp. z o.o.

1.3. Accounting for the acquisition of Goat TopCo GmbH

On November 26th 2018, the Parent acquired 100% of the shares (representing 100% of the votes) in Goat TopCo GmbH (currently COMPO EXPERT) of Münster, Germany, from Goat Netherlands B.V. of Amsterdam, the Netherlands, a member of the Chinese XIO Group.

Thus, Grupa Azoty took control of COMPO EXPERT, whose key operating subsidiaries are members of COMPO EXPERT of Münster, Germany.

The amount paid by Grupa Azoty for the COMPO EXPERT shares was EUR 226,637 thousand (PLN 973,966 thousand). On November 26th 2018, the transaction closing date, Grupa Azoty paid the full price for and acquired the ownership title to the shares.

The acquisition was accounted for in accordance with IFRS 3 *Business Combinations*. As at December 31st 2018, the provisional accounting for the acquisition of assets, liabilities and contingent liabilities assumed in the acquisition of COMPO EXPERT was applied to account for the acquisition of COMPO EXPERT. The acquisition was accounted for based on the carrying amounts sourced from the COMPO EXPERT consolidation package as at November 30th 2018, which were adopted as the best available estimate of fair value as at the acquisition date.

Final accounting for the acquisition of COMPO EXPERT:

Acquisition date	<i>Amounts in PLN '000 unless indicated otherwise</i>		
	Preliminary accounting	Adjustments	Final accounting
Net assets of acquired entities	424,998	269,176	694,174
Net assets attributable to non-controlling interests	-	-	-
Elimination of liabilities	-	-	-
The Grupa Azoty Group's share in net assets of acquired entities	424,998	269,176	694,174
Transferred cash	973,966	-	973,966
Subrogation of liabilities	-	-	-
Total acquisition price	973,966	-	973,966
Goodwill on consolidation	548,968	(269,176)	279,792
Goodwill in EUR	127,579	(62,739)	64,840
Exchange differences on translation	-	-	(1,602)
Goodwill presented in the statement of financial position as at acquisition date	-	-	278,190

Goodwill disclosed above will not be amortised and impairment losses, if any, will not be deemed tax-deductible cost.

Key adjustments relate to the identification and measurement of the fair value of the acquired assets, liabilities and contingent liabilities of COMPO EXPERT as at the date of acquisition of control, i.e. November 26th 2018.

The following items were measured:

Property, plant and equipment

- The fair value of property, plant and equipment was measured at PLN 495m.

Intangible assets

- The fair value of trademarks, including the Compo Expert trademark, and the trademarks of 21 other key products. The trademarks were measured at PLN 300m,
- Compo Expert's relationships with customers, both those purchasing Compo Expert products directly or through distributors. Relationships with customers were measured using the Multi-Period Excess Earnings Method (MEEM) at PLN 344m,
- the fair value of technologies was measured at PLN 57m,
- the fair value of other intangible assets was measured at PLN 8m.

Inventories

- The fair value of inventories was measured at PLN 335m.

Trade and other receivables

- The fair value of trade and other receivables was measured at PLN 336m.

In addition, deferred tax liabilities were adjusted for PLN 106m in connection with temporary differences arising from the fair value measurement of COMPO EXPERT's relationships with customers, trademarks, technologies, property, plant and equipment, and inventories.

The table below presents a summary of recognised assets and liabilities as at the date of gaining control:

	Preliminary accounting as at November 26th 2018	Adjustments	Final accounting as at November 26th 2018
Property, plant and equipment	404,186	90,347	494,533
Intangible assets	423,724	285,488	709,212
Trade and other receivables	338,049	(2,252)	335,797
Deferred tax assets	14,386	-	14,386
Inventories	334,286	1,124	335,410
Other assets	9,070	-	9,070
Cash and cash equivalents	50,931	-	50,931
Total assets	1,574,632	374,707	1,949,339
Trade payables	326,950	-	326,950
Liabilities under borrowings	587,411	-	587,411
Other obligations	42,265	-	42,265
Provisions	10,460	-	10,460
Deferred tax liability	182,548	105,531	288,079
Total liabilities	1,149,634	105,531	1,255,165
Net value of acquired assets	424,998	269,176	694,174

As a result of the fair value measurement of net assets and the final accounting for the acquisition, the net profit/(loss) for the period November 26th–December 31st 2018 was adjusted for PLN 110 thousand. The restatement of comparative period data is presented in section 2.2c of these financial statements.

The table below presents COMPO EXPERT results for the first nine months of 2019.

	for the period Jan 1– Sep 30 2019
Revenue	1,202,219
Cost of sales	(1,135,672)
Net other income	2,124
Operating profit (EBIT)	68,671
EBITDA	102,953

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

2.1. Statement of compliance and general basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements of the Group cover the three and nine months ended September 30th 2019 and contain comparative data for the three and nine months ended September 30th 2018 and as at December 31st 2018.

Interim condensed consolidated financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31st 2018, which were authorised for issue on April 25th 2019.

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

All amounts in these interim condensed consolidated financial statements are presented in thousands of zloty.

These interim condensed consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these financial statements, no circumstances were identified which would indicate any threat to the Group companies continuing as going concerns.

2.2. Accounting policies and computation methods

The accounting policies applied to prepare these interim condensed consolidated financial statements are consistent with those applied to draw up the full-year consolidated financial statements for the year ended December 31st 2018, except for those presented below and related to IFRS 16 *Leases* having taken effect.

a) Implementation of IFRS 16 *Leases*

IFRS 16 *Leases* ("IFRS 16") was issued by the IASB on January 13th 2016 and endorsed by the European Union on October 31st 2017. It replaces IAS 17 *Leases* ("IAS 17").

The new standard introduces a single lease accounting model in the lessee's accounting books. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Pursuant to IFRS 16, a lessee recognises a right-of-use asset and a lease liability determined at the total of discounted future payments over the lease term. Right-of-use assets are depreciated using the straight-line method, while lease liabilities are accounted for using the effective interest rate. With respect to the lessor, IFRS 16 substantially repeats the lease accounting requirements contained in IAS 17. A lessor continues to classify leases as operating or finance leases.

The Group decided to implement IFRS 16 using the modified retrospective approach, with no adjustments of the comparative data. In connection with the adoption of the modified approach, on the date of initial application of IFRS 16, i.e. January 1st 2019, the comparative data was not restated.

Effect on the Group's accounting - the Group as a lessor

IFRS 16 does not substantially change the lessor's accounting for leases. In accordance with IFRS 16, the Group continues to classify leases as either operating or finance leases, accounting differently for each type. However, IFRS 16 amended and extended the scope of disclosures required from lessors, in particular as regards the management of risks associated with the residual interests in leased assets.

Effect on the Company accounting - the Company as a lessee

- The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of the right-of-use assets and lease liabilities.
- Non-current right-of-use assets are presented under right-of-use assets.
- Lease liabilities previously classified as finance leases in accordance with IAS 17 and recognised in the statement of financial position under other financial liabilities are now recognised as current and non-current lease liabilities.
- When applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:
 - not recognising operating leases whose remaining term ends on or before the date falling 12 months after January 1st 2019 and will not likely be extended;
 - not recognising leases in the case of which the underlying asset has a low value (less than PLN 10,000);
 - using a single discount rate with respect to a portfolio of leases having similar characteristics;
 - excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application, except in the case of perpetual usufruct of land;
 - using hindsight to determine the lease term if the lease includes a renewal or termination option.

The discount rates applied by the Group to leases recognised as at January 1st 2019 in connection with the implementation of IFRS 16 are as follows: 4.84% in the case of perpetual usufruct rights to land, 3.34% in the case of other leases denominated in PLN, and 1.7% in the case of leases denominated in EUR.

The Group applies the following methodology to determine the incremental borrowing rate:

- for perpetual usufruct rights to land - based on the yield on 30-year treasury bonds plus an appropriate margin;
- for other right-of-use assets - based on the market interest rate for long-term corporate credit facilities advanced to the Grupa Azoty Group.

Effect of implementation of IFRS 16 on the financial statements

The effect of implementation of IFRS 16 as at January 1st 2019 is presented below.

	Amount
Future minimum lease payments under operating leases, disclosed in the financial statements prepared as at December 31st 2018 (disclosure in accordance with IAS 17)	420,469
Future minimum lease payments under perpetual usufruct rights to land as at December 31st 2018, not included above	528,702
Any other future minimum lease payments not recognised in the financial statements as at December 31st 2018 under IAS 17, but recognised for the purposes of IFRS 16	17,913
Total all future lease payments as at December 31st 2018	967,084
Exemptions from recognition requirements under IFRS 16 - short-term leases (-)	(19,098)
Exemption from recognition requirements under IFRS 16 - low-value leases (-)	(405)
Change due to change in charges for perpetual usufruct rights to land	21,345
Other(-/+)	1,501
Future lease payments under operating leases recognised in accordance with IFRS 16 as at January 1st 2019	970,427
Discount	(544,258)
Additional lease liabilities recognised as at January 1st 2019	426,169
Finance lease liabilities under IAS 17 as at December 31st 2018	25,181
Lease liabilities as at January 1st 2019	451,350

Presentation changes related to the implementation of IFRS 16 are set out below.

	Dec 31 2018*	Impact of change	Jan 1 2019
Non-current assets			
Property, plant and equipment	7,665,639	(18,614)	7,647,025
Perpetual usufruct of land	470,178	(470,178)	-
Right-of-use assets	-	903,235	903,235
Total non-current assets	9,886,441	414,443	10,300,884
Assets held for sale	9,050	11,726	20,776
Total current assets	4,274,028	11,726	4,285,754
Total assets	14,160,469	426,169	14,586,638

* Data before restatement related to final accounting for the acquisition price of COMPO EXPERT in accordance with the published report for 2018.

	Dec 31 2018*	Presentation changes	Dec 31 2018* restated	Impact of change	Jan 1 2019
Liabilities					
Lease liabilities	-	16,806	16,806	383,193	399,999
Other financial liabilities	38,736	(16,806)	21,930	-	21,930
Total non-current liabilities	3,556,776	-	3,556,776	383,193	3,939,969
Lease liabilities	-	8,866	8,866	42,976	51,842
Other financial liabilities	198,138	(8,866)	189,272	-	189,272
Total current liabilities	3,275,467	-	3,275,467	42,976	3,318,443
Total liabilities	6,832,243	-	6,832,243	426,169	7,258,412
Total equity and liabilities	14,160,469	-	14,160,469	426,169	14,586,638

* Data before restatement related to final accounting for the acquisition price of COMPO EXPERT in accordance with the published report for 2018.

Reconciliation of lease costs

	for the period Jan 1– Sep 30 2019
	<i>unaudited</i>
Depreciation/amortisation of right-of-use assets(-)	(46,697)
Interest expense on lease liabilities(-)	(11,496)
Costs associated with short-term leases exempted from the scope of application of IFRS 16(-)	(19,529)
Costs associated with leases of low value assets exempted from the scope of application of IFRS 16(-)	(129)
Costs associated with variable lease payments not accounted for in the measurement of lease liabilities(-)	(111)
Gains or losses on sale and sale-and-leaseback (+/-)	195
Other (+/-)	(5,129)
Total	(82,896)

b) Other standards and interpretations

The following standards effective as of 2019 have no material impact on the Company's operations or its financial reporting:

- IFRIC 23 Uncertainty over Income Tax Treatments (issued on June 7th 2017) - effective for annual periods beginning on or after January 1st 2019;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued on October 12th 2017) - effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued on October 12th 2017) - effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on February 7th 2018) - effective for annual periods beginning on or after January 1st 2019;
- *Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2015-2017 Cycle* (issued on December 12th 2017) – effective for annual periods beginning on or after January 1st 2019;

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

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) – pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version (not endorsed by the EU by the

date of authorisation of these financial statements for issue) - effective for annual periods beginning on or after January 1st 2016;

- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) - work leading to endorsement of the amendments was deferred by the EU for an indefinite period - effective date was deferred by the IASB for an indefinite period;
- IFRS 17 *Insurance Contracts* (issued on May 18th 2017) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2021;
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 3 *Business Combinations* (published on October 22nd 2018) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2020;
- Amendments to IAS 1 and IAS 8: *Definition of materiality* (published on October 31st 2018) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2020.

c) Corrections of errors or comparative data presentation

No errors requiring corrections regarding previous financial years were identified in the reporting period.

As described in section 1.3 of these financial statements, in the reporting period the Group finally accounted for the acquisition of COMPO EXPERT's assets and liabilities. As a result of the fair value measurement of assets performed by external expert appraisers, there were changes to the values determined in preliminary accounting for the acquisition as at 26th 2018 as well as to the result for the period November 26th–December 31st 2018.

For the above reasons, in accordance with IFRS 3, comparative data for previous periods were restated, as presented in the tables below:

Correction 1 - recognition of the effect of final accounting for the acquisition price of COMPO EXPERT.

Correction 2 - conversion of new values which are the effect of final accounting for the acquisition price of COMPO EXPERT.

Adjustment 3 - adjustment to depreciation of property, plant and equipment and amortisation of intangible assets and deferred tax effect resulting from the final accounting for the acquisition price of COMPO EXPERT.

Consolidated statement of profit or loss and other comprehensive income

	for the period Jan 1– Dec 31 2018 published	Correction 1	Correction 2	Correction 3	for the period Jan 1– Dec 31 2018 restated
Profit/loss					
Revenue	9,998,967	-	-	-	9,998,967
Cost of sales	(8,406,424)	-	-	153	(8,406,271)
Gross profit	1,592,543	-	-	153	1,592,696
Selling and distribution expenses	(658,602)	-	-	-	(658,602)
Administrative expenses	(812,368)	-	-	-	(812,368)
Other income	49,604	-	-	-	49,604
Other expenses	(90,186)	-	-	-	(90,186)
Operating profit	80,991	-	-	153	81,144
Finance income	55,057	-	-	-	55,057
Finance costs	(108,740)	-	-	-	(108,740)
Net finance income/(costs)	(53,683)	-	-	-	(53,683)
Share of profit of equity-accounted investees	13,092	-	-	-	13,092
Profit before tax	40,400	-	-	153	40,553
Income tax	(32,750)	-	-	(43)	(32,793)
Net profit	7,650	-	-	110	7,760
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial losses from defined benefit plans	(19,428)	-	-	-	(19,428)
Tax on items that will not be reclassified to profit or loss	3,633	-	-	-	3,633
	(15,795)	-	-	-	(15,795)

	for the period Jan 1– Dec 31 2018 published	Correction 1	Correction 2	Correction 3	for the period Jan 1– Dec 31 2018 restated
Items that are or may be reclassified to profit or loss					
Cash flow hedging - effective portion of change in fair value	(16,724)	-	-	-	(16,724)
Translation reserve	3,561	-	1,225	-	4,786
Tax on items that are or may be reclassified to profit or loss	3,178	-	-	-	3,178
	(9,985)	-	1,225	-	(8,760)
Total other comprehensive income	(25,780)	-	1,225	-	(24,555)
Comprehensive income for the year	(18,130)	-	1,225	110	(16,795)
Net profit attributable to:					
Owners of the Parent	9,759	-	-	110	9,869
Non-controlling interests	(2,109)	-	-	-	(2,109)
Comprehensive income for the year attributable to:					
Owners of the Parent	(15,074)	-	1,225	110	(13,739)
Non-controlling interests	(3,056)	-	-	-	(3,056)
Earnings per share:					
Basic (PLN)	0.10	-	-	-	0.10
Diluted (PLN)	0.10	-	-	-	0.10

Consolidated statement of financial position

	as at Dec 31 2018 published	Correction 1	Correction 2	Correction 3	as at Dec 31 2018 restated
Assets					
Non-current assets					
Property, plant and equipment	7,665,639	90,347	202	883	7,757,071
Perpetual usufruct of land	470,178	-	-	-	470,178
Investment property	43,799	-	-	-	43,799
Intangible assets	763,064	285,488	639	(730)	1,048,461
Goodwill	581,436	(270,778)	622	-	311,280
Shares	9,113	-	-	-	9,113
Equity-accounted investees	89,496	-	-	-	89,496
Other financial assets	2,377	-	-	-	2,377
Other receivables	185,397	-	-	-	185,397
Deferred tax assets	75,579	-	-	-	75,579
Other assets	363	-	-	-	363
Total non-current assets	9,886,441	105,057	1,463	153	9,993,114
Current assets					
Inventories	1,503,897	1,124	3	-	1,505,024
Property rights	261,767	-	-	-	261,767
Derivative financial instruments	2,017	-	-	-	2,017
Other financial assets	15,061	-	-	-	15,061
Current tax assets	67,217	-	-	-	67,217
Trade and other receivables	1,553,909	(2,252)	(5)	-	1,551,652
Cash and cash equivalents	846,532	-	-	-	846,532
Other assets	14,578	-	-	-	14,578
Assets held for sale	9,050	-	-	-	9,050
Total current assets	4,274,028	(1,128)	(2)	-	4,272,898
Total assets	14,160,469	103,929	1,461	153	14,266,012

	as at Dec 31 2018 published	Correction 1	Correction 2	Correction 3	as at Dec 31 2018 restated
Equity and liabilities					
Equity					
Share capital	495,977	-	-	-	495,977
Share premium	2,418,270	-	-	-	2,418,270
Hedging reserve	1,861	-	-	-	1,861
Translation reserve	3,166	(1,602)	1,225	-	2,789
Retained earnings, including:	3,783,764	-	-	110	3,783,874
<i>Net profit for the year</i>	9,759	-	-	110	9,869
Equity attributable to owners of the Parent	6,703,038	(1,602)	1,225	110	6,702,771
Non-controlling interests	625,188	-	-	-	625,188
Total equity	7,328,226	(1,602)	1,225	110	7,327,959
Liabilities					
Borrowings	2,488,353	-	-	-	2,488,353
Other financial liabilities	38,736	-	-	-	38,736
Employee benefit obligations	394,677	-	-	-	394,677
Trade and other payables	12,446	-	-	-	12,446
Provisions	143,772	-	-	-	143,772
Government grants received	136,002	-	-	-	136,002
Deferred tax liabilities	342,790	105,531	236	43	448,600
Total non-current liabilities	3,556,776	105,531	236	43	3,662,586
Borrowings	362,620	-	-	-	362,620
Derivative financial instruments	188	-	-	-	188
Other financial liabilities	198,138	-	-	-	198,138
Employee benefit obligations	45,630	-	-	-	45,630
Current tax liabilities	18,178	-	-	-	18,178
Trade and other payables	2,598,289	-	-	-	2,598,289
Provisions	44,425	-	-	-	44,425
Government grants received	7,999	-	-	-	7,999
Total current liabilities	3,275,467	-	-	-	3,275,467
Total liabilities	6,832,243	105,531	236	43	6,938,053
Total equity and liabilities	14,160,469	103,929	1,461	153	14,266,012

d) Changes in estimates

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. There were no corrections of errors in the reporting period. In H1 2019, the Parent changed the estimates concerning calculation of the income tax asset relating to its operations in the special economic zone (SEZ). The change resulted from the experience gathered in accounting for operations in the SEZ, taking into account margins in setting transfer prices used for tax accounting purposes, and also from updating market and financial plans and extending the period of the tax projection for operations in the SEZ from three to five years. These factors had a partially offsetting effect, therefore the amount of tax assets related to operations in the SEZ as at June 30th 2019 was reduced by PLN 4.4m relative to December 31st 2018.

3. Selected notes and supplementary information

3.1. Notes

Business segment reporting

Operating segments

The Group's business objectives are delivered through four main reportable segments, identified based on separate management strategies (production, sales, and marketing) adopted in each of the segments.

Operations of the Company's reporting segments:

- Agro Fertilizers segment comprises the manufacturing and marketing of the following products:
 - Speciality (fertilizing/fertilizer) products (liquid fertilizers for foliar feeding and fertigation, biostimulants, SRF and CRF fertilizers for precise fertilization, dedicated NPK fertilizers),
 - Nitrogen fertilizers (solid: nitro-chalk, ammonium nitrate, urea; liquid: RSM® - urea-ammonium nitrate solution),
 - Nitrogen fertilizers with sulfur (solid: ammonium sulfate, ammonium sulfonitrite, urea-ammonium sulfate, calcium nitrate with sulfur; liquid: RSMS® - urea-ammonium nitrate solution, urea-ammonium sulfate solution),
 - Compound fertilizers (NPK: Polifoski® and Amofoski®; NP: DAP),
 - Nitrogen fertilizers,
 - Ammonia,
 - Technical-grade and concentrated nitric acid,
 - Industrial gases;
- Plastics segment comprises the manufacturing and marketing of the following products:
 - caprolactam (an intermediate product used to manufacture polyamide 6 (PA6)),
 - Natural engineering plastics (PA 6, POM - polyacetal),
 - Modified plastics (PA 6, PA66, POM, PPC - polypropylene, PPH, PBT- polybutylene terephthalate),
 - Plastic products (PA pipes, PE pipes, polyamide casings);
- Chemicals segment comprises the manufacturing and marketing of the following products:
 - Melamine,
 - OXO products (OXO alcohols, plasticizers),
 - Sulfur,
 - Titanium white,
 - Iron sulfate,
 - Solutions based on urea and ammonia;
- Energy segment includes the 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:
 - Research and Development Centre,
 - Laboratory services,
 - Catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts),
 - property rental,
 - and other activities not allocated to any of the segments specified above.

Operating segments

Operating segments' revenue, expenses and financial results for the nine months ended September 30th 2019 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Continuing operations						
External revenue	5,190,674	1,129,130	2,008,064	206,228	132,308	8,666,404
Intersegment revenue	1,522,191	270,690	638,727	2,017,058	667,506	5,116,172
Total revenue	6,712,865	1,399,820	2,646,791	2,223,286	799,814	13,782,576
Operating expenses, including: (-)	(6,154,014)	(1,364,252)	(2,511,441)	(2,224,439)	(853,787)	(13,107,933)
<i>selling and distribution expenses (-)</i>	(491,658)	(49,250)	(125,683)	(359)	(1,278)	(668,228)
<i>administrative expenses (-)</i>	(288,207)	(103,205)	(136,846)	(13,792)	(94,610)	(636,660)
Other income	14,473	2,140	4,409	8,576	13,521	43,119
Other expenses (-)	(8,360)	(2,647)	(15,833)	(19,363)	(30,442)	(76,645)
Segment's EBIT	564,964	35,061	123,926	(11,940)	(70,894)	641,117
Finance income	-	-	-	-	-	14,508
Finance costs (-)	-	-	-	-	-	(70,856)
Share of profit of equity-accounted investees	-	-	-	-	-	9,286
Profit before tax	-	-	-	-	-	594,055
Income tax	-	-	-	-	-	(138,130)
Net profit	-	-	-	-	-	455,925
EBIT	564,964	35,061	123,926	(11,940)	(70,894)	641,117
Depreciation and amortisation	252,027	48,958	85,367	84,504	80,715	551,571
Unallocated depreciation and amortisation	-	-	-	-	-	64,576
EBITDA	816,991	84,019	209,293	72,564	9,821	1,257,264

* 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 September 30th 2018 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	3,425,942	1,194,482	2,269,510	195,305	116,458	7,201,697
Intersegment revenue	1,843,317	277,914	714,749	2,157,358	719,692	5,713,030
Total revenue	5,269,259	1,472,396	2,984,259	2,352,663	836,150	12,914,727
Operating expenses, including: (-)	(5,401,867)	(1,365,700)	(2,821,024)	(2,360,706)	(873,597)	(12,822,894)
<i>selling and distribution expenses (-)</i>	(280,580)	(49,175)	(135,707)	(237)	(531)	(466,230)
<i>administrative expenses (-)</i>	(223,837)	(94,703)	(139,339)	(12,722)	(98,292)	(568,893)
Other income	3,561	2,266	2,628	7,089	19,709	35,253
Other expenses (-)	(12,024)	(462)	(1,884)	(7,757)	(34,824)	(56,951)
Segment's EBIT*	(141,071)	108,500	163,979	(8,711)	(52,562)	70,135
Finance income	-	-	-	-	-	44,664
Finance costs (-)	-	-	-	-	-	(83,929)
Share of profit of equity-accounted investees	-	-	-	-	-	10,016
Profit before tax	-	-	-	-	-	40,886
Income tax	-	-	-	-	-	(33,233)
Net profit	-	-	-	-	-	7,653
EBIT	(141,071)	108,500	163,979	(8,711)	(52,562)	70,135
Depreciation and amortisation	156,972	43,613	84,476	83,655	69,135	437,851
Unallocated depreciation and amortisation	-	-	-	-	-	65,067
EBITDA**	15,901	152,113	248,455	74,944	16,573	573,053

* 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 September 30th 2019 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,521,682	338,568	573,944	80,622	49,079	2,563,895
Intersegment revenue	386,103	83,079	146,955	559,668	235,344	1,411,149
Total revenue	1,907,785	421,647	720,899	640,290	284,423	3,975,044
Operating expenses, including: (-)	(1,800,601)	(434,907)	(709,584)	(630,272)	(293,196)	(3,868,560)
<i>selling and distribution expenses (-)</i>	<i>(154,039)</i>	<i>(15,215)</i>	<i>(40,735)</i>	<i>(31)</i>	<i>(665)</i>	<i>(210,685)</i>
<i>administrative expenses (-)</i>	<i>(98,253)</i>	<i>(31,319)</i>	<i>(44,355)</i>	<i>(4,756)</i>	<i>(31,075)</i>	<i>(209,758)</i>
Other income	3,403	1,443	2,088	2,698	4,830	14,462
Other expenses (-)	(4,426)	(1,165)	(484)	(4,184)	(5,058)	(15,317)
Segment's EBIT*	106,161	(12,982)	12,919	8,532	(9,001)	105,629
Finance income	-	-	-	-	-	1,207
Finance costs (-)	-	-	-	-	-	(27,115)
Share of profit of equity-accounted investees	-	-	-	-	-	3,159
Profit before tax	-	-	-	-	-	82,880
Income tax	-	-	-	-	-	(21,909)
Net profit	-	-	-	-	-	60,971
EBIT	106,161	(12,982)	12,919	8,532	(9,001)	105,629
Depreciation and amortisation	90,092	15,913	29,160	28,079	28,451	191,695
Unallocated depreciation and amortisation	-	-	-	-	-	19,003
EBITDA	196,253	2,931	42,079	36,611	19,450	316,327

* 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 September 30th 2018 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,109,014	363,231	755,260	54,636	42,527	2,324,668
Intersegment revenue	635,090	96,148	240,763	722,936	276,806	1,971,743
Total revenue	1,744,104	459,379	996,023	777,572	319,333	4,296,411
Operating expenses, including: (-)	(1,881,394)	(443,507)	(992,996)	(782,258)	(319,740)	(4,419,895)
<i>selling and distribution expenses (-)</i>	(93,182)	(15,026)	(47,859)	(32)	29	(156,070)
<i>administrative expenses (-)</i>	(72,075)	(31,413)	(46,499)	(3,397)	(33,104)	(186,488)
Other income	368	1,346	376	2,556	6,277	10,923
Other expenses (-)	(14)	(87)	(398)	(3,445)	(9,815)	(13,759)
Segment's EBIT*	(136,936)	17,131	3,005	(5,575)	(3,945)	(126,320)
Finance income	-	-	-	-	-	(3,499)
Finance costs (-)	-	-	-	-	-	216
Share of profit of equity-accounted investees	-	-	-	-	-	2,825
Profit before tax	-	-	-	-	-	(126,778)
Income tax	-	-	-	-	-	9,958
Net loss	-	-	-	-	-	(116,820)
EBIT	(136,936)	17,131	3,005	(5,575)	(3,945)	(126,320)
Depreciation and amortisation	52,851	14,839	27,667	28,098	24,849	148,304
Unallocated depreciation and amortisation	-	-	-	-	-	22,129
EBITDA	(84,085)	31,970	30,672	22,523	20,904	44,113

* 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 September 30th 2019 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	6,280,762	1,422,162	1,647,652	1,794,744	1,745,152	12,890,472
Unallocated assets	-	-	-	-	-	1,894,678
Investments in associates	-	-	-	-	-	85,577
Total assets	6,280,762	1,422,162	1,647,652	1,794,744	1,745,152	14,870,727
Segment's liabilities	2,223,812	261,665	284,807	608,942	423,677	3,802,903
Unallocated liabilities	-	-	-	-	-	3,298,320
Total liabilities	2,223,812	261,665	284,807	608,942	423,677	7,101,223

Operating segments' assets and liabilities as at December 31st 2018 (audited) restated*

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	5,595,657	1,286,042	1,620,134	1,873,204	1,344,933	11,719,970
Unallocated assets	-	-	-	-	-	2,456,546
Investments in associates	-	-	-	-	-	89,496
Total assets	5,595,657	1,286,042	1,620,134	1,873,204	1,344,933	14,266,012
Segment's liabilities	2,212,290	239,834	258,229	806,055	388,871	3,905,279
Unallocated liabilities	-	-	-	-	-	3,032,774
Total liabilities	2,212,290	239,834	258,229	806,055	388,871	6,938,053

* In accordance with the information provided in sections 2.2.a and 2.2.c

Other segmental information for the nine months ended September 30th 2019 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Expenditure on property, plant and equipment	286,237	71,851	79,967	68,943	58,694	565,692
Expenditure on investment property	-	-	-	-	153	153
Expenditure on intangible assets	3,700	-	507	26	30,038	34,271
Unallocated expenditure	-	-	-	-	-	45,818
Total expenditure	289,937	71,851	80,474	68,969	88,885	645,934
Segment's depreciation and amortisation	252,027	48,958	85,367	84,504	80,715	551,571
Unallocated depreciation and amortisation	-	-	-	-	-	64,576
Total depreciation and amortisation	252,027	48,958	85,367	84,504	80,715	616,147

Other segmental information for the nine months ended September 30th 2018 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Expenditure on property, plant and equipment	323,905	41,851	81,015	81,218	93,572	621,561
Expenditure on investment property	-	-	-	-	143	143
Expenditure on intangible assets	226	54	226	375	18,826	19,707
Unallocated expenditure	-	-	-	-	-	47,462
Total expenditure	324,131	41,905	81,241	81,593	112,541	688,873
Segment's depreciation and amortisation	156,972	43,613	84,476	83,655	69,135	437,851
Unallocated depreciation and amortisation	-	-	-	-	-	65,067
Total depreciation and amortisation	156,972	43,613	84,476	83,655	69,135	502,918

Geographical areas

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

Revenue

	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018	for the period Jul 1– Sep 30 2019	for the period Jul 1– Sep 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Poland	4,242,994	3,780,453	1,300,316	1,220,128
Germany	717,926	645,577	239,367	216,264
Other EU countries	2,411,979	2,040,894	660,654	630,619
Asia	328,778	153,861	84,911	50,110
South America	238,599	116,778	86,316	30,664
Other countries	726,128	464,134	192,331	176,883
Total	8,666,404	7,201,697	2,563,895	2,324,668

No single trading partner accounted for more than 10% of revenue in Q3 2019 and Q3 2018.

Note 1 Revenue from contracts with customers

	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018	for the period Jul 1– Sep 30 2019	for the period Jul 1– Sep 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue from sale of products and services	8,469,331	6,961,378	2,492,970	2,234,325
Revenue from sale of merchandise and materials	186,744	231,698	68,598	89,405
Revenue from sale of property rights	7,464	8,621	1,332	938
Revenue from sale of licences	2,865	-	995	-
Total	8,666,404	7,201,697	2,563,895	2,324,668

for the period Jan 1 - Sep 30 2019 (unaudited)

	Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Main product lines						
Revenue from sale of products and services	5,089,527	1,127,633	1,973,695	161,749	116,727	8,469,331
Revenue from sale of merchandise and materials	98,282	-	34,369	38,512	15,581	186,744
Revenue from sale of property rights	-	1,497	-	5,967	-	7,464
Revenue from sale of licences	2,865	-	-	-	-	2,865
Total	5,190,674	1,129,130	2,008,064	206,228	132,308	8,666,404
Geographical regions						
Poland	2,942,042	142,431	834,358	206,228	117,935	4,242,994
Germany	377,768	140,891	198,277	-	990	717,926
Other EU countries	1,044,873	601,058	759,649	-	6,399	2,411,979

Asia	184,598	143,671	507	-	2	328,778
South America	216,209	14,886	7,504	-	-	238,599
Other countries	425,184	86,193	207,769	-	6,982	726,128
Total	5,190,674	1,129,130	2,008,064	206,228	132,308	8,666,404

Note 2 Property, plant and equipment

Carrying amount

	as at Sep 30 2019	as at Dec 31 2018 restated*
	<i>unaudited</i>	<i>audited</i>
Land	60,469	57,453
Mineral deposits	12,381	14,087
Buildings and structures	2,631,712	2,598,368
Plant and equipment	3,661,117	3,707,568
Vehicles	118,096	140,731
Other property, plant and equipment	155,463	136,714
	6,639,238	6,654,921
Property, plant and equipment under construction	1,214,787	1,102,150
	7,854,025	7,757,071

* In accordance with the information provided in section 2.2.c

Property, plant and equipment by type

	Land	Mineral deposits	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
As at September 30th 2019								
Gross carrying amount	62,173	49,009	3,967,912 (1,281,341)	7,010,425	283,991	378,758	1,292,560	13,044,828
Accumulated amortisation (-)	-	(4,096))	(3,223,763)	(120,435)	(208,154)	-	(4,837,789)
Impairment (-)	(1,704)	(32,532)	(54,859)	(125,545)	(45,460)	(15,141)	(77,773)	(353,014)
Net carrying amount as at September 30th 2019 (unaudited)	60,469	12,381	2,631,712	3,661,117	118,096	155,463	1,214,787	7,854,025
As at December 31st 2018								
Gross carrying amount	60,471	49,009	3,819,020 (1,155,882)	6,842,057	311,153	319,565	1,180,257	12,581,532
Accumulated amortisation (-)	-	(2,390))	(3,007,494)	(125,357)	(181,609)	-	(4,472,732)
Impairment (-)	(3,018)	(32,532)	(64,770)	(126,995)	(45,065)	(1,242)	(78,107)	(351,729)
Net carrying amount as at December 31st 2018 (audited) - restated	57,453	14,087	2,598,368	3,707,568	140,731	136,714	1,102,150	7,757,071

Impairment testing

As at September 30th 2019, the trigger referred to in paragraph 12d of IAS 36 *Impairment of Assets* occurred - the carrying amount of the Group's net assets was higher than its market capitalisation. Therefore, the Parent and the key subsidiaries reviewed the validity of the assumptions adopted for previous impairment tests and the results of those tests.

The review showed that:

- the adopted strategy and the key assumptions did not change;
- EBITDA for the first nine months of 2019 is higher than planned in the majority of cases, and much higher at the consolidated level;
- there is a growing risk of deterioration of macroeconomic prospects and market conditions; however, most of the possible negative circumstances should be largely offset by protection mechanisms and adjustment measures, therefore looking forward the Group should maintain its market position and the financial performance level assumed in the tests;
- the risk-free interest rate fell and the weighted average cost of capital did not increase.

Given the above, it was concluded that the recoverable amount estimates resulting from previous tests remain valid as at September 30th 2019 and no additional impairment losses needed to be recognised.

For detailed information on impairment tests and their results, see "*Interim Report of Grupa Azoty for H1 2019 - Interim condensed consolidated financial statements for the six months ended June 30th 2019*", pages 48-49.

PDH Polska S.A. *) monitors the projected profitability of its investment using a financial model for the 'Polimery Police' project developed in cooperation with reputable advisory firms. The key assumptions developed for the purposes of the financial model, including technological assumptions and market forecasts, are based on independent studies, such as technical documentation provided by recognised engineering companies (including technology licensors) and market advisor reports. The Company updates the key assumptions underlying the financial model to reflect the progress of work on the project and the process of raising financing for the project. Therefore, in October 2019, the financial model was updated again, taking into account the current macroeconomic data, projected expectations of banks, including with regard to the pricing terms of the financing, as well as a recommendation from the technical adviser on the planned path to achieving the target availability of the unit.

At the same time, the Management Board expects to secure the financing necessary to implement the project in accordance with the adopted schedule. In connection with the updated positive results yielded by the financial model, which are treated by the subsidiary as a recoverable amount estimate in the impairment test for the assets of the Polimery Police project, the conclusion that those assets are not impaired was maintained. As at September 30th 2019, the Polimery Police project/CGU Polimery included non-current assets, such as expenditure on property, plant and equipment under construction, intangible assets under construction, advance payments for property, plant and equipment and intangible assets, perpetual usufruct rights, and capitalised borrowing costs, totalling PLN 261m.

*) Since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.

Note 3 Right-of-use assets

Net carrying amount of right-of-use assets

	Perpetual usufruct of land	Land	Buildings and structures	Plant and equipment	Vehicles	Other fixtures and fittings, tools and equipment	Right-of-use assets under construction	Total
Net carrying amount as at December 31st 2018	-	-	-	-	-	-	-	-
Effect of implementation of IFRS 16, including:	688,250	487	43,385	126,285	43,612	1,216	-	903,235
Value of assets disclosed as at Dec 31 2018 as finance leases in accordance with IAS 17	-	-	787	5,284	12,041	502	-	18,614
On-balance-sheet perpetual usufruct of land as at Dec 31 2018	470,178	-	-	-	-	-	-	470,178
Increases due to the implementation of IFRS 16	218,072	487	42,598	121,001	31,571	714	-	414,443
Net carrying amount as at December 1st 2019	688,250	487	43,385	126,285	43,612	1,216	-	903,235
Increase, including:	205	384	8,898	5,442	29,607	269	2,124	46,929
Increases due to execution of new agreements	205	383	8,557	1,202	23,097	259	2,100	35,803
Increases due to execution of new agreements (transfer from right-of-use assets under construction)	-	-	1	-	2,584	-	-	2,585
Exchange differences on translation	-	-	330	47	60	10	-	447
Other	-	1	10	4,193	3,866	-	24	8,094
Decrease, including:(-)	(30,244)	(140)	(9,042)	(19,109)	(16,026)	(243)	(2,112)	(76,916)
Depreciation and amortisation	(7,233)	(109)	(6,974)	(17,615)	(14,523)	(243)	-	(46,697)
Decrease due to placement in service (from right-of-use assets under construction)	-	-	-	-	-	-	(2,083)	(2,083)
Decrease due to translation of exchange differences	-	-	(4)	-	-	-	-	(4)
Recognition of impairment loss	(18,411)	(31)	-	-	(18)	-	-	(18,460)
Other decrease	(4,600)	-	(2,064)	(1,494)	(1,485)	-	(29)	(9,672)
Net carrying amount as at September 30th 2019 (unaudited)	658,211	731	43,241	112,618	57,193	1,242	12	873,248

Note 4 Other material changes in the statement of financial position

Following the final accounting for the acquisition of COMPO EXPERT, referred to in section 1.3, adjustments were made to the goodwill as at December 31st 2018. As at September 30th 2019, COMPO EXPERT's goodwill was PLN 283,585 thousand (December 31st 2018: PLN 278,812 thousand).

The PLN 195,898 thousand increase in **property rights** was mainly attributable to higher prices of CO₂ emission allowances, which also led to a rise in short-term grants, recognised as the corresponding entry to account for CO₂ emission allowances allocated free of charge.

The PLN 311,413 thousand increase in **other financial assets** was attributable to bank deposits with maturities ranging from over three months to one year from the reporting date, placed in Q3 2019 in connection with periodic free operating cash flows.

The PLN 260,711 thousand increase in **borrowings** was mainly related to the disbursement in Q3 2019 of a EUR 50m tranche under a long-term credit facility granted by EIB to finance the Group's investment programme.

Note 5 Contingent liabilities, contingent assets and guarantees

Contingent assets

	as at Sep 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
Contingent receivables	83,570	30,595

As at September 30th 2019, contingent receivables comprised primarily:

- a guarantee of advance payment by Hyundai Engineering Co., Ltd to PDH Polska S.A.^{*)} of EUR 12,300 thousand (September 30th 2019: PLN 52,725 thousand),
- receivables related to the claim raised against Ciech S.A. for payment of PLN 18,864 thousand for breach of the warranties made by Ciech S.A. in the agreement for purchase of shares in GZNF Fosfory Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY). On October 30th 2012, Grupa Azoty PUŁAWY filed a suit with the Regional Court in Warsaw. The case is pending.

Contingent liabilities and guarantees/sureties

	as at Sep 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
Surety for payment under a contract with Hyundai Engineering	96,219	-
Other contingent liabilities, including guarantees	30,630	31,243
	126,849	31,243

Contingent liabilities and sureties related to the Polimery Police project

The agreement of May 11th 2019 between PDH Polska S.A.^{*)} and Hyundai Engineering Co., Ltd ("Hyundai") contains provisions on contingent liabilities of PDH Polska S.A.^{*)}

If PDH Polska S.A.^{*)} fails to issue a full notice to proceed within four months from the commencement date, that is from August 1st 2019, each party will have the right to rescind the agreement with immediate effect. In such a case, PDH Polska S.A.^{*)} will pay Hyundai the portion of the fee due for the documentation, deliveries and work delivered and received, and will reimburse the documented and reasonable costs of purchase of equipment and materials ordered but not yet delivered to the construction site, to the extent that Hyundai cannot cancel an order without incurring any costs. PDH Polska S.A.^{*)} will also reimburse Hyundai for all other reasonable and documented costs accepted by PDH Polska S.A.^{*)}, incurred by Hyundai or which Hyundai is obliged to incur as a result of the rescission. The amount of remuneration to be paid to Hyundai and the amount of all reasonable and documented costs to be reimbursed to Hyundai will not exceed 30,000 thousand EUR.

^{*)}Since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.

Moreover, in Q3 2019 the Parent and Grupa Azoty POLICE provided a surety for the liabilities of PDH Polska S.A.) under the Polimery Police project for the benefit of the project general contractor, Hyundai Engineering Co., Ltd. The surety was provided in connection with the strategy to accelerate the submission of orders for equipment with long delivery time.

The Parent provided a surety of up to EUR 10,340 thousand (as at September 30th 2019: PLN 45,223 thousand), and Grupa Azoty POLICE provided a surety of up to EUR 11,660 thousand (as at September 30th 2019: PLN 50,996 thousand).

The sureties are valid until December 30th 2019.

Other contingent liabilities, including guarantees, concern mainly:

- a claim filed on February 12th 2013 by Ciech S.A. with the Regional Court of Gdańsk for payment of PLN 18,864 thousand by GZNF Fosfory Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY) as compensation for damage suffered by Ciech S.A. as a result of untrue representations made by the defendant as to the legal status and financial position of the defendant and its subsidiaries, together with statutory interest accrued from the claim filing date to the payment date, and legal costs, including costs of legal representation,
- securing a grant granted to Grupa Azoty ATT Polymers GmbH by the Investment Bank of the Land of Landes Brandenburg for partial financing of capital expenditure on the project. Construction of a Logistics Centre of 1,800 thousand EUR (as at September 30th 2019: PLN 7,872 thousand).

The balance comprises claims brought by other companies, arising in the course of business, in respect of mutual settlements and amounts arising under guarantee agreements.

Note 6 Related-party transactions

Significant related-party transactions

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

In the three and nine months ended September 30th 2019, the Grupa Azoty Group did not execute any related-party transactions on non-arm's length terms.

b) Transactions with members of the Management Board and Supervisory Board of the Parent, their spouses, siblings, ascendants, descendants or other closely related persons

During the three and nine months ended September 30th 2019, the Grupa Azoty Group did not grant any advances, loans, guarantees or sureties to members of its management or supervisory personnel or persons closely related to them, nor did it enter into any agreements whereby such persons are required to provide benefits to the Group.

Note 7 Investment commitments

In the period ended September 30th 2019, the Group 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 estimated value of these liabilities was PLN 1,837,588 thousand (December 31st 2018: PLN 557,030 thousand).

As at September 30th 2019, the investment commitment under the 'Construction of the PDH propylene plant' project was PLN 190,840 thousand (December 31st 2018: PLN 63,340 thousand). This amount does not include sureties related to the implementation of the strategy to accelerate the submission of orders for equipment with long delivery time, as described in Note 5 above.

Moreover, as at September 30th 2019, the value of the investment commitment under the 'Construction of a coal-fired power generating unit' project was PLN 1,159,900 thousand.

*) Since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.

Note 8 Accounting estimates and assumptions

Changes in impairment losses on property, plant and equipment

	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018	for the period Jul 1– Sep 30 2019	for the period Jul 1– Sep 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	351,730	343,418	353,096	349,768
Effect of acquisition of companies	-	43	-	-
Recognised	4,506	7,864	78	814
Reversed (-)	(9)	(578)	(9)	(195)
Used (-)	(3,213)	(2,467)	(151)	(2,107)
At end of period	353,014	348,280	353,014	348,280

Changes in inventory write-downs

	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018	for the period Jul 1– Sep 30 2019	for the period Jul 1– Sep 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	48,739	44,472	46,012	50,168
Effect of acquisition of companies	-	121	-	114
Recognised	36,713	31,017	22,514	14,173
Reversed (-)	(9,133)	(13,018)	(5,256)	(9,708)
Used (-)	(20,276)	(17,682)	(7,247)	(9,837)
Exchange differences	211	-	231	-
At end of period	56,254	44,910	56,254	44,910

Changes in impairment losses on receivables

	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018	for the period Jul 1– Sep 30 2019	for the period Jul 1– Sep 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	82,290	98,045	95,441	95,627
Recognised	21,765	1,434	1,476	1,434
Reversed (-)	(5,890)	15,319	(1,537)	1,111
Used (-)	(7,239)	(11,844)	(4,368)	(1,863)
Exchange differences	122	(18,341)	36	(11,696)
At end of period	91,048	84,613	91,048	84,613

3.2. Dividend

On June 27th 2019, the Company's Annual General Meeting passed a resolution to allocate the entire amount of the Parent's net profit for the financial year 2018, of PLN 171,064 thousand, to the Company's reserve funds.

3.3. Seasonality of operations

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

Mineral fertilizers

The third quarter of a year is a period of increased agricultural field work as crops are harvested. Therefore, demand for fertilizer products, particularly in the first half of the third quarter, usually falls to its lowest in a year. This changes only towards the end of the quarter, when demand for fertilizers intended for winter crops picks up. Total demand for mineral fertilizers (mainly nitrogen products) in autumn is lower than in spring, which is attributable to the nature of agricultural production technologies. The Group follows a policy of mitigating seasonality through optimum volume allocation:

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

Titanium white market

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

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

3.4. Events after the reporting period that could affect financial results in the future

No such events occurred.



Interim condensed separate financial statements for the
three and nine months ended
September 30th 2019

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

	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018	for the period Jul 1– Sep 30 2019	for the period Jul 1– Sep 30 2018
Profit/loss	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue	1,511,188	1,342,738	494,745	436,200
Cost of sales	(1,199,705)	(1,101,167)	(398,534)	(377,063)
Gross profit	311,483	241,571	96,211	59,137
Selling and distribution expenses	(78,062)	(69,916)	(27,544)	(24,308)
Administrative expenses	(132,635)	(121,852)	(46,645)	(44,478)
Other income	10,818	7,975	3,481	2,250
Other expenses	(18,602)	(14,319)	(5,708)	(3,577)
Operating profit/(loss)	93,002	43,459	19,795	(10,976)
Finance income	105,701	179,669	45,214	73,939
Finance costs	(56,444)	(34,920)	(22,813)	(10,037)
Net finance income	49,257	144,749	22,401	63,902
Profit before tax	142,259	188,208	42,196	52,926
Income tax	(21,686)	(10,121)	(3,912)	(97)
Net profit	120,573	178,087	38,284	52,829
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Actuarial (losses) from defined benefit plans	(6,054)	(1,910)	-	-
Tax on items that will not be reclassified to profit or loss	1,151	363	-	-
	(4,903)	(1,547)	-	-

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)

	for the period Jan 1– Sep 30 2019	for the period Jan 1– Sep 30 2018	for the period Jul 1– Sep 30 2019	for the period Jul 1– Sep 30 2018
	<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	(18,537)	(12,777)	(26,604)	11,467
Tax on items that are or may be reclassified to profit or loss	3,521	2,428	5,054	(2,179)
	(15,016)	(10,349)	(21,550)	9,288
Total other comprehensive income	(19,919)	(11,896)	(21,550)	9,288
Comprehensive income for the year	100,654	166,191	16,734	62,117
Earnings per share:				
Basic (PLN)	1.22	1.80	0.39	0.53
Diluted (PLN)	1.22	1.80	0.39	0.53

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

Interim condensed separate statement of financial position

	Note/ Section	as at Sep 30 2019 <i>unaudited</i>	as at Dec 31 2018 restated* <i>audited</i>
Assets			
Non-current assets			
Property, plant and equipment	1	1,653,933	1,650,232
Perpetual usufruct of land	1.2	-	365
Right-of-use assets		41,409	-
Intangible assets		48,012	49,108
Investment property		19,095	15,885
Shares	2	5,120,450	5,012,908
Other financial assets		283,214	285,626
Other receivables		6,674	9,757
Deferred tax assets		17,312	10,277
Total non-current assets		7,190,099	7,034,158
Current assets			
Inventories		239,060	246,106
Property rights		46,191	35,688
Derivative financial instruments		-	720
Other financial assets		53,558	47,340
Trade and other receivables		296,104	238,558
Cash and cash equivalents		1,113,676	1,000,980
Assets held for sale		95	95
Total current assets		1,748,684	1,569,487
Total assets		8,938,783	8,603,645

* In accordance with the information provided in section 1.2 a.

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

Interim condensed separate statement of financial position (continued)

	Note/ Section	as at Sep 30 2019	as at Dec 31 2018 restated*
		<i>unaudited</i>	<i>audited</i>
Equity and liabilities			
Equity			
Share capital		495,977	495,977
Share premium		2,418,270	2,418,270
Hedging reserve		(13,155)	1,861
Retained earnings, including:		1,987,750	1,872,080
<i>Net profit for the year</i>		<i>120,573</i>	<i>171,064</i>
Total equity		4,888,842	4,788,188
Liabilities			
Borrowings		2,505,044	2,311,248
Lease liabilities	1.2	33,712	1,695
Other financial liabilities		18,883	21,930
Employee benefit obligations		60,970	51,289
Trade and other payables		32	32
Provisions		32,977	31,069
Government grants received		46,680	40,666
Total non-current liabilities		2,698,298	2,457,929
Borrowings		997,910	893,947
Lease liabilities	1.2	7,049	714
Derivative financial instruments		156	-
Other financial liabilities		23,325	103,122
Employee benefit obligations		1,582	3,511
Current tax liabilities		2,887	493
Trade and other payables		298,741	352,908
Provisions		1,213	1,205
Government grants received		18,780	1,628
Total current liabilities		1,351,643	1,357,528
Total liabilities		4,049,941	3,815,457
Total equity and liabilities		8,938,783	8,603,645

* In accordance with the information provided in section 1.2 a.

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

Interim condensed separate statement of changes in equity

for the period ended September 30th 2019

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at January 1st 2019	495,977	2,418,270	1,861	1,872,080	4,788,188
<i>Profit or loss and other comprehensive income</i>					
Net profit	-	-	-	120,573	120,573
Other comprehensive income	-	-	(15,016)	(4,903)	(19,919)
Comprehensive income for the year	-	-	(15,016)	115,670	100,654
Balance as at September 30th 2019 (unaudited)	495,977	2,418,270	(13,155)	1,987,750	4,888,842

for the period ended September 30th 2018

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at January 1st 2018	495,977	2,418,270	15,407	1,828,096	4,757,750
<i>Profit or loss and other comprehensive income</i>					
Net profit	-	-	-	178,087	178,087
Other comprehensive income	-	-	(10,349)	(1,547)	(11,896)
Comprehensive income for the year	-	-	(10,349)	176,540	166,191
<i>Transactions with owners, recognised directly in equity</i>					
Dividends	-	-	-	(123,995)	(123,995)
Total transactions with owners	-	-	-	(123,995)	(123,995)
Balance as at September 30th 2018 (unaudited)	495,977	2,418,270	5,058	1,880,641	4,799,946

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– Sep 30 2019	for the period Jan 1– Sep 30 2018
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from operating activities		
Profit before tax	142,259	188,208
<i>Adjustments for:</i>	<i>46,357</i>	<i>(65,062)</i>
Depreciation and amortisation	96,238	82,034
Impairment losses	764	409
Loss on investing activities	1,114	846
Interest, foreign exchange gains or losses	34,906	9,869
Dividends	(87,267)	(159,223)
Fair value loss on financial assets at fair value	602	1,003
	188,616	123,146
Increase in trade and other receivables	(54,343)	(81,923)
Increase in inventories and property rights	(3,457)	(6,755)
(Decrease)/Increase in trade and other payables	(44,930)	26,890
Increase/(Decrease) in provisions, accruals and government grants	29,956	(520)
Other adjustments	210,940	(3,500)
Cash generated from operating activities	326,782	57,338
Income tax paid	(21,654)	(4,592)
Net cash from operating activities	305,128	52,746

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– Sep 30 2019	for the period Jan 1– Sep 30 2018
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	647	528
Acquisition of property, plant and equipment, intangible assets and investment property	(119,619)	(153,913)
Dividend received	87,267	156,155
Acquisition of other financial assets	(107,543)	(174,960)
Interest received	12,976	10,712
Loans advanced	(40,260)	(79,376)
Repayments of loans advanced	36,737	52,692
Other disbursements	(1,510)	(1,358)
Net cash from investing activities	(131,305)	(189,520)
Cash flows from financing activities		
Dividends paid	-	(123,994)
Proceeds from borrowings	313,750	96,911
Repayment of borrowings	(50,151)	-
Interest paid	(41,909)	(36,920)
Payment of lease liabilities	(4,054)	(336)
Other cash (used in)/provided by financing activities	(288,412)	15,372
Net cash from financing activities	(70,776)	(48,967)
Total net cash flows	103,047	(185,741)
Cash and cash equivalents at beginning of period	1,000,980	572,711
Effect of exchange rate fluctuations on cash held	9,649	2,933
Cash and cash equivalents at end of period	1,113,676	389,903

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 listed joint stock company with its registered office in Tarnów, Poland.

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 three and nine months ended September 30th 2019 and contain comparative data for the three and nine months ended September 30th 2018 and as at December 31st 2018.

The Company is entered in the Register of Businesses in the National Court Register maintained by the District Court in Kraków, 12th Commercial Division of the National Court Register, under entry No. KRS 0000075450. The Company’s REGON number for public statistics purposes is 850002268.

The Company has been established for an indefinite term.

Grupa Azoty’s business includes in particular:

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

These interim condensed separate financial statements of the Company for the three and nine months ended September 30th 2019 were authorised for issue by the Management Board on November 12th 2019.

The Company has also prepared interim condensed consolidated financial statements for the three and nine months ended September 30th 2019, which were authorised for issue by the Management Board on November 12th 2019.

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 2018, which were authorised for issue on April 25th 2019.

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 zloty.

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.

1.2. Accounting policies and computation methods

The accounting policies applied to prepare these interim condensed separate financial statements are consistent with the policies applied to draw up the Company’s full-year financial statements for the year ended December 31st 2018, except for those presented below and related to IFRS 16 *Leases* having taken effect.

a) Implementation of IFRS 16 Leases

IFRS 16 *Leases* (“IFRS 16”) was issued by the IASB on January 13th 2016 and endorsed by the European Union on October 31st 2017. It replaces IAS 17 *Leases* (“IAS 17”).

The new standard introduces a single lease accounting model in the lessee’s accounting books. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Pursuant to IFRS 16, a lessee recognises a right-of-use asset and a lease liability determined at the total of discounted future payments over the lease term. Right-of-use assets are depreciated using the straight-line method, while lease liabilities are accounted for using the effective interest rate. With respect to the lessor, IFRS 16 substantially repeats the lease accounting requirements contained in IAS 17. A lessor continues to classify leases as operating or finance leases.

The Company decided to implement IFRS 16 using the modified retrospective approach, with no adjustments of the comparative data. In connection with the adoption of the modified approach, on the date of initial application of IFRS 16, i.e. January 1st 2019, the comparative data was not restated.

Effect on the Company’s accounting - the Company as a lessor

IFRS 16 does not substantially change the lessor’s accounting for leases. In accordance with IFRS 16, the Company continues to classify leases as either operating or finance leases, accounting differently for each type. However, IFRS 16 amended and extended the scope of disclosures required from lessors, in particular as regards the management of risks associated with the residual interests in leased assets.

Effect on the Company accounting - the Company as a lessee

- The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of the right-of-use assets and lease liabilities.
- Non-current right-of-use assets are presented under
 - right-of-use assets.
- Lease liabilities previously classified as finance leases in accordance with IAS 17 and recognised in the statement of financial position under other financial liabilities are now recognised as current and non-current lease liabilities.
- When applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard:
 - not recognising operating leases whose remaining term ends on or before the date falling 12 months after January 1st 2019 and will not likely be extended;
 - not recognising leases in the case of which the underlying asset has a low value (less than PLN 10,000);
 - using a single discount rate with respect to a portfolio of leases having similar characteristics;
 - excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application, except in the case of perpetual usufruct of land;
 - using hindsight to determine the lease term if the lease includes a renewal or termination option.

The discount rates applied by the Company to leases recognised as at January 1st 2019 in connection with the implementation of IFRS 16 are as follows: 4.84% in the case of perpetual usufruct rights to land and 3.34% in the case of other leases denominated in PLN.

The Company applies the following methodology to determine the incremental borrowing rate:

- for perpetual usufruct rights to land - based on the yield on 30-year treasury bonds plus an appropriate margin;
- for other right-of-use assets - the rate is determined based on the market interest rate for long-term corporate credit facilities advanced to the Grupa Azoty Group.

Effect of implementation of IFRS 16 on the financial statements

The effect of implementation of IFRS 16 as at January 1st 2019 is presented below.

	Amount
Future minimum lease payments under operating leases, disclosed in the financial statements prepared as at December 31st 2018 (disclosure in accordance with IAS 17)	22,557
Future minimum lease payments under perpetual usufruct rights to land as at December 31st 2018, not included above	90,980
Any other future minimum lease payments not recognised in the financial statements as at December 31st 2018 under IAS 17, but recognised for the purposes of IFRS 16	-
Total all future lease payments as at December 31st 2018	113,537
Exemptions from recognition requirements under IFRS 16 - short-term leases (-)	(15,088)
Exemption from recognition requirements under IFRS 16 - low-value leases (-)	-
Change due to change in charges for perpetual usufruct rights to land	-
Other (-/+)	3,608
Future lease payments under operating leases recognised in accordance with IFRS 16 as at January 1st 2019	102,057
Discount	(65,009)
Additional lease liabilities recognised as at January 1st 2019	37,048
Finance lease liabilities under IAS 17 as at December 31st 2018	2,409
Lease liabilities as at January 1st 2019	39,457

Presentation changes related to the implementation of IFRS 16 are set out below.

	Dec 31 2018	Impact of change	Jan 1 2019
Non-current assets			
Property, plant and equipment	1,650,232	(3,488)	1,646,744
Perpetual usufruct of land	365	(365)	-
Right-of-use assets	-	40,901	40,901
Other non-current assets	5,383,561	-	5,383,561
Total non-current assets	7,034,158	37,048	7,071,206
Total current assets	1,569,487	-	1,569,487
Total assets	8,603,645	37,048	8,640,693

	Dec 31 2018	Presentation changes	Dec 31 2018 restated	Impact of change	Jan 1 2019
Liabilities					
Lease liabilities	-	1,695	1,695	32,687	34,382
Other financial liabilities	23,625	(1,695)	21,930	-	21,930
Other non-current liabilities	2,434,304	-	2,434,304	-	2,434,304
Total non-current liabilities	2,457,929	-	2,457,929	32,687	2,490,616
Lease liabilities	-	714	714	4,361	5,075
Other financial liabilities	103,836	(714)	103,122	-	103,122
Other current liabilities	1,253,692	-	1,253,692	-	1,253,692
Total current liabilities	1,357,528	-	1,357,528	4,361	1,361,889
Total liabilities	3,815,457	-	3,815,457	37,048	3,852,505

Reconciliation of lease costs

Depreciation/amortisation of right-of-use assets(-)

for the period
Jan 1-
Sep 30 2019

unaudited

(4,735)

Interest expense on lease liabilities(-)	(1,279)
Costs associated with short-term leases exempted from the scope of application of IFRS 16(-)	(9,011)
Costs associated with variable lease payments not accounted for in the measurement of lease liabilities(-)	(97)
Total	(15,122)

b) Other standards and interpretations

The following standards effective as of 2019 have no material impact on the Company's operations or its financial reporting:

- IFRIC 23 Uncertainty over Income Tax Treatments (issued on June 7th 2017) - effective for annual periods beginning on or after January 1st 2019;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued on October 12th 2017) - effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued on October 12th 2017) - effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on February 7th 2018) - effective for annual periods beginning on or after January 1st 2019;
- *Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2015-2017 Cycle* (issued on December 12th 2017) - effective for annual periods beginning on or after January 1st 2019;

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

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) - pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version (not endorsed by the EU by the date of authorisation of these financial statements for issue) - effective for annual periods beginning on or after January 1st 2016;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) - work leading to endorsement of the amendments was deferred by the EU for an indefinite period - effective date was deferred by the IASB for an indefinite period;
- IFRS 17 *Insurance Contracts* (issued on May 18th 2017) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2021;
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 3 *Business Combinations* (published on October 22nd 2018) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2020;
- Amendments to IAS 1 and IAS 8: *Definition of materiality* (published on October 31st 2018) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2020.

c) Correction of errors and changes in estimates

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. There were no corrections of errors in the reporting period. In H1 2019, the Company changed the estimates concerning calculation of the income tax asset relating to its operations in the special economic zone (SEZ). The change resulted from the experience gathered in accounting for operations in the SEZ, taking into account margins in setting transfer prices used for tax accounting purposes, and also from updating market and financial plans and extending the period of the tax projection for operations in the SEZ from three to five years. These factors had a partially offsetting effect, therefore the amount of tax assets related to operations in the SEZ as September 30th 2019 was reduced by PLN 4.4m relative to December 31st 2018.

2. Selected notes and supplementary information

Note 1 Property, plant and equipment

Carrying amount

	as at Sep 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
Land	572	572
Buildings and structures	466,511	439,219
Plant and equipment	1,054,752	1,019,909
Vehicles	818	4,426
Other property, plant and equipment	48,560	27,478
	1,571,213	1,491,604
Property, plant and equipment under construction	82,720	158,628
	1,653,933	1,650,232

As at September 30th 2019, the trigger referred to in paragraph 12d of IAS 36 *Impairment of Assets* occurred - 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 previous impairment tests and the results of those tests.

The analysis showed that:

- the adopted strategy and the key assumptions did not change;
- EBITDA for the first nine months of 2019 is higher than planned;
- there is a growing risk of deterioration of macroeconomic prospects and market conditions; however, most of the possible negative circumstances should be largely offset by protection mechanisms and adjustment measures, therefore looking forward the Company should maintain its market position and the level assumed in its financial performance tests;
- the risk-free interest rate fell and the weighted average cost of capital did not increase.

Given the above, it was concluded that the recoverable amount estimates resulting from previous tests remain valid as at September 30th 2019 and no additional impairment losses needed to be recognised.

For detailed information on impairment tests and their results, see "Interim Report of Grupa Azoty for H1 2019 - Interim condensed separate financial statements for the six months ended June 30th 2019", pages 27-28.

Note 2 Shares

	as at Sep 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
Shares in subsidiaries	5,113,728	5,006,337
Shares in other entities	6,722	6,571
	5,120,450	5,012,908
including		
Long-term	5,120,450	5,012,908
	5,120,450	5,012,908

On July 19th 2019, the Company paid up the newly issued shares it acquired in the share capital of PDH Polska S.A.^{*)}

On August 8th 2019, a share capital increase at PDH Polska S.A.^{*)}, from PLN 304,000 thousand to PLN 467,339 thousand, was registered.

As a result, the Company's ownership interest in PDH Polska S.A.^{*)} rose from 40.07% to 47%, while Grupa Azoty POLICE's interest fell to 53%.

Following an analysis of impairment of shares held, consistent with an analysis of impairment of property, plant and equipment as at September 30th 2019, no need to recognise impairment of shares was identified.

Additionally, in connection with the updated positive results yielded by the financial model prepared by PDH Polska S.A.^{*)}, which the Company treats as an estimate of the recoverable amount as part of impairment testing of assets as at September 30th 2019, the conclusion that shares held in PDH Polska S.A.^{*)} were not impaired was upheld.

Note 3 Other information

Dividend

On June 27th 2019, the Company's Annual General Meeting passed a resolution to allocate the entire amount of the Parent's net profit for the financial year 2018, of PLN 171,064 thousand, to the Company's reserve funds.

Investment commitments

The total amount of commitments under executed contracts was PLN 97,773 thousand as at September 30th 2019 (December 31st 2018: PLN 61,032 thousand).

Note 4 Contingent liabilities, contingent assets, sureties and guarantees

Contingent liabilities and guarantees/sureties

	as at Sep 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
Sureties	53,096	7,740

In Q3 2019, the Company provided a surety for the liabilities of indirect subsidiary PDH Polska S.A.^{*)} under the Polimery Police project for the benefit of the project general contractor, Hyundai Engineering Co., Ltd. The surety was provided in connection with the strategy to accelerate the submission of orders for equipment with long delivery time.

The Company provided a surety of up to EUR 10,340 thousand (September 30th 2019: PLN 45,223 thousand).

The surety is valid until December 30th 2019.

^{*)}Since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.



Management's discussion and analysis:
the Grupa Azoty Group in Q3 2019

1. General information on the Grupa Azoty Group

1.1. Organisation and structure

The Grupa Azoty Group is one of Central Europe's major chemical groups with a strong presence on the market of mineral fertilizers, engineering plastics, OXO products, and other chemicals.

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

As at September 30th 2019, the Grupa Azoty Group comprised: Grupa Azoty S.A. (the Parent) and ten direct subsidiaries together with entities included in their respective groups.

Parent

Grupa Azoty S.A. is the Parent of the Grupa Azoty Group. Its principal business activities include manufacturing, trading in and service activities related to nitrogen fertilizers, engineering plastics and intermediates.

The Company operates its own research facilities. It concentrates both on research into new products and technologies, and on advancing existing products.

The Company's registered office is located at ul. Eugeniusza Kwiatkowskiego 8, Tarnów, Poland. Since April 22nd 2013, the Company has been trading under the name Grupa Azoty Spółka Akcyjna.

Parent's subsidiaries

Grupa Azoty Zakłady Azotowe Puławy S.A.

The company's registered office is located in Puławy. Since April 4th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna (abbreviated to Grupa Azoty PUŁAWY). Grupa Azoty PUŁAWY specialises in the manufacturing of nitrogen fertilizers and is one of the largest melamine manufacturers in the world.

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna

The company's registered office is located in Police. Since June 3rd 2013, it has been trading under the name Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna (abbreviated to Grupa Azoty Police). Grupa Azoty Police is a major manufacturer of compound and nitrogen fertilizers, as well as titanium white.

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna

The company's registered office is located in Kędzierzyn-Koźle. Since January 11th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna (abbreviated to Grupa Azoty Kędzierzyn).

The company's two business pillars are nitrogen fertilizers and OXO products (OXO alcohols and plasticizers).

COMPO EXPERT Holding GmbH

The company's registered office is located in Münster, Germany.

The Company is a holding company for 21 subsidiaries, including the main operating company COMPO EXPERT GmbH, one of the world's largest manufacturers of speciality fertilizers for professional customers.

Grupa Azoty ATT Polymers GmbH

The company's registered office is located in Guben, Germany. Since July 10th 2013, it has been trading under the name Grupa Azoty ATT Polymers GmbH.

It manufactures Polyamide 6 (PA6).

Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów. Since February 28th 2013, it has been trading under the name Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. or Grupa Azoty PKCh Sp. z o.o.).

Grupa Azoty PKCh's services encompass comprehensive design support for investment projects in the chemical industry – from study and concept work to engineering design, building permit design and

working plans, to services provided during the construction, commissioning and operation of process units.

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów. Since March 6th 2013, it has been trading under the name Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty Koltar Sp. z o.o.).

Grupa Azoty KOLTAR provides countrywide railway transport services. It is one of the few organisations in Poland to hold licences required to perform comprehensive repairs of rail car chassis and tank cars used in the transport of dangerous materials (according to RID).

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna

The company's registered office is located in Grzybów. Since February 11th 2014, it has been trading under the name Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna (abbreviated to Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. or Grupa Azoty SIARKOPOL).

Grupa Azoty SIARKOPOL is Poland's largest producer of liquid sulfur.

Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów. Its business model is based on a portfolio of specialised engineering plastics manufactured through the compounding of plastics, with the use of innovative technological solutions.

The Company manufactures and sells modified plastics.

Grupa Azoty Folie Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów. Its principal business is research and development in technical science.

Parent's shareholdings in subsidiaries as at September 30th 2019

<i>(in relevant currency)</i>			
Company	Registered office/address	Share capital	Equity interest (%)
COMPO EXPERT Holding GmbH	Krögerweg 10 48155, Münster, Germany	25,000 EUR	100.00
Grupa Azoty ATT Polymers GmbH	Forster Straße 72 03172 Guben, Germany	9,000,000 EUR	100.00
Grupa Azoty Compounding Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	36,000,000 PLN	100.00
Grupa Azoty Folie Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów	5,500,000 PLN	100.00
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów	PLN 60,620,090	99.39
Grupa Azoty PUŁAWY	al. Tysiąclecia Państwa Polskiego 13 24-110 Puławy	PLN 191,150,000	95.98
Grupa Azoty KĘDZIERZYN	ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn-Koźle	PLN 285,064,300	93.48
Grupa Azoty POLICE	ul. Kuźnicka 1 72-010 Police	PLN 750,000,000	66.00
Grupa Azoty PKCh Sp. z o.o.	ul. Kwiatkowskiego 7 33-101 Tarnów	PLN 85,630,550	63.27
Grupa Azoty KOLTAR Sp. z o.o.	ul. Kwiatkowskiego 8 33-101 Tarnów, Poland	PLN 54,600,000	60.00

The Parent and its subsidiaries as at September 30th 2019



{ 1	<p>Parent</p> <p>Grupa Azoty „Compounding” Sp. z o.o. 100%</p> <p>Grupa Azoty „Folie” Sp. z o.o. 100%</p> <p>Grupa Azoty KOLTAR Sp. z o.o. 75.91%</p> <p>Grupa Azoty PKCh Sp. z o.o. 63.27%</p>	<p>2 Grupa Azoty PUŁAWY 95.98%</p> <p>3 Grupa Azoty POLICE 66%</p> <p>4 Grupa Azoty KĘDZIERZYN 93.48%</p>	<p>5 Grupa Azoty SIARKOPOL 99.39%</p> <p>6 Grupa Azoty ATT Polymers GmbH 100%</p> <p>7 Goat TopCo GmbH 100%</p>
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Source: Company data

1.2. Business segments

The Group is the largest chemical group in Poland and a significant player in Central Europe. It offers mineral fertilizers and B2B products, including engineering plastics, OXO products and melamine.

The Group's business is divided into the following segments:

- Agro Fertilizers,
- Plastics,
- Chemicals,
- Energy,
- Other Activities.

Agro Fertilizers

Mineral fertilizers are the key area of the Group's business. The Agro Fertilizers segment manufactures nitrogen and compound fertilizers, as well as speciality fertilizers. As well as ammonia and other nitrogen-based intermediate products.

The segment's manufacturing activities are conducted by the companies in Tarnów (Parent), Puławy, Kędzierzyn, Police, Gdańsk, Chorzów, as well as Germany and Spain. The Group is Poland's largest and European Union's second largest manufacturer of mineral fertilizers.

Plastics

The segment's key products are engineering plastics (Polyamide 6 (PA6) and modified plastics) and auxiliary products, such as caprolactam and other chemicals.

They are manufactured by three companies – in Tarnów, Puławy, and Guben (Germany). The Group is the leading manufacturer of PA6 in Poland and the third largest producer of this polyamide in the European Union.

Chemicals

The Chemicals segment is an important part of the Group's business, comprising OXO alcohols, plasticizers, melamine, technical grade urea, titanium white, sulfur, AdBlue[®], and other products.

They are manufactured in Kędzierzyn, Puławy, Police, and Grzybów. The Group is a major manufacturer of melamine globally and the third largest in the European Union. As regards OXO products, the Group is the only manufacturer of OXO alcohols in Poland, ranking fifth in the European Union. The Group is Poland's only producer of titanium white.

Energy

Electricity and heat produced by the Energy segment are sold locally, to customers in the immediate vicinity of the Group's plants.

The segment's key customers are companies of the Group. Outside the Group, the segment's products are sold on the electricity and hot water markets to local customers. The Group companies operate their own electricity and energy carrier distribution networks.

Other Activities

The Other Activities segment comprises auxiliary and support services. As in the case of the Energy segment, its services are mainly rendered for the Group companies. Outside the Group, the segment mainly provides maintenance (automation, design, repair, etc.) and logistics services (road transport, rail transport, ports), and conducts manufacturing at the Catalyst Production Plant. The segment is also involved in various operations in such areas as environmental protection, administration, research, and infrastructure management.

1.3. Overview of key products

AGRO FERTILIZERS

The Group classifies **mineral fertilizers** as nitrogen (single-nutrient) fertilizers and compound fertilizers, the latter including at least two of the following key nutrients: nitrogen (N), phosphorus (P) or potassium (K), as well as speciality fertilizers.

Nitrogen fertilizers

Nitrogen fertilizers are substances or mixtures of substances where nitrogen is the primary plant nutrient. The Group's product range includes a number of nitrogen fertilizers: urea, nitrate fertilizers (including ammonium nitrate, calcium ammonium nitrate, UAN), nitrogen-sulfur fertilizers (made as a result of mixing fertilizers in the manufacturing process: ammonium sulfate nitrate, solid and liquid mixtures of urea and ammonium sulfate, and ammonium sulfate). Natural gas is the key feedstock for nitrogen fertilizers production.

Urea – a nitrogen fertilizer containing 46% nitrogen; it is produced in Puławy (PULREA®), Police (moczni.pl®), and Kędzierzyn. Urea is a universal fertilizer - it can be used for all crops at various growth stages, both in the granular form and as a solution.

Outside agriculture, urea is used for technical purposes, mainly for manufacturing of adhesive resins, which find application in the chipboard industry. Urea may also be further processed into urea-ammonium nitrate solution (UAN – RSM®), a liquid fertilizer, or into melamine.

Nitrate fertilizers

- Ammonium nitrate is a nitrogen fertilizer which is easily dissolved in water, Containing between 30% and 34% nitrogen. The Group offers this product in a wide variety of granule forms and sizes, such as mechanically granulated ZAKsan®, with excellent sowing properties; the PULAN® beaded ammonium nitrate, and '30 makro' ammonium nitrate.
- Calcium ammonium nitrate (CAN) is a nitrogen fertilizer with a nitrogen content of up to 28%. It is a universal fertilizer, suitable for all types of soil, well soluble and easily absorbed by crops. The Group markets CAN in a number of granule varieties; the offering includes the granulated Salmag® fertilizers (including varieties with a sulfur or boron content), and bead fertilizers such as Saletrzak 27 (CAN 27) standard and Saletrzak 27 with boron.
- Urea-ammonium nitrate solution (UAN - RSM®) is a liquid nitrogen fertilizer coming in three varieties: with 32%, 30% and 28% nitrogen content. Thanks to its form, UAN-RSM® is easily absorbed by plants. It is also produced with an admixture of sulfur, as UAN-RSM®S.

Nitrogen-sulfur fertilizers

These fertilizers improve sulfur content in the soil, enhance arable crops' ability to absorb nitrogen, and thus increase the quality and volume of crops.

- PULGRAN®S - urea-ammonium sulfate, is a nitrogen fertilizer with sulfur in the form of white hemispherical pastilles, obtained by blending urea and ammonium sulfate. It is manufactured in two varieties with various contents: 37% nitrogen/21% sulfur and 33% nitrogen/31% sulfur.
- Saletrosan®, or ammonium sulfate nitrate, is a nitrogen fertilizer with sulfur, obtained by blending ammonium nitrate and ammonium sulfate. Saletrosan® 26 contains 26% nitrogen and 13% sulfur. The fertilizer is also marketed under the trade name Saletrosan® 30, with different proportions of nitrogen and sulfur (30% and 6%).
- Polifoska® 21 is a nitrogen fertilizer with sulfur; it is an ammonium sulfate-urea mix, containing 21% nitrogen and 33% sulfur.
- Ammonium sulfate, marketed under the trade names AS 21 and Pulsar®, is a simple nitrogen fertilizer with sulfur, containing 21% nitrogen and 24% sulfur. It is a by-product in the manufacture of caprolactam and in flue gas desulfurisation. The Group manufactures a wide range of ammonium sulfate in various granule forms and sizes: selection, macro, standard, and crystalline.
- PULASKA® is a liquid nitrogen fertilizer with sulfur, obtained by blending urea and ammonium sulfate, and has a 20% nitrogen and a 6% sulfur content.

Compound fertilizers (NPK, NP)

NPK and NP compound fertilizers are universal fertilizers which, depending on composition, can be applied to various types of crops and soil. Aside from the primary components – nitrogen (N),

phosphorous (P) and potassium (K), these fertilizers contain secondary nutrients such as magnesium, sulfur or calcium, and may contain microelements such as boron or zinc.

Compound fertilizers may be used to provide nutrients to all types of arable crops. The Group's current offering includes more than 40 grades of compound fertilizers, which are marketed under the following trade names: Polifoska®, Polidap®, Polimag® Superfosfat, Amofoska®, etc. The Group also offers dedicated fertilizers, custom-made to satisfy customers' specific requirements.

Speciality fertilizers

Speciality fertilizers are designed to meet the specific requirements of various sectors, including fruit and vegetable growing, horticulture or maintenance of green areas. In addition to the primary components – nitrogen (N), phosphorous (P) and potassium (K), such fertilizers also contain secondary nutrients and microelements. They may also contain inhibitors that reduce nutrient leaching.

Available in solid (coated or uncoated) or in liquid form, this product range also includes fertigation and foliar fertilizers.

Currently, they are marketed under a number of trade names, including Blaukorn®, NovaTec®, Hakaphos®, Basfoliar®, Easygreen®, DuraTec®, Basacote® and Floranid®^{Twin}.

Ammonia – feedstock for the manufacture of fertilizers, produced in a process of direct synthesis of nitrogen and hydrogen. Ammonia is the basic intermediate product used to manufacture nitrogen fertilizers and compound fertilizers. It is also used in the chemical industry, e.g. for the manufacturing of caprolactam or polymers, or as a cooling agent. Natural gas is the key feedstock for the production of ammonia.

PLASTICS

Engineering plastics

Engineering plastics exhibit high thermal resistance and good mechanical properties. The wide range of the plastics' beneficial properties makes them a product of choice for many industries, including automotive, construction, electrical engineering, household appliances, and the food and textile industries.

The Group manufactures Polyamide 6 (PA6) and modified plastics (with admixtures affecting the physical and chemical properties of the final plastics) based on Polyamide 6 and other engineering plastics (POM, PP, PBT, PA6.6). It also offers modified plastics, custom-made to meet the requirements of individual customers.

Polyamide 6 (PA6) is a high-quality thermoplastic in granular form used for injection processing. It is the leading product among engineering plastics. The Group's very popular brands in this segment are Tarnamid® and Alphalon®.

Caprolactam

Caprolactam is an organic chemical compound and an intermediate product used for the manufacture of Polyamide 6 (PA6). It is produced mainly from benzene and phenol. Synthesis of caprolactam yields ammonium sulfate as a by-product.

CHEMICALS

OXO products

OXO alcohols

The Group makes the following OXO alcohols: 2-ethylhexanol (2-EH) and butanols (n-butanol, isobutanol). The key product in this group is 2-EH.

2-ethylhexanol (2-EH) is used in the manufacture of plasticizers, paints and varnishes as well as in the textile industry and oil refining processes. It can also be applied as a solvent for vegetable oils, animal fats, resins, waxes and petrochemicals.

Plasticizers

The Group manufactures the following plasticizers:

- DEHT/DOTP. It is used in the chemical industry to increase the plasticity of materials, mainly PVC, and as an additive to paints and varnishes. The Group's DEHT/DOTP is marketed under the Oxoviflex® brand. It is used in plastics processing as a non-phthalic plasticizer as well as in the manufacture of paints and varnishes. It is also widely applied for the production of floor tiles and wall cladding as well as toys for children.
- DBTP/DBT - a plasticizer characterised by quick plastification of polymers and low migration, giving higher flexibility to finished products. Due to these properties, DBTP/DBT is used in the production of PVC flooring as a functional plasticizer in combination with Oxoviflex®, as well as in the production of adhesives, seals, and inks. The Group's DBTP/DBT is marketed under the Oxovilen® brand.
- DEHA/DOA - a high quality bis(2-ethylhexyl) adipate which is recommended for the manufacture of food contact materials (particularly PVC food wrapping film) due to its very good plastifying properties and the fact that it maintains its properties in low-temperature applications and has a safe toxicological profile. The Group markets its DEHA/DOA under the Adoflex® brand. The product is also used in the manufacture of garden hoses, cables and coated fabrics. Depending on the application, it may be used as the main plasticizer or a functional plasticizer in combination with Oxoviflex®. Besides its application in PVC processing, Adoflex® is also recommended as a solvent for the cosmetics industry, for use in nitrocellulose and synthetic rubber plasticisation, and in the manufacturing of lacquers.

Sulfur

The product offered by Grupa Azoty is mined sulfur. Sulfur is mainly used to produce sulfuric acid, which is widely used in the chemical industry, for instance to produce DAP, a two-component fertilizer. The product is offered in various forms. For the Group's own needs, sulfur is also purchased from other suppliers who obtain it as a by-product from flue gas desulfurisation or crude oil refining.

Melamine

It is a non-toxic, non-flammable product in the form of a white powder, used for the production of synthetic resins, thermosetting plastics, adhesives, paints, varnishes (including furnace varnishes), auxiliary materials for the textile industry, fire retardants, and other.

SOURCES OF STRATEGIC RAW MATERIALS

For the most part, the Group procures its raw materials, merchandise and services on the domestic and EU markets. Certain raw materials (phosphate rock, slag, potassium chloride) are purchased from non-EU suppliers. Raw materials supplied by the Group companies, i.e. ammonia and to some extent sulfur, account for a significant share of the total raw materials procured by the Group.

Ammonia

The procurement strategy is based primarily on the optimisation of intragroup supplies. Intragroup supplies are transacted on arm's length terms. The Group is the largest ammonia manufacturer in Poland and CEE, and operates several ammonia units. It is also one of the largest consumers of ammonia in the region.

Having satisfied its own needs, the Group sells a surplus on the market. The Group's ability to effectively secure ammonia supplies largely depends on conditions prevailing on the fertilizer market and in the natural gas sector.

Benzene

Benzene is mainly delivered under one-year contracts, with supplementary purchases made on the spot market. Benzene is sourced chiefly from domestic and CEE suppliers. The benzene market is largely driven by the situation on the crude oil market and the demand-supply balance on global markets, particularly the level of demand for benzene outside Europe.

Electricity

The Group purchases electricity from major Polish suppliers trading with large accounts. Following a number of tenders for 2019, the Group companies signed electricity supply contracts under their existing framework agreements. Thanks to the joint procurement strategy for electricity supplies, they secured competitive prices and favourable terms of the contracts. Given the volatility of the electricity market and its changing legal framework, the Group's policy is to purchase electricity

under forward contracts concluded for various periods and on the SPOT market, including on the Polish Power Exchange.

Phenol

The procurement strategy is based primarily on supplies from the domestic and the EU markets, with deliveries from outside Europe covering deficit. The Group secures phenol supplies for its own needs under long-term contracts concluded directly with Europe's largest producers.

Phosphate rock

Phosphate rock is purchased under term contracts, chiefly from North African producers, given the mineral's abundance in the region and the well-developed local sea logistics infrastructure. The situation on the phosphorite market is to a large extent driven by the situation in the fertilizers sector. The Group has in place a joint phosphate rock purchase programme for Grupa Azoty POLICE and GZNF Fosfory Sp. z o.o.

Natural gas

High-methane gas and gas from local sources was supplied by PGNiG S.A. under long-term contracts. Any additionally required volumes were bought by the Group at the Polish Power Exchange.

Propylene

The bulk of the Group's purchases of propylene are made under annual contracts, with supplementary purchases made on the spot market. To a large extent, propylene prices are driven by oil prices. The Group pursues a diversified procurement strategy, based chiefly on supplies from the EU and countries east of Poland. Supplies from the latter largely reduce the overall cost of propylene procurement.

Sulfur

The Group is the largest producer and consumer of liquid sulfur on the domestic market and in the region. Its sulfur procurement strategy is based on optimising intragroup supplies (from Grupa Azoty SIARKOPOL) and on supplies from the petrochemical sector. This approach gives the Group considerable procurement flexibility, and significantly reduces the risk of supply shortages. The Group also has the largest logistics facilities in Poland, which is a source of additional competitive advantage. With a centralised sulfur procurement strategy in place (a joint purchase programme for the entire Group), the Group is able to aggregate the supply volumes and reduce the cost of this raw material.

Potassium chloride

With substantial natural resources and competitive commercial terms, producers from Russia and Belarus are the primary suppliers of potassium chloride. The Group's procurement strategy is chiefly based on quarterly framework agreements, with supplementary deliveries sourced from Western Europe. The Group pursues a centralised procurement strategy by making joint purchases for Grupa Azoty POLICE and GZNF Fosfory Sp. z o.o.

Coal

The Group purchases coal mainly on the domestic market. Purchasing large volumes of coal of the required quality from geographically remote markets is not economically viable given the transport costs and price formulae (ARA).

On the domestic market, prices of pulverised coal used in power generation are not directly linked to ARA rates, which only serve as pricing benchmarks for Polish coal producers.

Since 2018, the Group companies follow a strategy of purchasing coal under multi-year contracts with a guaranteed price change range. Such long-term contracts cover over 80% of the Group's needs for coal supplies.

2. Financial position of the Group

2.1. Assessment of factors and one-off events having a material impact on the Group's operations and financial performance

Extended shutdown of ammonia and urea units

During the standard annual maintenance shutdown at the Nitro Business Unit at Grupa Azoty POLICE, which took place between April 4th and June 11th 2019, a defect in the boilers of the synthesis gas unit was discovered. As a consequence, the ammonia synthesis unit and the urea synthesis unit were temporarily shut down. In the second half of August 2019, one ammonia line and the urea unit were put into operation. The event had no adverse environmental impact, but it did affect the financial results for Q2 and Q3 2019. Lost profits were primarily attributable to lost margins on sales of nitrogen products, including urea, urea solutions and ammonia, which would have been in all likelihood realised if the units had been operating. Preliminary estimates of lost profits were disclosed to the public in a current report. The financial effect of the temporary shutdown of the units (lost profits) is estimated at PLN 53.7m on the consolidated basis (including PLN 46.6m in the period under review). The loss estimate is also based on the fact that the unscheduled extension of maintenance shutdowns occurred during a period of relatively low gas prices and favourable conditions on the urea market, increasing the potential for achieving relatively high margins. In connection with the event, Grupa Azoty POLICE claimed compensation under its insurance policy. A final estimate of the financial effect of the shutdown will be possible after closing of the accounts for 2019 and after the insurer states its position. In previous years, the units were shut down for annual maintenance in Q3.

Impairment loss recognised by Zakłady Azotowe Chorzów S.A., subsidiary of Grupa Azoty PUŁAWY

On August 27th 2019, the Management Board of Zakłady Azotowe Chorzów S.A. passed a resolution to recognise a PLN 7.8m impairment loss on the company's fat processing unit.

In accordance with IAS 36, the Company's Management Board analysed indications of impairment of the assets allocated to the cash generating unit "Other Activities", following which the Company made a formal estimate of their recoverable amount by determining their value in use.

The financial forecasts adopted by the Company's Management Board for the period covered by the impairment test performed for the cash generating unit "Other Activities" were prepared based on the assumption of a moderate, conservative increase in the Company's revenue in the following years. The revised forecasts showed a lower than assumed as at December 31st 2018 potential for the Company to generate revenue from sales of NPK blends in the coming years, and the expected margin on sales of the Company's main fertilizer products, i.e. potassium nitrate and calcium nitrate, was revised down.

The effect of the event whose consequences were taken into account in the Grupa Azoty Group's financial statements for H1 2019 is as follows:

- the effect on consolidated EBIT of the Grupa Azoty Group was PLN (22m),
- the effect on consolidated net profit of the Grupa Azoty Group was PLN (19m).

For information on the effect of the recognised impairment loss, see Note 10 to the interim condensed consolidated financial statements. for the six months ended June 30th 2019.

Exchange rates

Factors and events bearing on the Group's financial performance in Q3 2019 included the continuing strong domestic GDP growth coupled with low unemployment and rising household incomes.

At the same time, given the signs of a global economic downturn (including in the eurozone), uncertainty as to Brexit scenarios and trade disputes between the US and China, the above external factors led to depreciation against the US dollar of both the euro and emerging market currencies. The third quarter also saw a corrective weakening of the złoty against the US dollar and, to a lesser extent, against the euro.

The Polish currency weakened by approximately 2.9% against the euro and by about 7.1% against the US dollar relative to June 30th 2019. The average PLN/EUR exchange rate and the average PLN/USD exchange rate in Q3 2019 fell by about 0.8% and 1.9%, respectively, compared with Q2 2019.

The corrective depreciation of the złoty in the third quarter followed its earlier appreciation in the first half of the year, but, all in all, these changes had no material effect on the Group's results for the period.

The Group monitors its current and planned net currency exposures and manages the resulting currency risk by applying selected hedging instruments. In the reporting period, the main hedging tools used by the Group included natural hedging; factoring and discounting of receivables denominated in foreign currencies; and currency forwards entered into on a rolling basis to cover up to 80% of the remaining currency exposure with time horizons of less than 6 months, and up to 50% of the remaining currency exposure with time horizons between 6 and 12 months.

In the first half of 2019, some more of the Parent's subsidiaries trading in the euro acceded to the agreement with PKO BP under which the bank provides the Group with a euro physical cash pooling service. The physical cash pooling in the euro allows the Group companies to use the Group's global liquidity limit in that currency, which further reduces their exposure to the currency risk in the euro by correcting potential mismatches in revenue and expenditure over time.

In Q3 2019, the Grupa Azoty Group's hedging tools were EUR and USD forward swaps, executed in the periods of depreciation of the Polish zloty to supplement forward hedges for the sale of EUR and USD, reflecting its planned net exposure in both currencies.

The Group reported a PLN 1,073 thousand gain on hedging transactions realised in Q3 2019 (YTD September 30th 2019: a gain of PLN 2,744 thousand). In Q3 2019, the result on revaluation of hedging instruments was a loss of PLN (5,358) thousand (YTD September 30th 2019: a loss of PLN (3,852) thousand).

In the third quarter of 2019, the Group's aggregate result on the settlement and revaluation of hedging instruments was a loss of PLN (4,285) thousand (YTD September 30th 2019: a loss of PLN (1,108) thousand).

Prices of CO₂ emission allowances

In the third quarter of 2019, the prices of CO₂ emission allowances (EUA) ranged between EUR 24 and EUR 28, trending downwards. Prices on the exchange market are highly volatile. In the third quarter, the companies continued to purchase allowances for 2019 and 2020-2021 based on the Grupa Azoty Group's joint management model for CO₂ emission allowances and an approved emission allowances procurement plan. Measures were also taken to adapt to the changed situation and mitigate the negative financial effects of the higher prices of CO₂ emission allowances by purchasing them during temporary price declines. After the third quarter, Grupa Azoty Group companies held in EU ETS installation accounts allowances required to cover all CO₂ emissions in 2019. Further purchases of emission allowances are planned to secure a part of the planned balance sheet item for 2020-2021, with an option to increase the number of allowances for 2020-2021.

2.2. Market overview

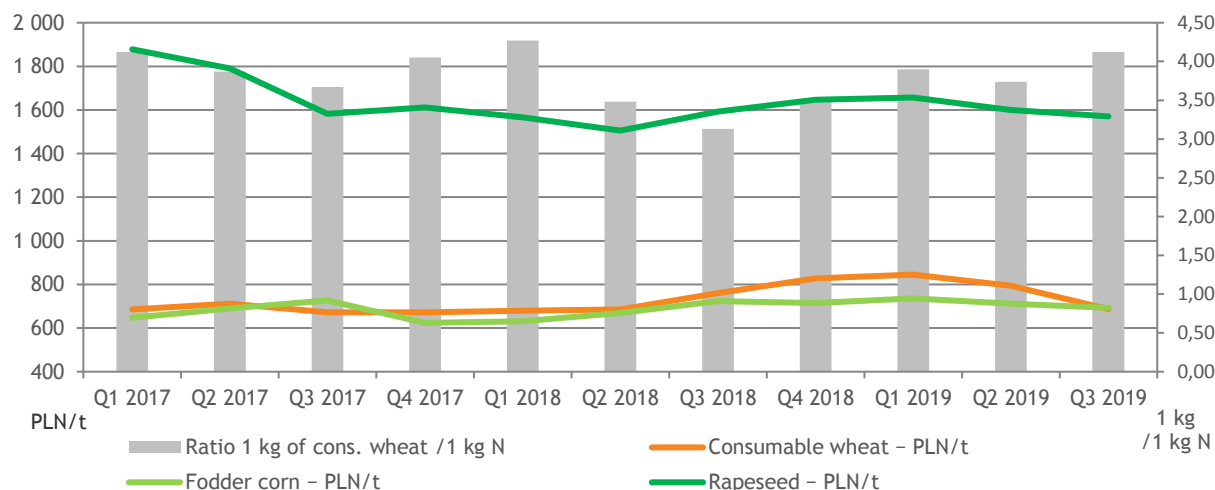
AGRO FERTILIZERS

Economic conditions in agriculture

In Q3 2019, the prices of key agricultural produce were lower year on year. The price of wheat declined the most, by 9.7%. Its average price was PLN 687/tonne compared with PLN 761/tonne a year earlier. Prices of maize and rapeseed also fell year on year, to PLN 693/tonne (down 4.2%) and PLN 1,570/tonne (down 1.4%), respectively.

The economic situation of the Polish agricultural sector, viewed as relatively poor in the period under review (the consequence of last year's drought), was further aggravated following this year's harvest. The main reason was another year of drought conditions, which had a bearing on the volume and quality of crops. Despite a slight improvement in grain yields in Poland compared with the previous year, estimated by Statistics Poland (GUS) at 28.9 million tonnes (a year-on-year increase of 8%), the economic conditions in agriculture were adversely affected by lower prices of agricultural produce in the third quarter, which delayed the sale of grains by the agricultural sector. Higher prices of agricultural produce expected in the coming months may lead to destocking and partly offset the losses. Disbursement in Q4 2019 of direct payments and drought compensation by the Agency for Restructuring and Modernisation of Agriculture, which represent significant financial support for this sector, will also play a major role here. As at the end of September 2019, the total amount of direct payments for 2019 was set at PLN 15.2bn, up by PLN 0.4bn on 2018.

Prices of wheat, maize and rapeseed



Source: Ministry of Agriculture and Rural Development.

Average prices of wheat, maize and rape seed

	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	PLN/t	PLN/t	%	PLN/t	PLN/t	PLN/t
Consumable wheat	761	687	9.7↓	681	677	856
Maize	723	693	4.2↓	684	684	740
Rapeseed	1,592	1,570	1.4↓	1,590	1,553	1,664

Source: Ministry of Agriculture and Rural Development.

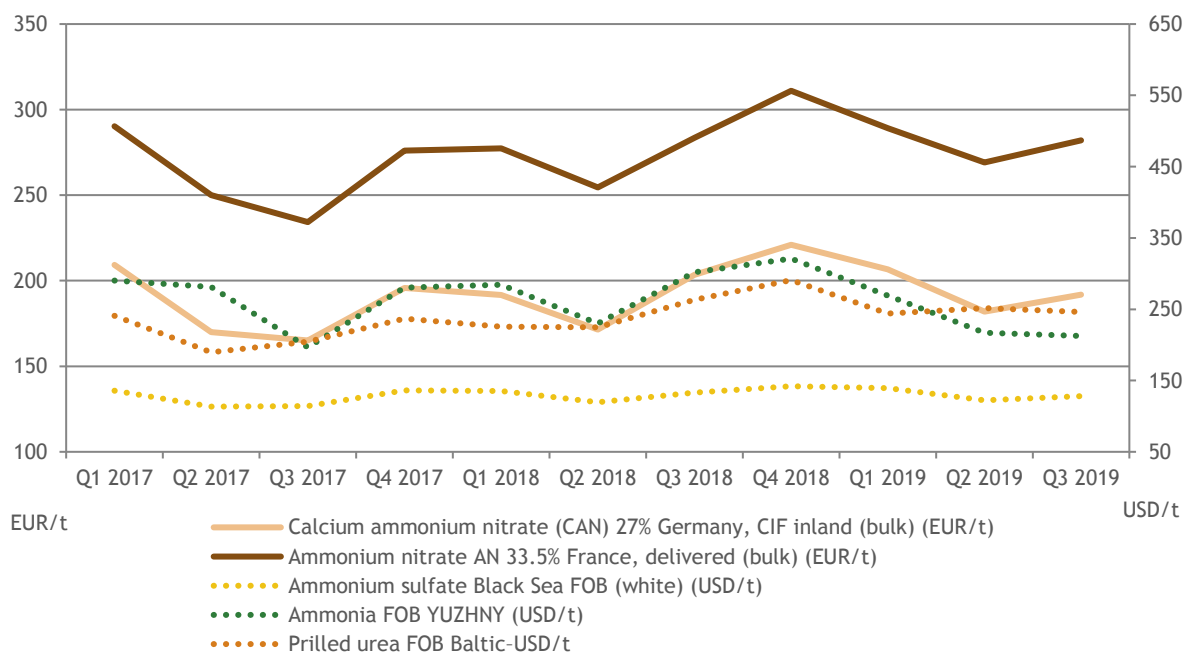
Nitrogen fertilizers

The prices of nitrate fertilizers on the markets under review remained relatively stable, with a slight downward trend. In Q3 2019, the average price of CAN in Germany fell 5.7% year on year. The average price of ammonium nitrate on the French market was more stable, having fallen year on year by approximately 0.5%, to EUR 282/tonne.

As usual during the harvest season, demand for nitrate fertilizers in Q3 2019 was low. A slight recovery, although limited to covering the current demand, was only recorded at the end of the third quarter and was related to the application of nitrogen fertilizers for winter crops. The demand was hampered by the weak economic situation of the Polish agricultural sector, which eroded its purchasing power and delayed purchases in expectation of price drops. The downturn in the segment of nitrate fertilizers was also seen in the EU market. The ongoing harvest season and excessive, in the opinion of the EU agricultural sector, prices of fertilizer products made customers postpone purchases and buy only fertilizers in volumes covering current demand. According to forecasts for Q4 2019, the demand for nitrogen fertilizers should grow given their application in spring. The amount of direct payments to the agricultural sector, the further pricing policy of market players and the weather conditions affecting the growth and condition of winter crops will be crucial in this regard.

In Q3 2019, urea prices on the markets under review continued on a downward trend. The average urea prices fell 6.5% year on year, mainly as a result of the overall slowdown in the period (harvest season, summer holidays, maintenance shutdowns and the global slowdown). The main market development in the period was the purchase of about three million tonnes of urea by Indian customers. Although higher demand from India reduced the oversupply of urea globally, some markets (North Africa and the Baltic region) continued to be oversupplied at the end of the period. Moreover, late September was marked by concerns as to whether demand for urea from Brazil could be covered by Iranian urea, which in turn could dampen price increases. According to current forecasts for Q4 2019, urea prices may slightly go up chiefly driven by the expected slight undersupply of urea in that period globally, which may continue into Q1 2020.

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



Source: ICIS, Argus FMB, Profercy.

Average prices of nitrogen fertilizers

	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
CAN 27% Germany CIF inland (bulk)	204	192	5.7↓	188	178	219
AN 33.5% France, delivered (bulk)	284	282	0.5↓	283	263	308
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ammonia (FOB Yuzhny)	302	213	29.5↓	224	198	276
Urea (FOB Baltic)	263	246	6.5↓	233	229	266
AS (Black Sea FOB white)	133	128	3.7↓	128	119	145

Source: ICIS, Argus FMB, Profercy.

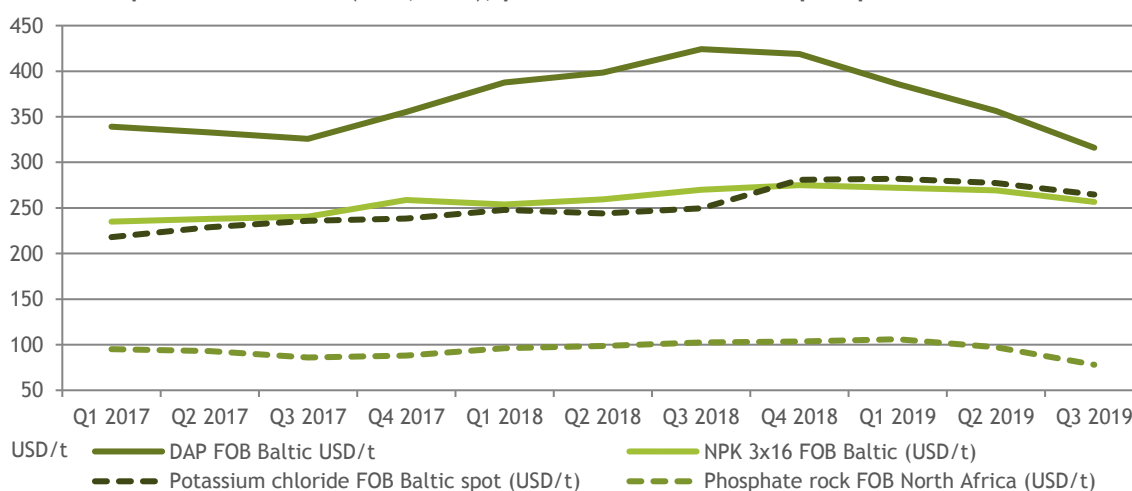
Despite relative stabilisation, ammonia prices were down 29.5% year on year in Q3 2019, mainly as a result of a drop in demand for ammonia from India, China and Korea recorded during the period. The price hike at the end of August was brought about by a slightly lower supply of ammonia, caused by maintenance shutdowns (in Algeria, the Arab Peninsula, Malaysia) in August. Another stabilising factor was a limited supply due to ongoing and planned shutdowns of production units on the both sides of the Suez Canal. Current forecasts for Q4 2019, especially for its first half, indicate that prices of ammonia may stabilise due to relative market balancing expected for that period. The situation may only change at the end of the year. The expected slight oversupply of the product, which may continue into the first half of 2020, may translate into a price decline in the period.

Market of compound fertilizers

In Q3/Q4 2018, strong growth in demand for DAP and MAP, persisting from the end of 2017, finally slowed down. This weakening of the market also affected the prices of the raw materials, halting a further increase in phosphate rock and phosphoric acid prices. In Q3 2019, the average prices of phosphate rock in North Africa fell year on year. Depending on the source of quotations, the decline varies from approximately 10% to approximately 24%. The average quarterly prices of phosphoric acid fell by approximately 15%. A similar price correction occurred with respect to phosphoric acid supplied to India in Q3 2019 - the prices went down by approximately 13.5% compared with Q3 2018. The

weakening demand for phosphate fertilizers was driven by a number of factors, mainly the unclear trade relations between the US and China, a significant decline in demand for phosphate fertilizers in China and India, or an increase in DAP and MAP stocks to record levels. The demand was also adversely affected by spring weather (especially in the US), which in many cases reduced and even prevented the application of phosphate fertilizers. In response to the decline in demand, the leading Chinese manufacturers of phosphate fertilizers decided to cut their production by approximately 50%. Analysts expect prices to fall both for DAP (Morocco, China, the US) and MAP (Brazil) in the next three quarters of 2020. Forecasts indicate that the market will be soft until Q3 2020, without a significant increase in demand from the US or China. The weakness of the market will be additionally aggravated by high stocks of DAP/MAP in key regions of the world. Oversupply is expected in global markets for both DAP and MAP. The situation on the phosphate rock market will be similar: larger oversupply in the last months of 2019 and stabilisation over the first three quarters of 2020. Forecasts for phosphate rock and phosphoric acid indicate that in the following three quarters the market will be quiet and the current price levels will be carried over to 2020, with a possible slight correction of the prices of phosphoric acid.

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



Source: WFM, FERTECON, Profercy.

Average prices of compound fertilizers and raw materials for their production

	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	USD/t	USD/t	%	USD/t	USD/t	USD/t
DAP (FOB Baltic)	424	316	25.5↓	301	301	402
NPK3x16 (FOB Baltic)	270	257	4.9↓	246	246	275
Potassium chloride (FOB Baltic spot)	250	265	6.0	251	251	285
Phosphate rock (FOB North Africa)	102	78	23.8↓	77	77	106

Source: WFM, FERTECON, Profercy.

At the end of Q3 2018, contractual terms of potassium chloride supplies to China and India were agreed for the 2018/2019 financial year. Compared with contracts for the 2017/2018 season, the prices for the supplies to China and India grew by 26% and 21%, respectively. In Q3 2019, the average prices of potassium chloride were approximately 6% higher than in the same period of 2018. However, given the overall weakness of the phosphate fertilizers market, since the beginning of Q3 2019 prices of potassium chloride have been decreasing, mainly on the Brazilian and US markets. Weak demand in China led to record-high stocks in sea and river ports. The slackening demand resulted in postponing the annual negotiations of contracts for potassium chloride supplies to China and India, which normally begin in the second quarter of the year, and the contract price for the next financial year was agreed within several weeks. This year we are likely to know only the prices proposed to Indian customers, while prices for Chinese customers are unlikely to be agreed.

In view of the weakening potassium chloride market and price reductions, potassium chloride producers announced output cuts in Q3/Q4 2019. By reducing the supply, the producers aim to maintain the current prices. The oversupply now seen across numerous markets (China, India, Brazil, the US) is pushing the prices down. This can be currently seen in Brazil, where the demand decline in Q3 2019 brought about a decrease in the price of granulated potassium chloride. Brazilian distributors are not willing to risk larger purchases due to market uncertainty. This may be also one of the factors contributing to the protracted negotiations between India and potassium chloride suppliers. Producers would like the prices in new contracts for the 2019/2020 season to stay at previous year's levels. Based on forecasts for the coming year, even if supply is reduced, price corrections due to lower interest in fertilizer purchases are possible. It should be remembered that the application of potassium fertilizers is linked to the application of phosphorous fertilizers and the market for the latter is still in a downward trend.

PLASTICS

Polyamide 6 chain

In the third quarter of 2019, as in the previous periods of the current year, the market situation for the entire product chain was strongly affected by demand and supply forces and, to a small extent, by fluctuations in crude oil prices, which translated into changes in the prices of petrochemical feedstocks.

Prices of caprolactam and Polyamide 6 (as well as of the other products of the entire chain) remained stable during the quarter, despite expectations that they would follow closely the trend in the prices of raw materials for their production. Compared with Q3 2018, in Q3 2019 average prices of Polyamide 6 on the European market (Engineering Resin Virgin DDP, WE) fell by 13.6% and average prices of liquid caprolactam (New Contract Molten, DDP, WE) fell by 11.5%. Prices of caprolactam on Asian markets (CFR, NE Asia) were down 29.1% year on year.

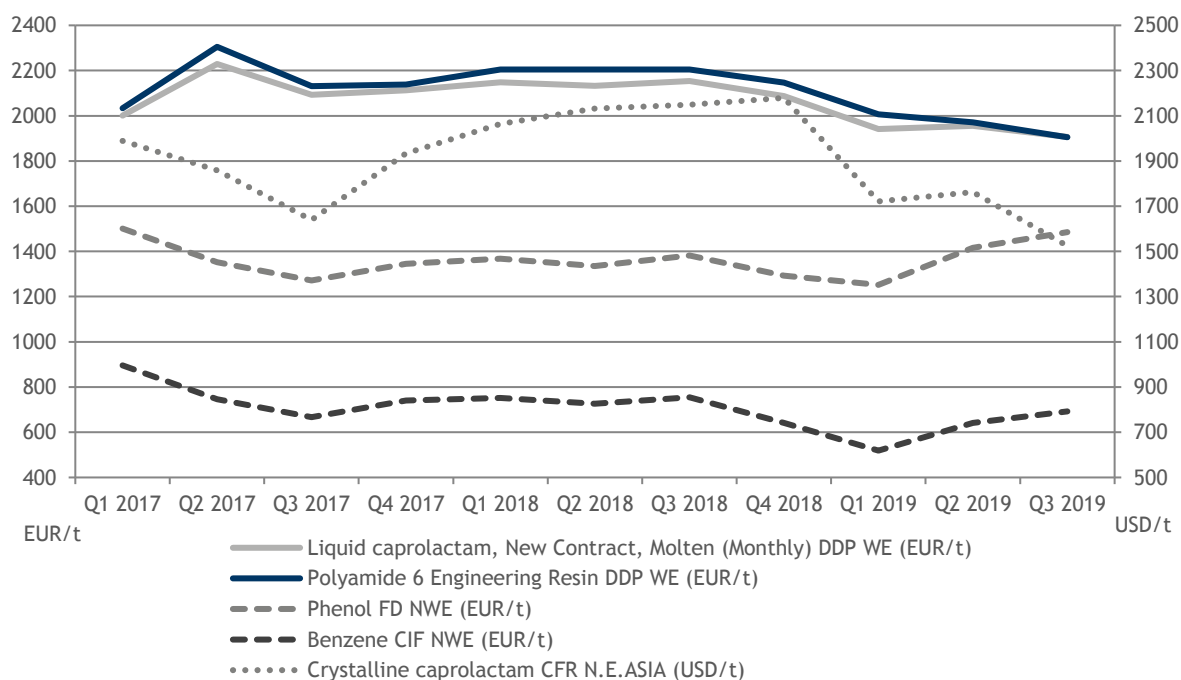
In view of growing production costs, market participants faced tough price negotiations for both Polyamide 6 and caprolactam. The main issues for market players were increase of the prices of petrochemical feedstocks and ways of offsetting the increase along the entire value chain. This market scenario has continued for several months now and manufacturers remain under pressure to curb margin erosion for both PA6 and caprolactam. As in previous months, poor demand from end-user markets and oversupply proved more important in the negotiations than higher production costs. In Q3 2019, oversupply prevailed on the Polyamide 6 market in Europe. Especially in the first two months of the quarter sales were limited due to the holiday season and weak demand from end-use

sectors. Summer months are usually a period of lower consumption, but demand has been falling throughout 2019. A slight improvement was recorded in September, as expected. The stronger interest in purchases was in line with expectations (especially in the packaging industry), but not as strong as in the corresponding periods of previous years.

In the next period, product prices in this segment will be driven mainly by two factors: the supply and demand balance in the plastics processing sector (shaped by the GDP growth dynamics) and the pressure of raw material prices. Weaker demand from end-use markets continues to affect the entire supply chain, exerting pressure on Polyamide 6 and caprolactam prices throughout the year. Signs of potential improvement are expected in 2020. However, this will depend on global market sentiment. The trade war between the US and China, Brexit, and the Middle East tensions have an adverse effect on the macroeconomic situation globally.

Market players expect 2020 to be a transitional period for the automotive industry. New offerings of car manufacturers may encourage new car purchases and ensure greater stability of the industry. Opinions have also been voiced that the global automotive industry's policy may change in 2020. In the coming year, major car makers are to bring to market new models of electric cars. Players in the petrochemical industry markets supplying the automotive sector (including in the polyamide market) anticipate that the slowdown will decelerate in 2020, provided that consumers are offered greater incentives to purchase electric cars, and that the broader car offering should boost the market.

Prices of PA6, caprolactam, benzene and phenol



Source: TECNON, ICIS.

Average prices of Polyamide 6, caprolactam and raw materials used in their production

	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Benzene (FOB, NWE)	754	692	8.3↓	760	485	760
Phenol (FD, NWE)	1,381	1,485	7.5	1,562	1,218	1,562
Caprolactam (Liq., DDP, WE)	2,154	1,907	11.5↓	1,907	1,907	1,977
Polyamide 6 (PA 6) (DDP, WE)	2,205	1,905	13.6↓	1,905	1,905	2,040
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Caprolactam (CFR, NE Asia)	2,149	1,524	29.1↓	1,530	1,520	1,852
	USD/bbl	USD/bbl	%	USD/bbl	USD/bbl	USD/bbl
Crude oil (BRENT)	75.95	62.28	18.0↓	62.52	59.79	71.16

Source: ICIS, Tecnon, Rzeczpospolita.

The rising prices of petrochemical feedstocks (benzene and phenol) during the quarter were driven by crude price movements and global supply-demand balance. Despite a growth trend, the average benzene prices for the quarter were down year on year by 8.3% (CIF NWE), with the average quarterly prices of phenol up 7.5% year on year.

CHEMICALS

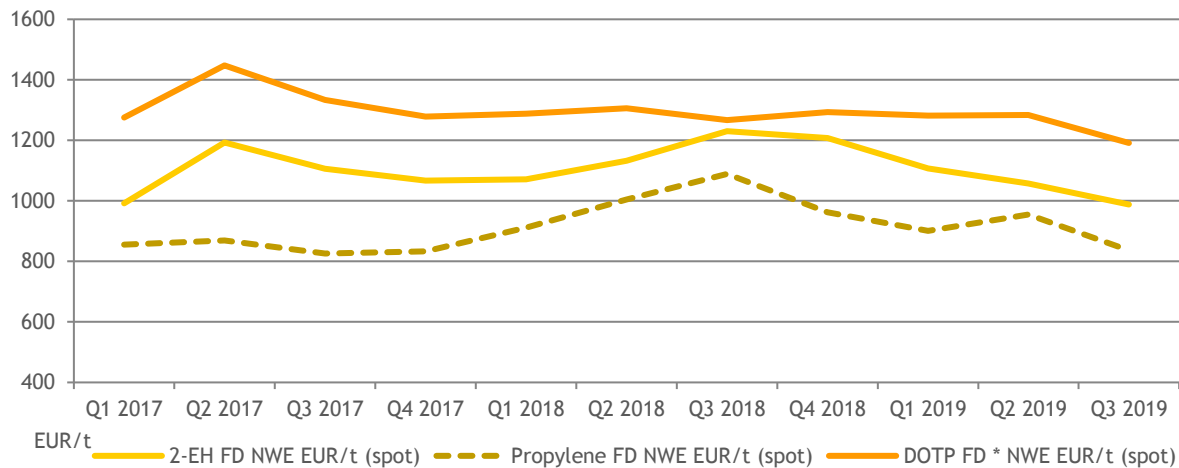
OXO product chain

In the third quarter of 2019, the prices of 2-EH went down 19.7% year on year, mainly on the back of lower prices of raw materials used in its production, as well as its wide availability. The availability of OXO alcohols in the third quarter was considered very high. No problems with the supply of the feedstock were encountered even during the summer holidays, which traditionally is the maintenance shutdown period. To note, large volumes of OXO alcohols continued to be imported (from Korea, Russia, Turkey and the US), often below quoted prices. Demand remained very low. It picked up slightly at the beginning of September, but fell short of forecasts, according to experts.

In the third quarter of 2019, the prices of DOTP were down 6% year on year. The supply of plasticisers in Europe remained very strong. Local output was supported by imports from other corners of the world (Korea, Turkey, USA, Russia), which was particularly evident on the DOTP market. Apart from a short period of falling imports into Europe in August, the availability of foreign DOTP was very high, leading to price declines.

The market is still concerned that consumption of plasticizers (including DOTP) in the coming months may fall short of forecasts. If the construction industry experiences a slowdown and the demand from the automotive industry continues to be very low, the demand for plasticizers may decline again. In addition, continued imports of plasticisers from other regions of the world may cause the oversupply to persist.

Prices of 2-EH, DOTP and propylene



* January 18th 2017 - The changes in DOTP prices were caused by alteration of the price gathering methodology applied by ICIS (which was revised to better present the actual market prices) and should not be viewed as an indication of an actual change in the plasticizer prices.

Source: ICIS.

Average prices of 2-EH, DOTP and propylene

	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
2-EH (FD NWE spot)	1,230	988	19.7↓	960	960	1,148
DOTP (FD NWE spot)	1,267	1,191	6.0↓	1,160	1,160	1,294
Propylene (FD NWE spot)	1,089	837	23.2↓	785	785	987

Source: ICIS.

In Q3 2019, the spot prices of propylene were down 23.2% year on year, while contract prices fell by around 14%. The supply of and demand for propylene remained fairly stable, with the third-quarter demand lower than projected. Demand from non-polymer propylene conversion sector was particularly soft. Availability was considered very high despite the summer holidays, which traditionally is the time for maintenance shutdowns of propylene crackers. Large volumes of imported propylene, particularly from the US, were available on the market. The coming months are likely to see a drop in propylene prices. Relaunch of crackers as well as continued imports of propylene to Europe (mainly from the US) will lead to an oversupply of the product.

Sulfur

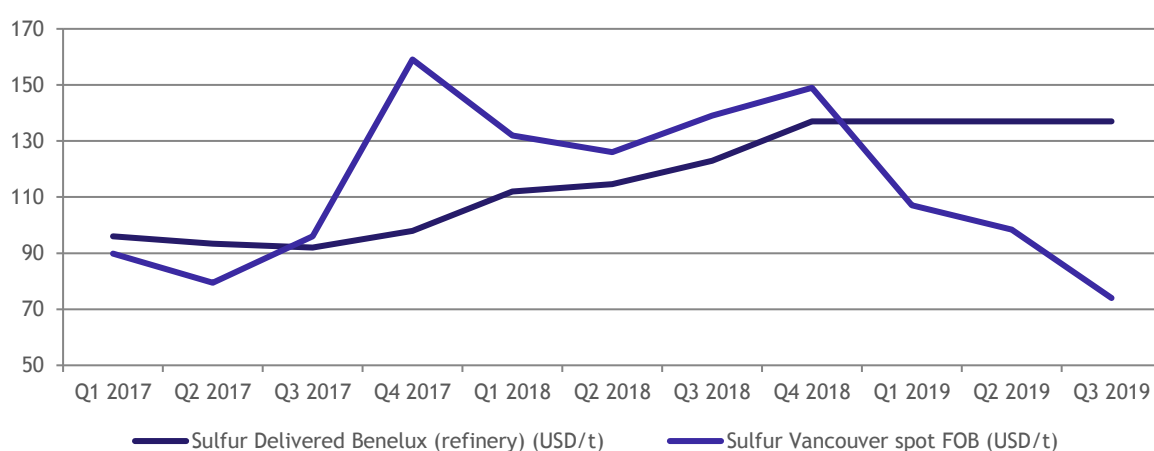
In the third quarter of 2019, the prices of refinery sulfur in Europe rose by approximately 11%, while the prices of prilled sulfur in North America fell by about 47% year on year. Due to a downturn in the phosphate fertilizer market and dwindling demand, prilled sulfur prices dropped significantly from the end of 2018 after a sharp increase recorded in the first three quarters of that year. In China, demand slumped and stocks at seaports went up to record levels. The weak demand in China fed through to all key markets. In the first half of 2019, molten sulfur came under strong supply pressures, chiefly due to disruptions in the supply of Russian crude oil to certain European refineries. The disruptions resulted in reduction or suspension of crude refining, which had a direct effect on the production of molten sulfur. The replacement of Russian oil by increased imports of sweet crudes also contributed to a reduced supply of molten sulfur. The demand-supply balance on Western European markets is so fragile that any unscheduled shutdown by a major market player makes an instant dent in the availability of liquid sulfur on those markets.

Given the weakness of the phosphate market, on which the sulfur market largely depends, analysts point to possible drops in prilled sulfur prices until the end of 2019 and to moderate stabilisation of prices in the following three quarters, with a likelihood the prices will increase by a few dollars.

Sulfur inventory levels in China are currently too high to generate any considerable interest in purchases over the next two quarters. An increase in supply following the launch of new petrochemical and gas projects will not help to drive prices up, either. Sulfur customers will be very cautious in making decisions concerning the future until the market stabilises.

Short-term projections for molten sulphur, including both NW Europe and Benelux delivered, are based on two different principal assumptions. On the one hand, a rigid approach to the price may be expected in connection with the supply-demand situation in Europe. On the other hand, global factors may take priority, as the global prilled sulphur market has considerably weakened, pushing down the prices. Forecasts predict a correction of USD 10-15 per tonne in the fourth quarter of 2019 and stabilisation in the following quarters of 2020. US imports may provide some support on the European molten sulfur market. Molten sulfur prices at Tampa are forecast to fall significantly in the fourth quarter, which would largely increase the profitability of US imports given the wide gap between European and US prices. The only problem is limited availability of suitable fleet and limited storage capacity in Western European ports.

Sulfur prices



Source: FERTECON.

Average prices of sulfur

	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Sulfur (Delivered Benelux refinery)	123	137	11.4	137	137	137
Sulfur (Vancouver spot FOB)	139	74	46.7↓	56	56	115

Source: FERTECON.

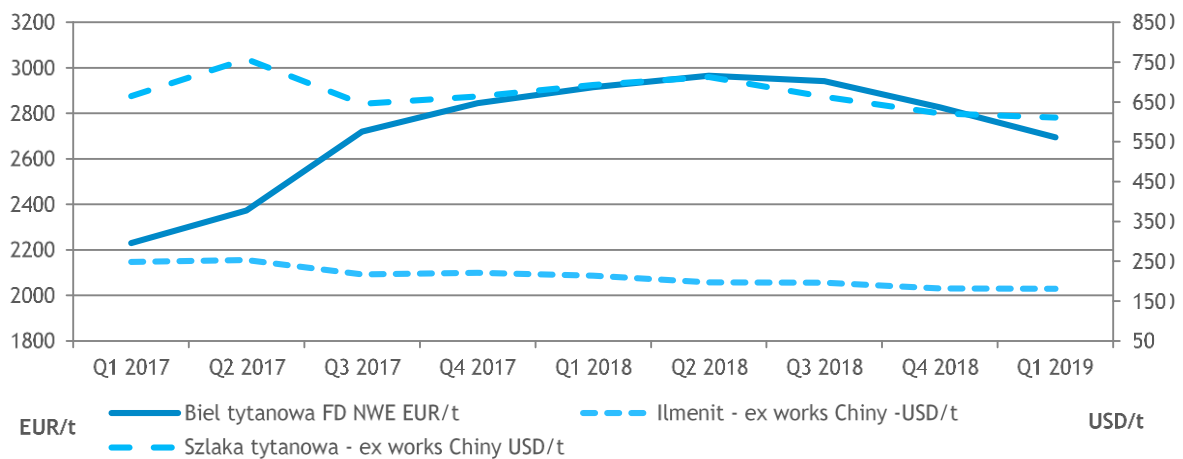
Pigment chain

In Q3 2019, the prices of titanium white in Europe declined 10% year on year. Following decreases in Q2 2019, the prices remained stable in the period under review as there was a sufficient supply of TiO₂ in a situation of lower-than-expected demand, weakened by the summer holidays period and macroeconomic factors. In recent months, the less favourable economic and weather conditions had a dampening effect on market activity. Price stabilisation programmes implemented by the largest global manufacturers also helped stabilise the prices of titanium white. This, however, came at the expense of a more than ten percent drop in those manufacturers' sales volumes and their respective market shares. The supply of titanium dioxide manufactured by chloride process to Europe is limited due to changes in market share and redistribution of demand. Some customers changed their suppliers of titanium dioxide manufactured by chloride process for price and contract-related reasons. The market of titanium dioxide manufactured by sulfate process is sufficiently supplied, both by western and Chinese manufacturers. Buyers have adopted a cautious approach to purchases, mainly due to the deteriorating economic situation in Europe, and keep a close eye on developments between the

United States and China. In view of this conflict, the effect of newly launched production capacities in China is taken into consideration. The expected result will be a global increase in supply capacity, which is more likely to be seen in the second half of 2019 and the first half of 2020. In addition, the yuan/US dollar exchange rate hit a record low, which makes export margins earned by Chinese manufacturers far more attractive than those earned on domestic sales.

In Q4 2019, demand for titanium white in the paints and coatings sector is expected to deteriorate, potentially leading to price decreases. This is likely to be the weakest quarter in the season. The economic downturn also directly affects the construction sector, which may lead to lower consumption of titanium white. Increased imports of Chinese titanium white to the EU are likely to continue, which in the long term may upset both the EU and Polish titanium white markets.

On September 18th 2019, the European Commission decided to uphold its proposal to classify titanium dioxide as a substance that may cause cancer by inhalation (category 2). Therefore, in October the Commission will submit a draft Regulation to the European Parliament and to the Council of Europe. Afterwards, for two months the two institutions will have the right to raise objections. In the absence of any arguments to the contrary, the draft will most likely enter into force following an adjustment period of 18 months. Almost 300 companies and industry associations signed a request for carrying out an impact assessment prior to the classification by the Commission. Classification of titanium white as a substance that may cause cancer by inhalation (category 2) may adversely affect the demand for this product in the future.



Prices of titanium white, ilmenite and titanium slag

Source: ICIS, CCM.

Average prices of titanium white and raw materials for its production

	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Titanium white FD NWE	2,942	2,650	9.9↓	2,650	2,650	2,735
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ilmenite Ex Works China	196	175	10.9↓	177	173	185
Titanium slag ex Works China	663	567	14.5↓	566	566	616

Source: ICIS, CCM.

In Q3 2019, the market of titanium-bearing minerals used in the manufacture of titanium white by sulfate process was relatively stable. In most cases, as in the titanium white market, the prices of ilmenite and titanium slag were rolled over from Q2 2019. The price of ilmenite was slightly lower than in Q3 2018, while the price of titanium slag remained relatively high. On the representative Chinese market, the average price of ilmenite in Q3 2019 was USD 175/tonne EXW, down USD 7/tonne, or 4%, year on year.

Titanium slag is produced by smelting ilmenite with coke. As no investments are made in new furnaces, the titanium slag market is undersupplied, especially with respect to 74%-76% titanium slag used to manufacture titanium white by sulfate process. Some of the manufacturers discontinued the production of titanium slag with a lower titanium content and switched to producing slags with a 90% or higher TiO₂ content due to higher margins achieved on sales of titanium white manufactured by

chloride process. Thus, despite the falling prices of titanium white, the global price of titanium slag remains high. In Q3 2019, in Europe the average price of titanium slag used in the manufacture of titanium white by sulfate process was approximately USD 625/tonne FOB, up by about USD 10/tonne (1.6%) year on year.

As there are signals of growing demand for ilmenite, mainly from Chinese titanium white manufacturers, ilmenite prices are expected to rise over the next two quarters globally. The continued undersupply of titanium slag is likely to prevent any decline in its prices - they should remain high in the coming quarter.

Melamine

In the third quarter of 2019, the average prices of melamine in Europe fell 9.6% year on year.

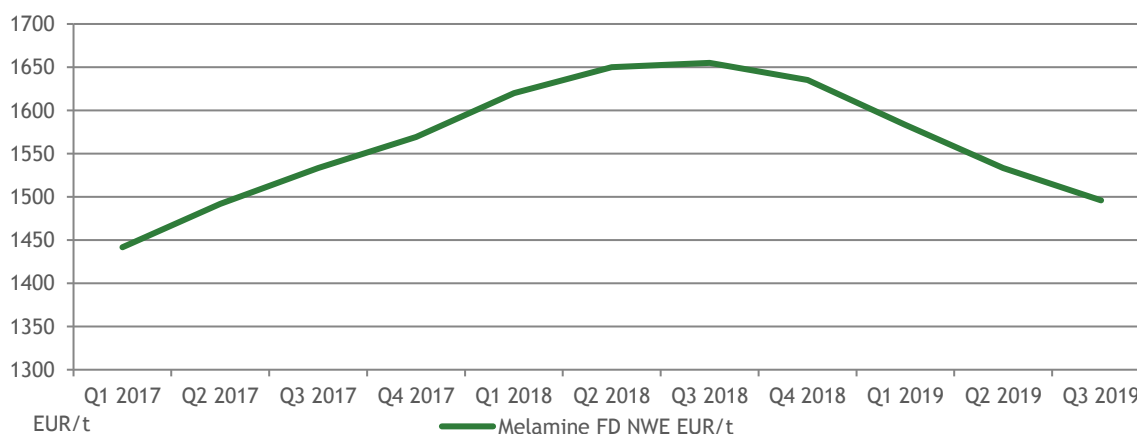
Global melamine markets were oversupplied in the reporting period. On the other hand, demand varied and depended on the industry in which end customers were active. Manufacturers of wooden panels showed strong demand for melamine. This trend should continue until November 2019. Recent months saw a decline in melamine imports to India, on account of both higher supply on the Indian market and lower activity across South-Eastern Asia due to the rainy season.

Melamine imports to Europe from Russia and the Middle East continued. In Southern Europe, lower imports of melamine from China caused by the imposition of anti-dumping duties were replaced by imports of Japanese melamine. On the spot market, prices quoted by Eastern European manufacturers were the most competitive.

In Europe, negotiations held to set melamine prices for Q4 2019 are marked by a tug of war between the buyers, who seek price reductions, and the manufacturers, who intend to maintain the current prices.

In the period under review, the supply of melamine was affected by a four-week maintenance shutdown at an Austrian manufacturer, maintenance shutdown of a plant in the Netherlands, as well as stoppage of melamine production at two plants in China.

Prices of melamine



Source: ICIS, Global Bleaching Chemicals.

Average prices of melamine

	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Melamine	1,655	1,496	9.6↓	1,490	1,490	1,600

Source: ICIS, Global Bleaching Chemicals.

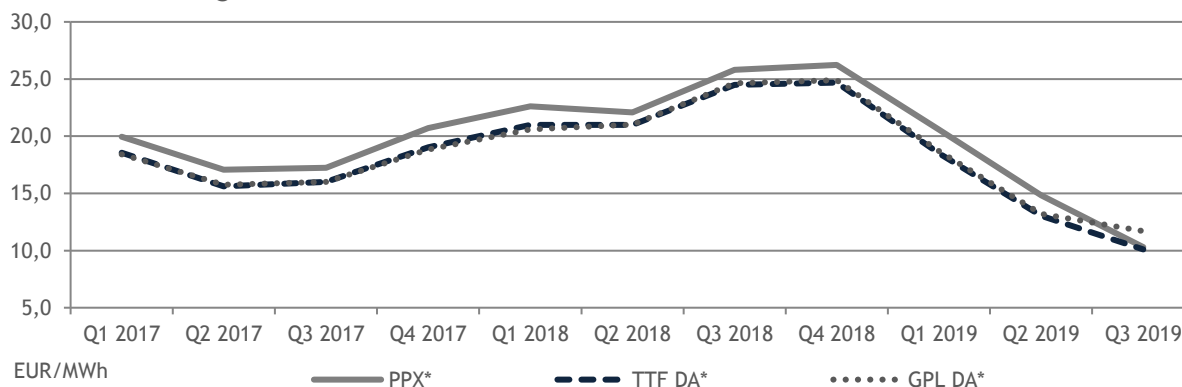
ENERGY

Natural gas

At the beginning of the third quarter of 2019, spot prices of natural gas in Europe stood at EUR 9.2/MWh and quickly went up by EUR 4/MWh in the first half of July, driven by higher prices of CO₂ emission allowances and crude oil, maintenance shutdown of the Yamal pipeline, unplanned disruptions of gas supplies from Norway, lower energy generation from renewable sources, and growing demand from gas-fired power plants. However, the fundamental factors for supply and demand remained largely unchanged. LNG supplies almost doubled year on year, making up for shortages in gas supplied via pipelines, while gas stocks continued to grow steadily despite their already very high levels after mild winter. Much higher prices provided for in futures contracts encouraged gas storage. A strong signal for a price correction came from the oil market, where the price of oil plummeted after the United States had unexpectedly escalated its trade dispute with China, announcing the imposition of additional duties on Chinese export goods. In response, China imposed retaliatory duties and devalued the yuan. Energy carrier markets came under negative pressures related to concerns about the deteriorating condition of the global economy. In addition, the increase in demand for LNG in Asia was outpaced by the global increase in supply, and the European market remained more competitive than Asian for spot LNG supplies from the US. As the consumption of gas by the power generation sector could not be further increased, the European market became oversupplied. In consequence, in early September spot prices of gas at the Gaspool hub fell to EUR 7.1/MWh, a record low in ten years. Later in the month, gas prices rose as negative information came to the market. The Netherlands announced that production from the Groningen field will be reduced in the coming year to 12bcm and completely discontinued in mid-2022. The Court of Justice of the European Union deprived Gazprom of the right to a part of transmission capacity of the OPAL pipeline, through which gas from Russia transported via Nord Stream is transferred to Central Europe. The prices of crude oil and coal rose as Saudi Arabia refineries were hit in a drone attack. There were also reports about bad technical condition of weldings on steam generators at nuclear power plants in France. The market was very sensitive and, with gas storage facilities filled to capacity, reacted strongly to the incoming information. Oil prices declined as production was swiftly resumed. The prices of coal and CO₂ emission allowances declined, too. As transmission of gas through OPAL decreased, transport via the Yamal pipeline and Ukraine went up, which translated into a further growth in the already record high stocks. Gas prices started to fall again, and at the end of the quarter they were the same as at the beginning.

In the coming months, contracted LNG supplies and storage facilities filled to capacity will continue to exert strong pressure on gas prices. In addition, according to long-term forecasts for Europe, in Q4 temperatures will be above their long-term averages. The increase in global natural gas liquefaction capacity, announced for the beginning of the coming year, may still exceed the increase in demand outside Europe. Combined with high gas stocks and favourable weather forecasts, this should keep the price of gas in Europe relatively low during winter. In winter, gas prices will depend to a larger extent on weather conditions and the level of its consumption for municipal heating and on the pace of stock depletion.

Prices of natural gas



*Excluding transmission.

Source: PGNiG tariff, ICIS.

Average prices of natural gas

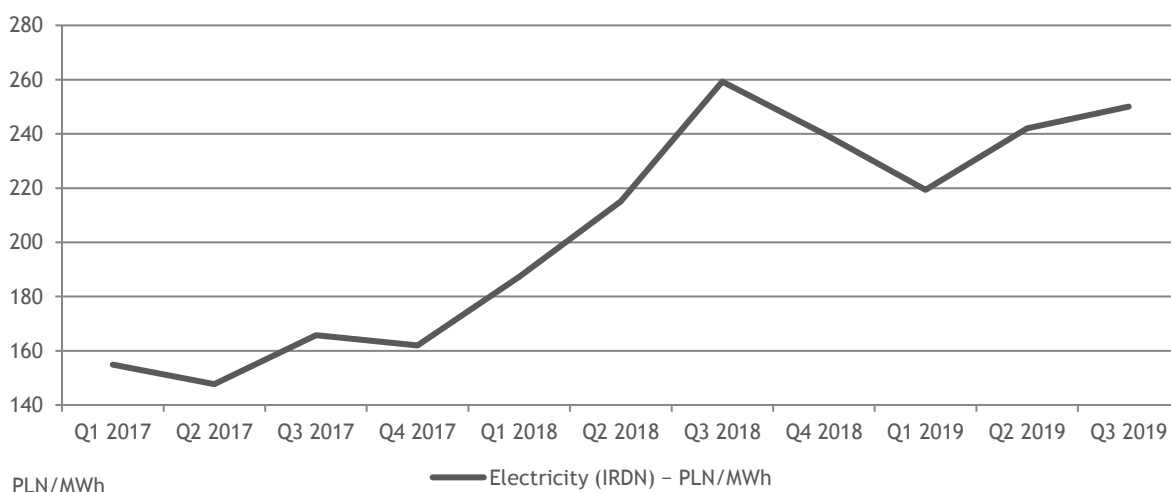
	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	EUR/MWh	EUR/MWh	%	EUR/MWh	EUR/MWh	EUR/MWh
TTF DA *	24.5	10.3	58.2↓	9.7	9.7	21.6
GPL DA*	24.6	10.1	59.0↓	9.4	9.4	21.7
PPX*	25.8	11.7	54.8↓	11.4	11.4	23.9

*Excluding transmission.

Source: PGNiG tariff, ICIS.

Electricity

In Q3 2019, average electricity prices fell by more than 3% year on year. Compared with the previous quarter, prices rose by more than 3%, mainly due to higher prices of CO₂ emission allowances and high temperatures. The Polish market is largely affected by climate regulations, the legal regime, as well as the need to continue upgrading generation capacities (expenditure on new capacities) and to maintain the operating capacity reserve (effect on production costs).



IRDN – average price weighted by the volume of all transactions on a trading day, calculated after the delivery date for the entire day.

Source: The Polish Power Exchange.

Average prices of electricity

	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	PLN/MWh	PLN/MWh	%	PLN/MWh	PLN/MWh	PLN/MWh
Electricity	259.27	250.26	3.4↓	242.79	76.9	335.7

Source: The Polish Power Exchange.

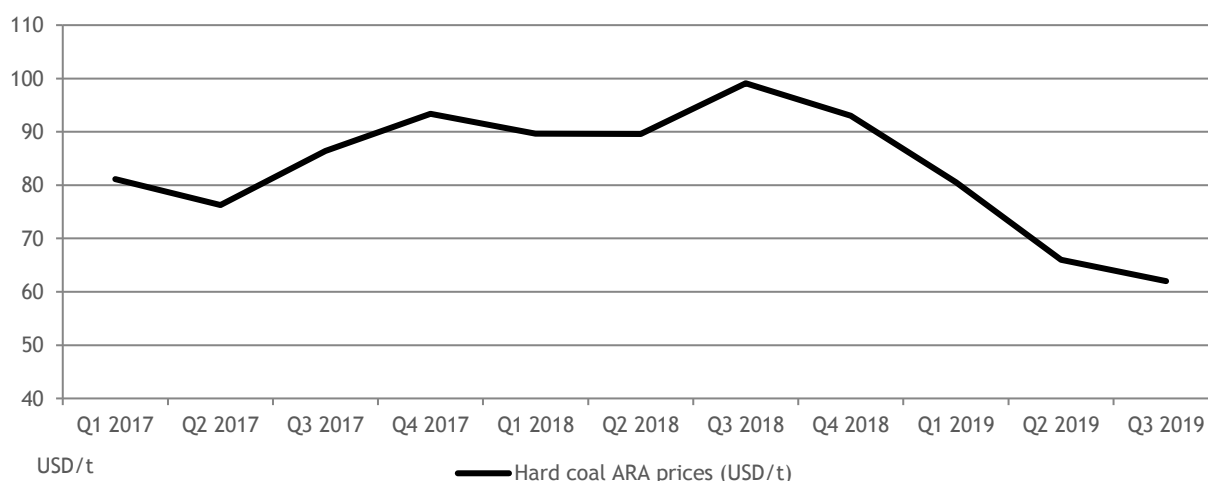
Electricity prices will be driven by the following factors:

- Fluctuations in prices of coal on global and domestic markets;
- Changes to the RES support system;
- Legal regulations to reduce electricity prices (excise duty, compensation for higher prices of CO₂ emission units, reduction of transition charge);
- Increasingly widespread use of energy efficient solutions leading to reduced electricity consumption;
- Volatility of the price of CO₂ emission allowances (there has been a continuous price increase since Q2 2019).

Coal

In Q3 2019, the downward trend begun in H2 2018 continued. The average coal prices fell by more than 37% year on year, to reach the period's low of USD 56.30/t in the middle of the quarter (i.e. the price level from mid-2016).

Prices of hard coal



Source: ARA prices.

Average prices of hard coal

	Average Q3 2018	Average Q3 2019	y/y	9-2019	MIN 2019	MAX 2019
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Coal	99.10	62.13	37.3↓	63.27	56.30	88.55

Source: ARA prices.

The current situation on the international coal market is described as highly volatile. The prices will come under downward pressure, driven, among other factors, by the level of stocks held in Europe, the European policy of reducing coal consumption in favour of gas, growing purchases on Asian markets, as well as national coal trading policies.

Analysts expect the average price level to remain below USD 75 per tonne in 2019.

2.3. Key financial and economic data

2.3.1. Consolidated financial information

Item	Q3 2019	Q3 2018	change	% change
Revenue	2,563,895	2,324,668	239,227	10.3
Cost of sales	(2,036,968)	(2,105,594)	68,626	(3.3)
Gross profit	526,927	219,074	307,853	140.5
Selling and distribution expenses	(210,685)	(156,070)	(54,615)	35.0
Administrative expenses	(209,758)	(186,488)	(23,270)	12.5
Profit on sales	106,484	(123,484)	229,968	(186.2)
Net other expenses	(855)	(2,836)	1,981	(69.9)
Operating profit	105,629	(126,320)	231,949	(183.6)
Net finance costs	(25,908)	(3,283)	(22,625)	689.2
Share of profit of equity-accounted investees	3,159	2,825	334	11.8
Profit before tax	82,880	(126,778)	209,658	(165.4)
Income tax	(21,909)	9,958	(31,867)	(320.0)
Net profit	60,971	(116,820)	177,791	(152.2)
EBIT	105,629	(126,320)	231,949	(183.6)
Depreciation and amortisation	210,698	170,433	40,265	23.6
EBITDA	316,327	44,113	272,214	617.1

Source: Company data.

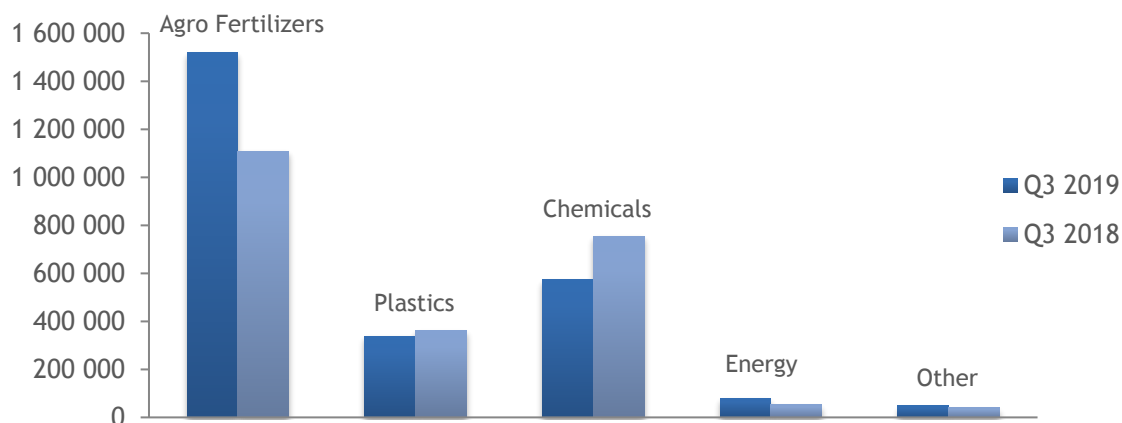
2.3.2. Segment results

EBIT by segment

	Agro Fertilizers	Plastics	Chemical s	Energy	Other
External revenue	1,521,682	338,568	573,944	80,622	49,079
Profit/(loss) on sales	107,184	(13,260)	11,315	10,018	(8,773)
EBIT	106,161	(12,982)	12,919	8,532	(9,001)

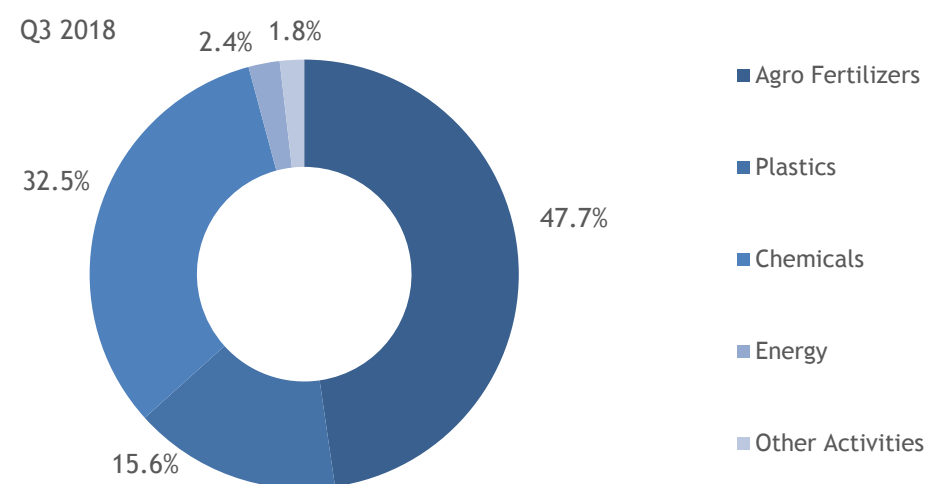
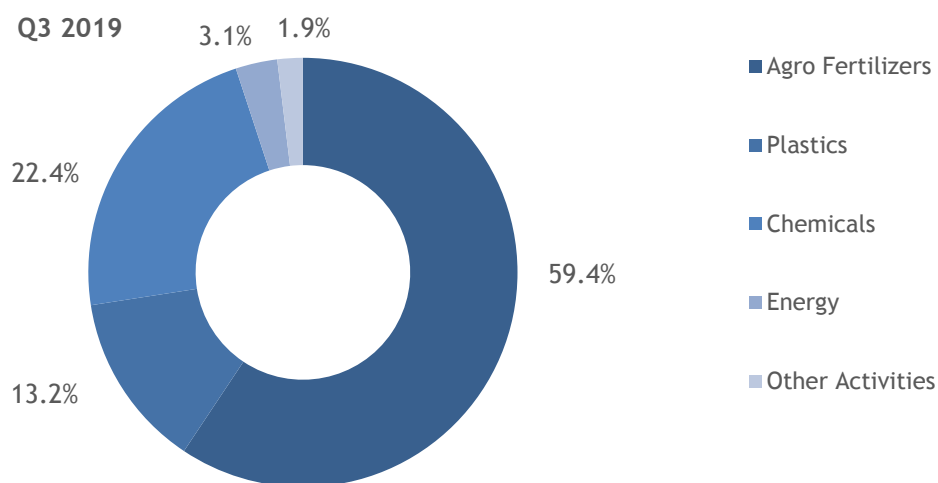
Source: Company data.

Revenue by segment



Source: Company data.

Revenue by segment



Source: Company data.

Agro Fertilizers

In Q3 2019, revenue in the Agro Fertilizers segment was PLN 1,521,682 thousand, accounting for 59.4% of the Group's total revenue. Relative to Q3 2018, the segment's revenue rose by 37.2%. EBIT reported by the Agro Fertilizers segment was positive.

Sales on the domestic market accounted for approximately 57.3% of the segment's revenue.

Plastics

In Q3 2019, revenue in the Plastics segment was PLN 338,568 thousand and accounted for 13.2% of the Group's total. The segment's revenue was down 6.8% year on year. EBIT reported by the Plastics segment was negative.

More than 92.9% of the segment's revenue was derived from sales on foreign markets.

Chemicals

In Q3 2019, revenue in the Chemicals segment amounted to PLN 573,944 thousand, having decreased 24% year on year. The segment's revenue accounted for 22.4% of the Group's total revenue.

EBIT reported by the Energy segment was positive.

Sales on foreign markets accounted for approximately 55.2% of the Chemicals segment's revenue.

Energy

In Q3 2019, revenue in the Energy segment was PLN 80,622 thousand and accounted for approximately 3.1% of the Group's total. The segment's revenue increased 47.6% year on year.

EBIT reported by the Energy segment was positive.

Other Activities

In Q3 2019, revenue of the Other Activities segment was PLN 49,079 thousand and accounted for 1.9% of the Group's total revenue, having increased by 15.4% relative to Q3 2018. Its EBIT was negative.

2.3.3. Structure of operating expenses

Operating expenses by nature of expense

	Q3 2019	Q3 2018	change	% change
Depreciation and amortisation	209,570	168,722	40,848	24.2
Raw materials and consumables used	1,311,608	1,416,896	(105,288)	(7.4)
Services	269,685	262,007	7,678	2.9
Salaries and wages, including surcharges, and other benefits	419,862	354,312	65,550	18.5
Taxes and charges	123,828	105,948	17,880	16.9
Other expenses	33,636	26,566	7,070	26.6
Total	2,368,189	2,334,451	33,738	1.4

Source: Company data.

Structure of other operating expenses [%]

	Q3 2019	Q3 2018
Depreciation and amortisation	8.8	7.2
Services	11.4	11.2
Salaries and wages, including surcharges, and other benefits	17.7	15.2
Taxes and charges	5.2	4.5
Other expenses	1.4	1.1
Total	44.6	39.3

Source: Company data.

2.3.4. Assets, equity and liabilities

Structure of assets

	Q3 2019	Q3 2018	change	% change
Non-current assets, including:	10,553,717	8,326,936	2,226,781	26.7
Property, plant and equipment	7,854,025	7,080,388	773,637	10.9
Intangible assets	1,020,382	355,902	664,480	186.7
Goodwill	316,352	32,468	283,884	874.4
Other receivables	250,878	181,245	69,633	38.4
Deferred tax assets	99,899	68,237	31,662	46.4
Current assets, including:	4,317,010	3,412,911	904,099	26.5
Trade and other receivables	1,488,462	1,257,525	230,937	18.4
Inventories	1,440,696	942,135	498,561	52.9
Cash and cash equivalents	551,990	877,710	(325,720)	(37.1)
Property rights	457,665	237,458	220,207	92.7
Other financial assets	326,474	12,303	314,171	2,553.6
Total assets	14,870,727	11,739,847	3,130,880	26.7

Source: Company data.

Structure of equity and liabilities

	Q3 2019	Q3 2018	change	% change
Equity	7,769,504	7,334,819	434,685	5.9
Non-current liabilities, including:	4,323,858	2,348,677	1,975,181	84.1
Borrowings	2,650,811	1,503,837	1,146,974	76.3
Deferred tax liabilities	483,897	177,519	306,378	172.6
Employee benefit obligations	426,783	356,972	69,811	19.6
Lease liabilities	381,837	14,120	367,717	2,604.2
Government grants received	197,030	131,643	65,387	49.7
Provisions	157,982	137,772	20,210	14.7
Current liabilities, including:	2,777,365	2,056,351	721,014	35.1
Trade and other payables	2,025,084	1,781,351	243,733	13.7
Borrowings	460,873	122,980	337,893	274.8
Government grants received	79,762	35,191	44,571	126.7
Provisions	36,214	30,298	5,916	19.5
Total equity and liabilities	14,870,727	11,739,847	3,130,880	26.7

Source: Company data.

2.3.5. Financial ratios

Profitability ratios [%]

	Q3 2019	Q3 2018
Gross profit margin	20.6	9.4
EBIT margin	4.1	(5.4)
EBITDA margin	12.3	1.9
Net profit margin	2.4	(5.0)
ROA	0.4	(1.0)
ROCE	0.9	(1.3)
ROE	0.8	(1.6)
Return on non-current assets	0.6	(1.4)

Source: Company data.

Ratio formulas:

Gross profit margin = gross profit (loss) / revenue

EBIT margin = EBIT / revenue

EBITDA margin = EBITDA / net revenue

Net profit margin = net profit (loss) / revenue

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

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

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

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

Liquidity ratios

	Q3 2019	Q3 2018
Current ratio	1.6	1.7
Quick ratio	1.0	1.2
Cash ratio	0.3	0.4

Source: Company data.

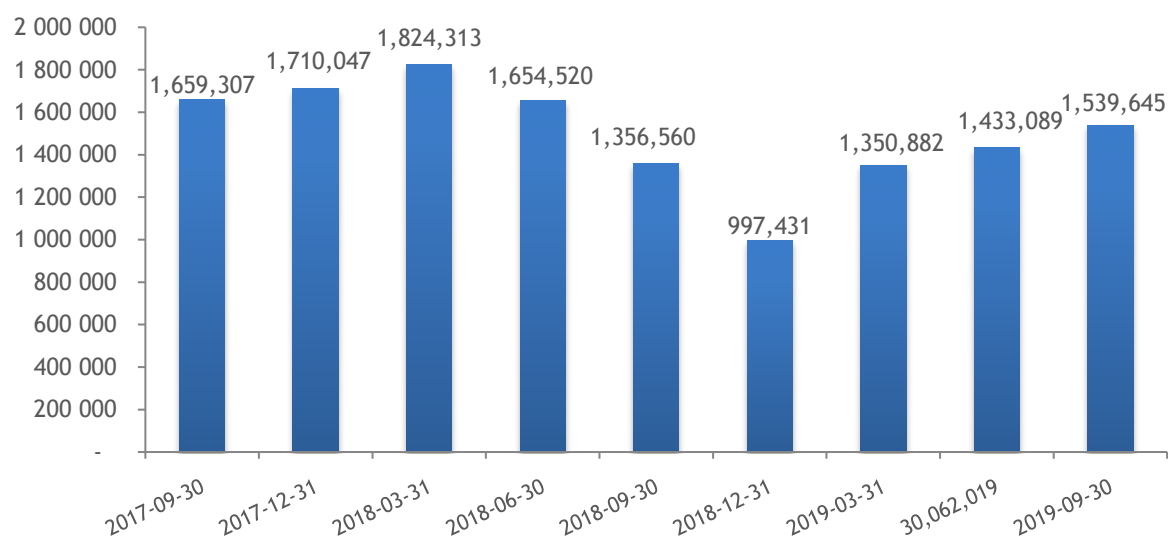
Ratio formulas:

Current ratio = current assets / current liabilities

Quick ratio = (current assets - inventories - current prepayments and accrued income) / current liabilities

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

Changes in net working capital



Source: Company data.

Operational efficiency ratios

	Q3 2019	Q3 2018
Inventory turnover	64	40
Average collection period	52	49
Average payment period	90	76
Cash conversion cycle	26	13

Source: Company data.

Ratio formulas:

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

*Average collection period = trade and other receivables * 90 / revenue*

*Average payment period = trade and other payables * 90 / cost of sales*

Cash conversion cycle = inventory turnover + average collection period - average payment period

Debt ratios [%]

Ratio	Q3 2019	Q3 2018
Total debt ratio	47.8	37.5
Long-term debt ratio	29.1	20.0
Short-term debt ratio	18.7	17.5
Equity-to-debt ratio	109.4	166.5
Interest cover ratio	498.8	(253.3)

Source: Company data.

Ratio formulas:

Total debt ratio = total liabilities / total assets

Long-term debt ratio = non-current liabilities / total assets

Short-term debt ratio = current liabilities / total assets

Equity-to-debt ratio = equity / current and non-current liabilities

Interest cover ratio = (profit before tax + interest expense) / interest expense

2.4. Financial liquidity

The Parent and key Group companies are fully solvent, with good credit standing. The Group is able to pay its liabilities as they fall due and to hold and generate free operating cash flows to further support payment of such liabilities in a timely manner.

The liquidity management policy operated by the Group consists in maintaining surplus cash and available credit facilities as well as limits under the intragroup financing agreement (one purpose of which is to effectively distribute funds within the Group), and in ensuring that their level is safe and adequate to the scale of the Group's business.

2.5. Borrowings

In Q3 2019, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.

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

The amount of limits under overdraft and multi-purpose credit facilities available to the Group as at September 30th 2019 was PLN 613m.

In addition, as at the reporting date, the Group had access to corporate credit facilities of approximately PLN 2,129m.

The Group also had access to special purpose loans totalling PLN 52m.

As at September 30th 2019, under the agreements specified above the Group had access to total credit limits of approximately PLN 2,794m.

The Group's financial standing is sound, and there are no material threats or risks of its deterioration in the future. The Group complies with the uniform covenants of its facility agreements which enable it to significantly increase financial debt when and as needed.

2.6. Type and amounts of one-off items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows

The Supervisory Board of Zakłady Azotowe Chorzów S.A. approved an extension of liquid and flaked stearin production stoppage on the Organic Products Department's production line until January 31st 2020 due to excessively low prices of oleochemicals.

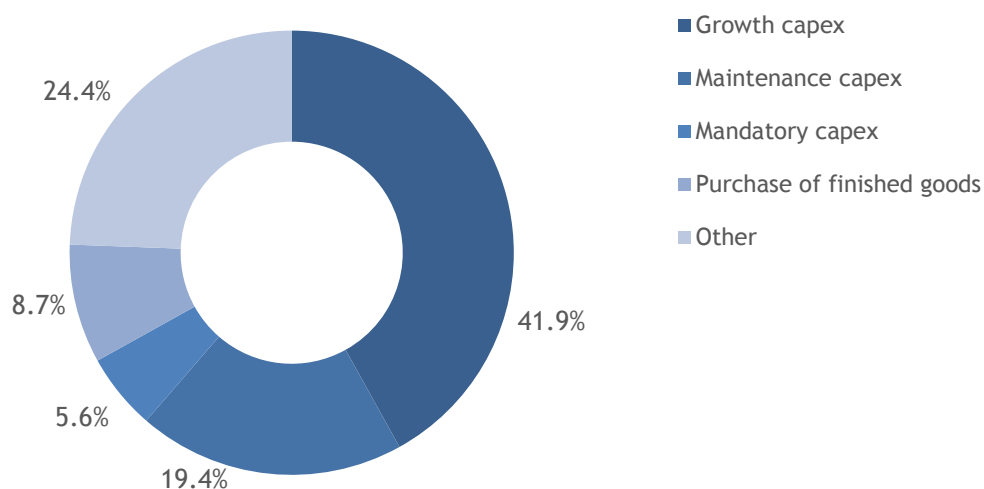
Save for the above, there were no other one-off items which would materially impact the Group's assets, equity and liabilities, capital, net profit/loss or cash flows.

2.7. Key investment projects

Key items of the Grupa Azoty Group's capital expenditure in Q3 2019 amounted to PLN 265,656 thousand (including amounts spent on components, major overhaul work and improvements). Structure of the key capital expenditure:

• Growth capex	PLN 111,395 thousand
• Maintenance capex	PLN 51,614 thousand
• Mandatory investments	PLN 14,788 thousand
• Purchase of finished goods	PLN 23,001 thousand
• Other (components, major overhauls, catalysts, other)	PLN 64,858 thousand

Structure of the Grupa Azoty Group's key capital expenditure in Q3 2019



Source: Company data.

The Grupa Azoty Group's key capital expenditure in Q3 2019 is specified below:

• Parent	PLN 31,144 thousand
• Grupa Azoty PUŁAWY Group	PLN 130,836 thousand
• Grupa Azoty KĘDZIERZYN Group	PLN 34,440 thousand
• PDH Polska S.A. ^{*)}	PLN 24,438 thousand
• Grupa Azoty POLICE Group	PLN 16,090 thousand
• Grupa Azoty Compounding Sp. z o.o.	PLN 15,367 thousand
• Grupa Azoty SIARKOPOL	PLN 4,275 thousand
• Goat TopCo GmbH	PLN 4,194 thousand ^{**)}
• Grupa Azoty KOLTAR Sp. z o.o.	PLN 3,463 thousand
• Grupa Azoty PKCh Sp. z o.o.	PLN 1,103 thousand
• Grupa Azoty ATT Polymers GmbH	PLN 306 thousand ^{**)}

^{*)} Since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.

^{**)} Translated at the EUR/PLN exchange rate quoted by the National Bank of Poland for September 30th 2019: EUR 1 = PLN 4.3736 (table No. 189/A/NBP/2019).

Key investment projects implemented by the Group

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q3 2019	Project purpose	Scheduled completion date
Parent					
Chemical Technology and Development Centre	74,100	71,679	1,344	Construction of R&D centre for Grupa Azoty S.A.	2019
PDH Polska S.A.^{*)}					
Propane Dehydrogenation unit with related infrastructure, and polypropylene production unit	6,519,000	211,019	24,435	Construction of a propylene dehydrogenation plant and a polypropylene production plant with associated infrastructure, including the expansion of the Police Sea Port to include a propane and ethylene handling and storage terminal.	2022

^{*)} Since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q3 2019	Project purpose	Scheduled completion date
Grupa Azoty PUŁAWY					
Construction of a coal-fired power generation unit	1,200,000	3,720	497	Adaptation of energy generation units to environmental requirements, while increasing the share of the autoproducer CHP plant in electricity consumption by production units and ensuring continuity of energy supply	2022
Upgrade of the existing and construction of new nitric acid units, and facilities for neutralisation and production of new fertilizers based on nitric acid	695,000	165,629	39,182	To raise the efficiency of nitric acid production and improve the economics of production of nitric acid-based fertilizers	2024
Facility for production of granulated fertilizers based on ammonium nitrate	385,000	342,604	4,725	To improve the quality of fertilizers by applying modern mechanical granulation	2020
Upgrade of steam generator OP-215 No. 2 to reduce NOx emissions	93,000	21,758	8,875	To bring the steam generator into compliance with new NOx emission standards and restore it to proper working condition	2020
Grupa Azoty KĘDZIERZYN					
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	140,000	46,856	15,487	To rebuild the capacity of synthesis gas compression for the Ammonia Plant through the installation of new compressors	2021
Grupa Azoty Compounding Sp. z o.o.					
Modified Plastics Plant	115,000	46,559	15,367	Construction of plastics modification unit	2019

Source: Company data.

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

Exchange rates

In the third quarter of 2019, the EUR/PLN exchange rate appreciated, but only slightly exceeded the upper limit of the previous medium-term equilibrium range of 4.25 – 4.35 at the end of the period. In the fourth quarter of 2019, the Group expects the zloty to appreciate again against the euro given the relatively optimistic forecasts of continued good economic situation in Poland (despite the economic slowdown in Germany).

At the same time, account should be taken of the risk of a further slowdown in global economy (including in the key economies of the US, EU and China) and the risk of uncontrolled Brexit and escalation of trade disputes, which may lead to a periodic volatility increase and weakening of the zloty against the euro.

With respect to the USD/PLN currency pair, it is projected that the zloty will follow the EUR/USD exchange rate, with the US dollar expected to depreciate again against the euro as the eurozone economy begins to recover from the current slowdown.

It is assumed that the forecast currency trends should not have a material bearing on the Group's performance in Q4 2019.

Interest rates in Poland

Domestic interest rates remained stable after Q3 2019 and, in line with earlier announcements of the Governor of the National Bank of Poland and the Monetary Policy Council, should remain unchanged

until the end of 2019. The main reference rate applicable to credit facilities contracted by the Group (1M WIBOR) should therefore remain at about 1.7%. This will help stabilise the Group's borrowing costs at a relatively low level, and reinforce its debt service capacity, also if the Group decides to increase debt to finance its investing activities, as planned.

Given the economic downturn in the Eurozone and limited rise in inflation, the European Central Bank will maintain or even enhance its quantitative easing programme and a policy of negative interest rates. Also the FED decided to put an end to the series of interest rate increases in 2018 and for the first time in a decade cut the interest rates in July 2019 (by 0.25%), driven by the concerns that economic downturn in the US is just around the corner.

In view of these factors, any adverse changes to the current low interest rates on debt in the currencies used by the Group to finance its activities (PLN and EUR) are unlikely before the end of 2019. Thus the risk of the Group's financial condition or results of operations deteriorating on higher borrowing costs should be considered low.

Relative to market rates, the relatively narrow spread between credit and deposit rates available to the Group is expected to continue.

Interest income earned on free cash under cash pooling and fixed-term deposits will partially offset the borrowing costs.

Regulatory area

- July 15th 2019 saw the entry into force of the New Fertilizers Regulation (Regulation (EU) 2019/1009 of the European Parliament and of the Council of 5 June 2019 laying down rules on the making available on the market of EU fertilising products and amending Regulations (EC) No 1069/2009 and (EC) No 1107/2009 and repealing Regulation (EC) No 2003/2003. It will become fully binding in 2022 after a *vacatio legis* period, and during the next three years the European Commission will issue a number of delegated acts supplementing the provisions of the Regulation.
- The Ministry of the Environment is continuing the work on implementing the National Emissions Ceilings (NEC) Directive into the Polish legislation. In August this year, the Polish Code of Good Agricultural Practice for Reducing Ammonia Emissions was published as part of the obligation under the NEC Directive. The Code contains information on voluntary means of reducing ammonia emissions from agriculture.
- The Act on the Compensation Scheme for Energy-Intensive Sectors and Subsectors of July 29th 2019 came into force on August 29th 2019. At the same time, the European Union accepted the Polish compensation scheme. The Act concerns allocating a portion of funds obtained by Member States in connection with the sale of CO2 emission allowances as compensation for the industrial sector.
- On August 14th 2019, the Minister of Energy's Regulation on the calculation of the price difference and financial compensation and the method of setting the reference prices came into force. The main objective of the Regulation is to define the rules of settlement between trading companies and the Price Difference Payment Fund and the method of setting electricity prices and rates applicable as at June 30th 2018 for end users (reference prices).
- Work is underway at the EU level to adopt an ambitious industrial transition plan towards a climate neutral industry by 2050. The work of the High Level Group on energy-intensive industries on the development of a master plan is to be completed by the end of 2019.
- On July 29th 2019, the Act Amending the Waste Act and Certain Other Acts was published in the Official Journal of the Republic of Poland and entered into force on August 18th 2019. The Act clarifies the provisions relating to the operation of a database on products and packaging and on waste management (BDO) as an electronic system.
- On August 22nd 2019, the Act amending the Act on Cleaning and Waste Management in Municipalities and Certain Other Acts was published in the Journal of Laws. The Act came into force on September 6th 2019 and introduced a number of amendments to the Waste Act, including the introduction of the category of non-combustible waste, the possibility of issuing optional regulations concerning the loss of waste status, or further clarification of the scope of the visual monitoring obligation.

International trade policy

- On September 23rd 2019, the European Commission announced the launch of an expiry review of the anti-dumping measures applicable to imports of ammonium nitrate originating in Russia following the submission of relevant applications by EU fertilizer manufacturers. Within 15 months after the review, the European Commission will decide whether to lift or keep the duties for another five years.

- On October 9th 2019, the Implementing Regulation of October 8th 2019 imposing an anti-dumping duty on imports of mixtures of urea and ammonium nitrate originating in Russia, Trinidad and Tobago and the United States of America was published in the Official Journal of the EU. The anti-dumping duty was imposed for a period of five years. The anti-dumping duties range between EUR 22.24/tonne and EUR 42.47/tonne, depending on the country and manufacturer.
- On August 28th 2019, pursuant to a decision of the Ukrainian Interdepartmental Commission on International Trade proceedings were initiated concerning imports of fertilizers irrespective of the country of their origin. The Commission made a decision regarding two proceedings - one concerning nitrogen fertilizers, and the other - compound fertilizers. As a result of the proceedings, equal duties may be introduced for all importers or quotas on individual countries exporting goods to Ukraine. The decision is expected to be taken within 12 months.

Increase in provisions following registration by the National Labour Inspectorate of amendments to the Collective Bargaining Agreement

On October 16th 2019, the Management Board of the subsidiary Grupa Azoty POLICE received a notification that on October 11th 2019 the amendments to the Collective Bargaining Agreement in place at that company (the "Collective Bargaining Agreement") were entered in the register of collective bargaining agreements by the National Labour Inspectorate.

The amendments were introduced following an agreement reached with trade unions active at the Company. The amendments to the Collective Bargaining Agreement registered by the National Labour Inspectorate will take effect on January 1st 2020.

Under the amended Collective Bargaining Agreement, the basis for determining length-of-service awards and severance payments will increase, which will result in the Company being required to increase the amount of provisions for future employee benefit obligations, thus reducing the Company's net profit/loss for 2019 by approximately PLN 8.9m.

The effect of the amendments to the Collective Bargaining Agreement was estimated based on assumptions available as at September 30th 2019.

The actual change in provisions for employee benefit obligations will be computed as at December 31st 2019 and disclosed in the full-year financial statements for 2019. The financial statements for 2019, including those provisions, will be audited by an auditor.

3. Other information

3.1. Other significant events

Construction of a coal-fired power generation unit

On April 16th 2019, the Management Board of Grupa Azoty PUŁAWY passed a resolution on preliminary approval of the bid submitted by a Consortium of Polimex-Mostostal S.A., Polimex Energetyka Sp. z o.o. and SBB ENERGY S.A. in the tender procedure to select an EPC contractor for the project to construct a coal-fired power generation unit in Puławy ("Power Generation Unit"), as the basis for further steps related to the project.

On June 26th 2019, the Supervisory Board and, on July 23rd 2019, the Extraordinary General Meeting of Grupa Azoty PUŁAWY approved the budget for the project to construct the Power Generation Unit, with a total value of up to PLN 1.2bn (VAT exclusive).

On July 23rd 2019, following approval by the General Meeting of Grupa Azoty PUŁAWY of the acquisition of non-current assets with a total value of up to PLN 1.2bn (VAT exclusive), the Management Board of Grupa Azoty PUŁAWY passed a resolution to select, as the best bid in the tender procedure to select an EPC contractor for the project to construct the Power Generation Unit, the bid submitted by the consortium comprising Polimex-Mostostal S.A., Polimex Energetyka Sp. z o.o., and SBB ENERGY S.A. (the "Consortium"), quoting a price of up to PLN 1.16bn (VAT exclusive).

On September 25th 2019, Grupa Azoty PUŁAWY and the Consortium entered into a contract for turnkey execution of the project.

The contract provides for turnkey construction of a coal-fired Power Generation Unit with a gross generation capacity of 90-100 MWe. The Power Generation Unit will be a pass-out and condensing unit with a pulverized coal boiler. The Contractor will construct a complete coal-fired generation unit, comprising all the plant and equipment necessary for combined heat and power generation.

The consortium will receive under the contract a lump-sum remuneration of PLN 1,159.9m (VAT exclusive). The project budget totals PLN 1,200m (VAT exclusive). The other costs of the project

covered by its budget (i.e. in addition to the remuneration) include costs of integration of the power generation unit with the existing plant, as well as the costs of the Contract Engineer.

As the project is to be executed on a turnkey basis, the contract covers all types of work, including construction works, procurement and services necessary for the power generation unit to achieve the required performance characteristics, guaranteed technical parameters, operating capacity and safety.

The basic period of the contractor's warranty is 24 months from the date of execution by the Company of a commissioning report for the power generation unit.

The commissioning of the power generation unit under the commissioning report signed by both parties should take place within thirty six months from the date specified by Grupa Azoty PUŁAWY in the notice to proceed.

Force majeure event with respect to Polyamide 6 supplies

On July 8th, the Parent announced a Force Majeure event with respect to PA6 supplies following an unexpected defect on one of the Polyamide 6 (PA6) production lines.

The defect has been removed and the unit is operating in normal mode producing Polyamide 6 (PA6) of standard value. Therefore, the force majeure event with respect to Polyamide 6 (PA6) supplies was cancelled on September 11th 2019.

New plasticizers

On July 10th, Grupa Azoty KĘDZIERZYN added speciality plasticizers Adoflex® and Oxovilen® to its product mix, marking another step in the development of its OXO segment with a focus on producing a variety of non-phthalic speciality products.

Execution of an agreement on the terms of equity financing for the Polimery Police project with Hyundai Engineering Co., Ltd and Korean Overseas Infrastructure & Urban Development Corporation

On September 19th 2019, the Parent, Grupa Azoty POLICE and PDH Polska S.A. *) (the Original Sponsors) on the one hand, and Hyundai Engineering Co., Ltd and Korean Overseas Infrastructure & Urban Development Corporation (the Joint Sponsors) on the other, signed an agreement setting the terms of equity financing for the Polimery Police project.

Under the agreement:

- The Joint Sponsors agreed to invest in the Project, directly or indirectly, the EUR equivalent of USD 130m (USD 73m to be provided by Hyundai and USD 57m to be provided by KIND) by making cash contributions to pay for shares issued as part of share capital increase at PDH Polska S.A. *)
- The Original Sponsors agreed to invest in the Project a total amount of up to PLN 1,400m and proceeds from the secondary public offering of Grupa Azoty POLICE shares (contingent on the results of the offering) by making cash contributions to pay for shares issued as part of share capital increase at PDH Polska S.A. *)

The Joint Sponsors' investment is conditional upon fulfilment of the conditions precedent stipulated in the Agreement, including the Original Sponsors contributing the total amount of their investment; PDH Polska S.A. *) issuing a full notice to proceed under the agreement signed on May 11th 2019 by PDH Polska S.A. *) and Hyundai Engineering Co., Ltd.; determining the final shareholding structure of PDH Polska S.A. *); signing a credit facility agreement as a source of debt financing for the project, and satisfaction of certain conditions precedent stipulated under debt financing documentation, as specified in the Agreement.

The Parties agreed, among other things, that the Joint Sponsors will be entitled to jointly appoint one member of the PDH Polska S.A. *) Supervisory Board as long as they hold at least 5% of shares in PDH Polska S.A. *) The parties agreed that the final equity financing documents will provide for a lock-up period starting from the date when the Joint Sponsors transfer their investment amount to PDH Polska S.A. *) and ending three years from the project completion date.

The Parties also agreed on a divestment procedure for the Joint Sponsors applicable in specified circumstances. The Agreement provides that the Original Sponsors may carry out a public offering after the expiry of the lock-up period. In addition, the Parties preliminarily agreed on a put option for the Joint Sponsors and a call option for the Original Sponsors, in each case with respect to the PDH Polska S.A. *) shares held by the Joint Sponsors, with a total value (calculated on the basis of the price originally paid by the Joint Sponsors for the shares) of up to USD 70m, and in the case of the

*) Since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.

put option - additionally reduced by any dividends paid to the Joint Sponsors. The parties agreed that the options would expire on or before December 31st 2035.

If the parties agree with an additional investor, who may be invited to participate in financing the Project, on any rights that are more favourable than the rights granted to the Joint Sponsors under the agreement, the parties will modify the transaction documents to which the Joint Sponsors are parties so that the rights of the Joint Sponsors are aligned with the more favourable rights agreed with such additional investor.

The parties agreed that the final equity financing documents will provide for contractual penalties should the Joint Sponsors breach their obligations related to the divestment process.

The agreement is binding on the parties provided that the equity financing documents are agreed in the form satisfactory to the Joint Sponsors, the Joint Sponsors approve the terms and conditions of the final agreement on debt financing for the Project, and the due diligence of PDH Polska S.A.^{*)} is completed by the Joint Sponsors with satisfactory results.

The agreement was concluded for a definite term, expiring on June 30th 2020, with an option to extend or terminate it at an earlier date, subject to the Parties' consent. The Agreement will also expire if the Parties execute final equity financing documents, which will supersede the Agreement.

Grupa Azoty KĘDZIERZYN's new power project

Grupa Azoty KĘDZIERZYN has launched a major project aimed at ensuring energy security for the Company and the residents of Kędzierzyn-Koźle. The new concept is a viable alternative to the planned implementation of the second stage of construction of the CHP plant, providing for the construction of another coal-fired boiler. The project envisages using process heat from chemical units, which is a more economical and environmentally-friendly solution. Completion of the project, which is of strategic importance for the company and the local community, is scheduled for 2021.

The new concept presents an innovative view on industrial power generation, enabling the use of heat generated in the ammonia production process to produce heat and electricity. As a result, it will be possible to abandon the construction of another coal-fired boiler, save nearly PLN 200m and reduce current operating expenses by approximately PLN 30m a year. To implement the concept, which will involve the construction of peak load/reserve boilers guaranteeing heat availability in case of extraordinary events, Grupa Azoty KĘDZIERZYN will allocate PLN 282m.

The new concept is consistent with Poland's long-term economic development objectives, defined in the "Development Directions of Energy Innovations", which will be pursued in 2021-2050 through activities enhancing the competitiveness of the Polish chemical and energy sectors. It is also an element of the updated Grupa Azoty Group's Strategy until 2020, which envisages the construction of new power generation units at the companies.

Events after the reporting period

Coal gasification

On October 7th 2019, the Parent and Tauron Polska Energia S.A. filed an application with the Polish Office of Competition and Consumer Protection ("UOKiK") concerning the establishment of a joint venture by the applicants.

The notification concerns the establishment of a joint venture in the form of a limited liability company based in Warsaw (an SPV), which is a concentration within the meaning of Art. 13.2.3 of the Act on Competition and Consumer Protection.

The SPV will be established subject to the consent of the President of UOKiK. The SPV will not conduct any commercial activities, i.e. it will not any sell goods or services.

New Research and Development Centre in Kędzierzyn

Grupa Azoty KĘDZIERZYN will establish a Research and Development Centre ("CBR II") to support innovation in the OXO segment and plastics processing. The company has obtained the corporate approvals necessary to implement this strategic investment project.

The project is a continuation of the Application and Development Research Laboratory ("CBR I") launched in November 2018, which enabled Grupa Azoty KĘDZIERZYN to reproduce production processes in a laboratory and perform comprehensive testing of the samples received.

The Research and Development Centre is part of the Group's updated Strategy. Its implementation will contribute, among other things, to adding to the Company's product mix further special esters, as well as to extending the product chain and processing of aldehydes into specialty products.

^{*)}Since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.

For the establishment of the Research and Development Centre, Grupa Azoty KĘDZIERZYN obtained EU funding under the Smart Growth Operational Programme. The project is scheduled for completion in 2021.

3.2. Significant agreements

The agreements are presented in chronological order.

In Q3 2019 and as at the date of this report for Q3 2019, none of the Group companies defaulted on significant credit facilities or other borrowings or breached any material covenants under credit facility or other loan agreements.

Material agreements

Agreements and annexes to contracts of a financial nature

Factoring agreement with BNP Paribas Factor GmbH

On July 25th 2019, COMPO EXPERT GmbH, COMPO EXPERT France SAS, COMPO EXPERT Spain S.L. and COMPO EXPERT Italia S.r.l. signed an agreement with BNP Factor GmbH to establish a European Factoring Programme with a credit line of up to EUR 50m. In July 2019, the first portion of COMPO EXPERT GmbH's trade receivables was sold to BNP Factor. In September 2019, a similar transaction was executed by COMPO EXPERT Italia S.r.l. The following three factoring programmes are currently in place: COMPO EXPERT GmbH with BNP Factor GmbH and Targo Factoring GmbH; COMPO EXPERT France SAS with Facto France SA; and COMPO EXPERT Italia S.r.l with BNP Factor GmbH.

Payments Servicing Agreement with Banco Santander S.A.

On September 23rd 2019, the Parent, its Key Subsidiaries and COMPO EXPERT GmbH executed an agreement amending and superseding the payments servicing agreement with Banco Santander S.A. to secure financing of trade transactions with the Parent's and other Group companies' suppliers, with a maximum limit of EUR 122m. The agreement was made for an indefinite term. As security, the Parent issued a notarised declaration of voluntary submission to enforcement with respect to its debt under the agreement amending and superseding the payments servicing agreement, for up to 120% of the financing limit provided for in the agreement, i.e. up to EUR 146.4m.

Insurance agreements

Trade credit insurance

On July 12th 2019 (Grupa Azoty KĘDZIERZYN) and July 29th 2019 (the Parent with coinsurance for Grupa Azoty SIARKOPOL, Zakłady Azotowe Chorzów S.A., GNZF Fosfory Sp. z o.o., Agrochem Puławy Sp. z o.o. and the following companies newly included in coinsurance: Grupa Azoty Compounding Sp. z o.o. and Grupa Azoty KOLTAR Sp. z o.o.), trade credit insurance policies taken out from Korporacja Ubezpieczeń Kredytów Eksportowych S.A. and providing global cover for these companies' receivables, were renewed for the period from August 1st 2019 to July 31st 2021.

Insurance of environmental risks

On August 1st 2019, the Parent, Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE and Grupa Azoty PUŁAWY concluded an environmental liability insurance agreement with the Polish Branch of Colonnade Insurance Societe Anonyme, for the period from August 1st 2019 to July 31st 2020.

D&O insurance

On September 17th 2019, the Parent signed Annex 1 to the directors and officers (D&O) liability insurance agreement with Powszechny Zakład Ubezpieczeń S.A. (providing insurance cover also to the other Group companies). The annex extended the existing insurance cover for the period September 17th 2019 - March 16th 2020 (the total sum insured is PLN 200m).

Project co-financing agreements

On September 2nd 2019, the Parent received a tranche of funding in the amount of PLN 2,073 thousand under an agreement signed on September 2nd 2016 with the Minister of Development, acting as the Managing Authority, to finance the 'Construction of Grupa Azoty's R&D Centre in Tarnów' project, co-financed from the European Regional Development Fund. The project is being implemented under the Smart Growth Operational Programme 2014-2020.

Commercial contracts

Urea sale agreement

On August 23rd 2019, Grupa Azoty PUŁAWY entered into a contract for sale of PULREA urea to Kronospan Mielec Sp. z o.o., Kronospan KO Sp. z o.o., Diakol Strazske S.R.O. and Dukol Ostrava S.R.O. (the "Buyers"), effective from July 1st 2019 to June 30th 2023.

In the contract, Grupa Azoty PUŁAWY agreed to deliver the product (PULREA urea), and the Buyers agreed to collect and pay for the product. The contract specifies the minimum amount of the product to be delivered to the Buyers thereunder. Prices will be negotiated on a monthly basis. The estimated value of the contract is approximately PLN 300m (VAT exclusive). The other terms and conditions of the contract do not differ from standard terms and conditions used in contracts of this type.

Agreements concluded after the reporting date

Annexes to the Physical Cash Pooling Agreement

On October 7th 2019, the Parent, acting together with other Grupa Azoty Group companies, and PKO Bank Polski S.A. signed Annex 6 to the PLN Physical Cash Pooling Agreement of September 20th 2016, as amended. Under the Annex, the interest rate was changed for the PLN Physical Cash Pooling service for the domestic Group companies.

3.3. Sureties for credit facilities or loans, guarantees issued

In Q3 2019, the Grupa Azoty Group did not issue any guarantees with a significant aggregate value. In Q3 2019, the Group did not sign any annexes to its guarantees with a significant aggregate value.

Sureties

On August 2nd 2019, the Parent and Grupa Azoty POLICE issued sureties (the Parent for up to EUR 10,340 thousand, and Grupa Azoty POLICE for up to EUR 11,660 thousand) to Hyundai Engineering Co., Ltd. The sureties were issued to protect the beneficiary of the sureties from the risk of incurring losses which may result from ordering equipment with long delivery times. The guarantees will expire on the earlier of PDH Polska S.A.^{*)} issuing a notice to proceed or December 30th 2019.

Letters of credit

On April 5th 2019, upon instruction from Grupa Azoty PUŁAWY, PKO BP S.A. extended the validity of the EUR 2,040 thousand import letter of credit, issued for the vendor of a CO₂ condensation and purification unit, by another three months, until October 5th 2019. The letter of credit was issued under the multi-purpose credit facility agreement concluded with PKO BP S.A. On July 31st 2019, EUR 170 thousand was paid under the letter of credit. As at September 30th 2019, the outstanding credit balance under the letter of credit was EUR 0.

On July 22nd 2019, upon instruction from Grupa Azoty PUŁAWY, PKO BP S.A. issued a EUR 299.6 thousand import letter of credit for the period until December 31st 2019. The beneficiary is the supplier of a dolomite powder pneumatic conveying system. The letter of credit was issued under the multi-purpose credit facility agreement concluded with PKO BP S.A. As at September 30th 2019, the credit balance under the letter of credit was EUR 299,6 thousand.

On July 30th 2019, EUR 2,535 thousand was paid under the letter of credit issued for the amount of EUR 19,012 thousand by PKO BP S.A. at the request of Grupa Azoty PUŁAWY. The beneficiary of the letter of credit is the supplier of equipment for the nitric acid neutralisation unit. On August 29th 2019, at the request of Grupa Azoty Zakłady Azotowe Puławy S.A., PKO BP S.A. extended the expiry date of the letter of credit from August 30th 2019 to October 31st 2019. The letter of credit was issued under the multi-purpose credit facility agreement concluded with PKO BP S.A. As at September 30th 2019, the outstanding credit balance under the letter of credit was EUR 2,535 thousand.

Intragroup loans advanced after the reporting date

Acting under the Intragroup Financing Agreement of April 23rd 2015, as amended:

- on October 4th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 12m, of the loan to finance the investment project 'Upgrade of synthesis gas compression unit supplying Ammonia Plant',

^{*)}Since October 8th, the company has been trading under the name of Grupa Azoty Polyolefins S.A.

- on October 4th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 7.5m, of the loan to finance the 'Raw gas compressor (GHH)' project,
- on October 4th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 4.5m, of the loan to finance the operations of the Fertilizers Business Unit,
- on October 4th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 1.9m, of the loan to finance the 'Adaptation of continuous FDO unit to periodic production of Oxoviflex' project.

3.4. Shares and shareholding structure

Number and par value of shares as at the issue date of this quarterly report:

- 24,000,000 Series AA shares with a par value of PLN 5 per share,
- 15,116,421 Series B shares with a par value of PLN 5 per share,
- 24,999,023 Series C shares with a par value of PLN 5 per share,
- 35,080,040 Series D shares with a par value of PLN 5 per share.

The total number of Parent shares is 99,195,484 bearer shares (ISIN code PLZATRM00012). Below are listed shareholders holding directly, or indirectly through subsidiaries, at least 5% of total voting rights at the General Meeting as at the date of this Report, along with information on the number of shares held by such entities, their respective ownership interests, the number of voting rights held, and their share in total voting rights at the General Meeting.

Shareholding structure as at September 5th 2019 (issue date of the most recent financial report)

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,657,350 shares or 19.82%)	406,998	0.41	406,998	0.41
Rainbee Holdings Limited ^{*)}	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited ^{l)}	9,430,000	9.51	9,430,000	9.51
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
Other	28,390,113	28.62	28,390,113	28.62
Total	99,195,484	100.00	99,195,484	100.00

^{*)} Direct subsidiary of Norica Holding S.à r.l.

In the period from September 5th 2019 to the issue date of this report, the Parent was not notified of any changes in major holdings of its shares.

The actual shareholding structure may differ from that presented if there were no events giving rise to a shareholder's obligation to disclose a new shareholding or if, despite the occurrence of such events, a shareholder failed to provide relevant information.

3.5. Parent shares held by management and supervisory personnel

As at the end of the reporting period (September 30th 2019) and as at the date of this report, none of the members of the Parent's Management and Supervisory Boards held any shares in the Parent.

3.6. Composition of the management and supervisory bodies

Parent's Management Board

In Q3 2019, there were no changes in the composition of the Management Board.

The Supervisory Board appointed Tomasz Hryniewicz as Vice President of the Company's Management Board, with effect from July 5th 2019.

Therefore, as at the date of this report, the Company's Management Board consisted of:

- Wojciech Wardacki - President of the Management Board,

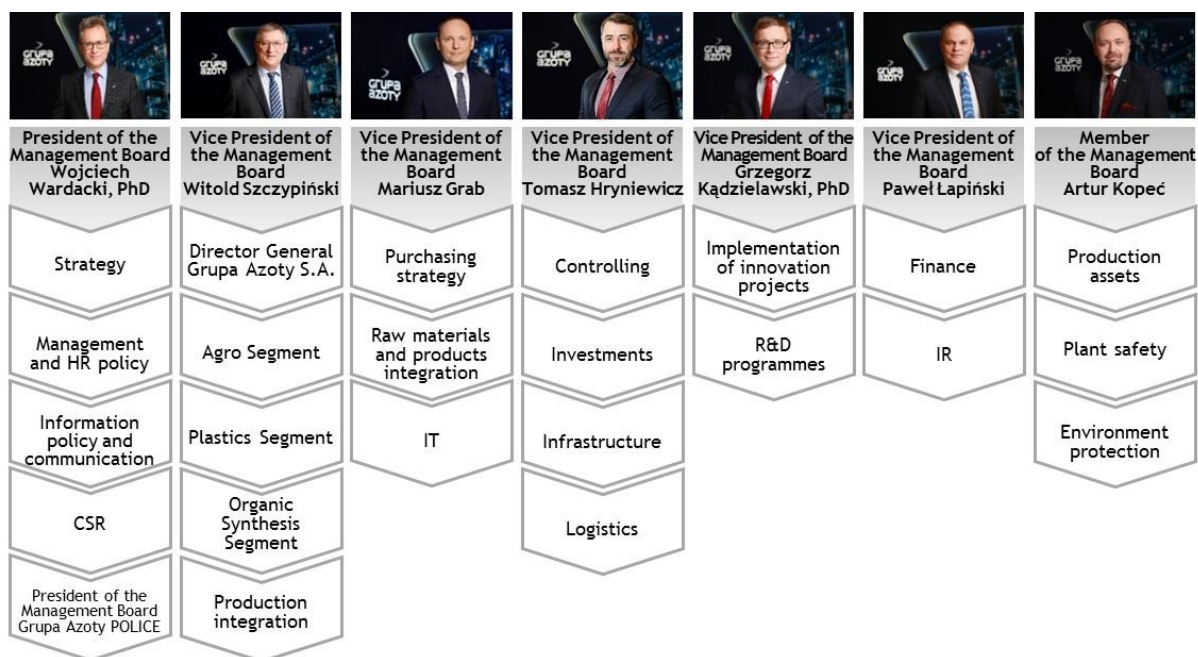
- Witold Szczypiński - Vice President of the Management Board,
- Mariusz Grab - Vice President of the Management Board,
- Tomasz Hryniewicz - Vice President of the Management Board,
- Grzegorz Kądziaławski - Vice President of the Management Board,
- Paweł Łapiński - Vice President of the Management Board,
- Artur Kopeć - Member of the Management Board.

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

On June 19th 2019, the Parent's Management Board passed a resolution establishing the following division of responsibilities between the Management Board members:

- Wojciech Wardacki - President of the Management Board: formulating and supervising the implementation of the Strategy, management of the Group, exercise of ownership powers, supervising the implementation of the HR strategy and policy, supervision of information, communication and image policies, CSR, managing risk processes, coordination of the internal audit function,
- Witold Szczypiński - Vice President of the Management Board, Director General of the Parent: managing and coordinating integration of production processes, the Agro Segment, the Plastics Segment and the Organic Synthesis Segment,
- Mariusz Grab - Vice President of the Management Board: formulation and implementation of the procurement strategy, raw material and product integration, IT,
- Grzegorz Kądziaławski - Vice President the Management Board: innovation and R&D programmes,
- Paweł Łapiński - Vice President of the Management Board: finance and investor relations,
- Tomasz Hryniewicz - Vice President of the Management Board: controlling, investment project implementation, infrastructure and logistics,
- Artur Kopeć - Member of the Management Board: production assets, plant safety and environmental protection.

Division of duties and responsibilities among Management Board members



Source: Company data.

The Supervisory Board

In Q3 2019, there were no changes in the composition of the Supervisory Board.

As at the date of this report, the Parent's Supervisory Board consisted of:

- Marcin Pawlicki - Chairman of the Supervisory Board,
- Michał Gabryel - Deputy Chairman of the Supervisory Board,
- Zbigniew Paprocki - Secretary of the Supervisory Board,
- Paweł Bielski - Member of the Supervisory Board,
- Piotr Czajkowski - Member of the Supervisory Board,

- Monika Fill - Member of the Supervisory Board,
- Robert Kapka - Member of the Supervisory Board,
- Bartłomiej Litwińczuk - Member of the Supervisory Board,
- Roman Romaniszyn - Member of the Supervisory Board.

The Supervisory Board operates on the basis of:

- Commercial Companies Code of September 15th 2000 (Dz.U. No. 94, item 1037, as amended),
- Act of August 30th 1996 on Commercialisation and Certain Employee Rights,
- Accounting Act of September 29th 1994,
- Company's Articles of Association,
- Rules of Procedure for the Company's Supervisory Board.

Supervisory Board's Audit Committee

The Audit Committee was appointed on July 4th 2013 by resolution of the Supervisory Board in order to streamline the work of the Supervisory Board and improve control of the Parent and the Group. In Q3 2019, there were no changes in the composition of the Audit Committee.

As at the date of this report, the Company's Audit Committee consisted of:

- Michał Gabryel - Chair,
- Marcin Pawlicki - Member,
- Paweł Bielski - Member.

Responsibilities of the Audit Committee

The Audit Committee operates pursuant to the Rules of Procedure for the Audit Committee, adopted by the Supervisory Board by way of a resolution of July 4th 2013. The main tasks of the Committee include:

- Monitoring of the financial reporting process;
- Monitoring of the effectiveness of the Company's internal control, internal audit and risk management systems;
- Monitoring of financial audit;
- Monitoring of the independence of the auditor and the entity qualified to audit financial statements;
- Monitoring of the audit of full-year separate and consolidated financial statements;
- Monitoring of the work and reports of the independent auditor,
- Analysing selected economic events relevant to the Company's operations.

Other Supervisory Board's committees

On February 1st 2018, the Supervisory Board resolved to establish a Strategy and Development Committee and a Nomination and Remuneration Committee.

As at the date of this report, the Company's Strategy and Development Committee consisted of:

- Robert Kapka - Chair,
- Paweł Bielski - Member,
- Piotr Czajkowski - Member,
- Zbigniew Paprocki - Member.

As at the date of this report, the Company's Nomination and Remuneration Committee consisted of:

- Bartłomiej Litwińczuk - Chair,
- Piotr Czajkowski - Member,
- Monika Fill - Member,
- Roman Romaniszyn - Member.

4. Supplementary information

Management Board's position on the achievement of forecasts

On October 29th 2019, the Management Board of the Parent published the estimated consolidated financial highlights of the Group for the third quarter of 2019.

The Parent's Management Board resolved to publish the estimated consolidated results following the publication of selected estimated consolidated financial results for the third quarter of 2019 by its subsidiary Grupa Azoty POLICE.

Litigation

There are no material court, arbitration or administrative proceedings pending with respect to any of the Group companies that would concern liabilities or debt claims as referred to in the Regulation of the Minister of Finance of April 20th 2018 on current and periodic information (Dz.U. of 2018, item 757).

Parent's branches

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

Shares, share issues

In Q3 2019, the Parent did not issue, redeem or repay any debt or equity securities. The Company had spent the proceeds from Public Offerings by the end of 2013. The proceeds were used in line with the original issue objectives.

There are no agreements known to the Company which may cause future changes in the percentages of shares held by the existing shareholders and bondholders.

The Company does not operate any control system for employee share ownership plan.

The consolidated interim report of the Grupa Azoty Group for Q3 2019 contains 103 pages.

Signatures of members of the Management Board

Signed with qualified electronic signature

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Wojciech Wardacki, PhD

President of the Management Board

Signed with qualified electronic signature

.....

Mariusz Grab

Vice President of the Management Board

Signed with qualified electronic signature

.....

Grzegorz Kądziałowski, PhD

Vice President of the Management Board

Signed with qualified electronic signature

.....

Artur Kopec

Member of the Management Board

Signed with qualified electronic signature

.....

Witold Szczypiński

*Vice President of the Management Board,
Director General*

Signed with qualified electronic signature

.....

Tomasz Hryniewicz

Vice President of the Management Board

Signed with qualified electronic signature

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Paweł Łapiński

Vice President of the Management Board

Person responsible for maintaining accounting records

Signed with qualified electronic signature

.....

Piotr Kołodziej

*Head of the Corporate
Finance Department*

Tarnów, November 12th 2019