



**Interim condensed consolidated financial statements
of the Grupa Azoty Group
for the six months ended June 30th 2022,
prepared in accordance with IAS 34 Interim Financial
Reporting as endorsed by the European Union**



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Consolidated financial highlights

	(PLN '000)		(EUR '000)	
	for the period Jan 1 – Jun 30 2022	for the period Jan 1 – Jun 30 2021	for the period Jan 1 – Jun 30 2022	for the period Jan 1 – Jun 30 2021
Revenue	13,236,932	6,534,655	2,851,128	1,437,072
Operating profit	2,214,332	382,541	476,949	84,127
Profit before tax	2,034,587	341,604	438,234	75,124
Net profit	1,681,960	253,716	362,281	55,796
Comprehensive income for the period	2,003,259	225,183	431,486	49,521
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per ordinary share (PLN)	15.82	2.33	3.41	0.51
Net cash from operating activities	1,424,590	2,177,874	306,845	478,948
Net cash from investing activities	(1,368,343)	(1,546,794)	(294,730)	(340,164)
Net cash from financing activities	(1,558,335)	(576,083)	(335,653)	(126,690)
Total net cash flows	(1,502,088)	54,997	(323,538)	12,095
Cash and cash equivalents at beginning of period	2,362,193	923,328	508,797	203,054
Cash and cash equivalents at end of period	866,981	972,038	186,741	213,766
	as at Jun 30 2022	as at Dec 31 2021	as at Jun 30 2022	as at Dec 31 2021
Non-current assets	16,130,510	14,905,836	3,446,248	3,240,822
Current assets	8,701,545	8,738,869	1,859,066	1,900,002
Non-current liabilities	6,527,971	5,951,160	1,394,687	1,293,899
Current liabilities	7,384,361	8,761,378	1,577,653	1,904,896
Equity	10,919,723	8,932,167	2,332,975	1,942,029
Share capital	495,977	495,977	105,964	107,835
Non-controlling interests	1,142,740	990,304	244,144	215,312

Selected items of the statement of comprehensive income, statement of financial position and statement of cash flows were translated into the euro using the generally applicable method described below:

- Items of assets and equity and liabilities in the statement of financial position were translated at the exchange rate effective for the last day of the reporting period:
the exchange rate as at June 30th 2022 was EUR 1 = PLN 4.6806 (table No. 125/A/NBP/2022);
the exchange rate as at December 31st 2021 was EUR 1 = PLN 4.5994 (table No. 254/A/NBP/NBP/2021).
- Items of the statement of comprehensive income and statement of cash flows were translated using the arithmetic average of the EUR/PLN rates quoted by the National Bank of Poland as effective for the last day of each month in the reporting period:
in the period January 1st-June 30th 2022, the average exchange rate was EUR 1 = PLN 4.6427;
in the period January 1st-June 30th 2021, the average exchange rate was EUR 1 = PLN 4.5472.

The translation was made using the exchange rates specified above by dividing amounts expressed in thousands of the zloty by the exchange rate.

Interim condensed consolidated statement of comprehensive income

	Note	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Profits and losses					
Revenue	1	13,236,932	6,534,655	6,409,769	3,172,673
Cost of sales	2	(9,933,960)	(5,244,064)	(4,778,729)	(2,550,193)
Gross profit		3,302,972	1,290,591	1,631,040	622,480
Selling and distribution expenses	2	(612,279)	(492,393)	(309,276)	(242,638)
Administrative expenses	2	(465,709)	(407,570)	(252,515)	(214,919)
Other income	3	42,717	29,536	28,289	21,028
Other expenses	4	(53,369)	(37,623)	(38,351)	(16,836)
Operating profit		2,214,332	382,541	1,059,187	169,115
Finance income	5	16,329	61,480	11,742	39,436
Finance costs	6	(203,935)	(110,463)	(131,534)	(3,592)
Net finance income/(costs)		(187,606)	(48,983)	(119,792)	35,844
Share of profit of equity-accounted investees		7,861	8,046	4,410	4,571
Profit before tax		2,034,587	341,604	943,805	209,530
Income tax	7	(352,627)	(87,888)	(144,215)	(41,691)
Net profit		1,681,960	253,716	799,590	167,839
Other comprehensive income					
Actuarial gains from defined benefit plans		19,372	11,716	19,372	11,716
Losses on remeasurement of equity instruments at fair value through other comprehensive income		(2,569)	-	(2,569)	-
Tax on items that will not be reclassified to profit or loss	7.3	(3,134)	(2,252)	(3,134)	(2,252)
Items that will not be reclassified to profit or loss		13,669	9,464	13,669	9,464
Cash flow hedges - effective portion of fair-value change		271,086	(12,537)	95,304	5,830
Exchange differences on translating foreign operations		34,617	(21,869)	6,322	(33,591)
Income tax relating to items that are or will be reclassified to profit or loss	7.3	1,927	(3,591)	405	(5,162)
Items that are or may be reclassified to profit or loss		307,630	(37,997)	102,031	(32,923)
Total other comprehensive income		321,299	(28,533)	115,700	(23,459)
Comprehensive income for the period		2,003,259	225,183	915,290	144,380
Net profit attributable to:					
Owners of the parent		1,569,399	230,645	715,806	143,075
Non-controlling interests		112,561	23,071	83,784	24,764
Comprehensive income for period attributable to:					
Owners of the parent		1,835,004	207,568	811,932	123,051
Non-controlling interests		168,255	17,615	103,358	21,329
Earnings per share:					
Basic (PLN)	8	15.82	2.33	7.22	1.44
Diluted (PLN)	8	15.82	2.33	7.22	1.44

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

Interim condensed consolidated statement of financial position

	Note	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
NON-CURRENT ASSETS			
Property, plant and equipment	9	12,988,289	11,957,685
Right-of-use assets	10	816,253	804,863
Investment property		67,696	68,046
Intangible assets	11	1,000,857	998,614
Goodwill		325,186	319,922
Shares		10,346	12,915
Equity-accounted investees		85,025	92,658
Derivative financial instruments		157,368	-
Other financial assets		2,765	2,626
Other receivables	13	573,999	542,552
Deferred tax assets	7.4	102,217	105,446
Other assets		509	509
Total non-current assets		16,130,510	14,905,836
CURRENT ASSETS			
Inventories		3,011,863	2,313,143
Property rights	12	1,944,294	1,560,172
Derivative financial instruments		235	1,801
Other financial assets		1,998	1,997
Current tax assets		20,080	28,015
Trade and other receivables	13	2,835,841	2,453,579
Cash and cash equivalents	14	866,981	2,362,193
Other assets		20,253	17,969
Total current assets		8,701,545	8,738,869
TOTAL ASSETS		24,832,055	23,644,705

Interim condensed consolidated statement of financial position (continued)

	Note	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
EQUITY			
Share capital		495,977	495,977
Share premium		2,418,270	2,418,270
Hedging reserve		159,264	(58,403)
Translation reserve			
		89,591	54,936
Other capital reserves		(17,700)	(17,700)
Retained earnings		6,631,581	5,048,783
Equity attributable to owners of the parent		9,776,983	7,941,863
Non-controlling interests		1,142,740	990,304
Total equity		10,919,723	8,932,167
LIABILITIES			
Borrowings	15	4,218,574	3,640,671
Derivative financial instruments		-	91,072
Lease liabilities		358,082	347,159
Other financial liabilities	16	669,954	630,360
Employee benefit obligations	17	398,131	420,136
Trade and other payables		20,370	21,415
Provisions	18	245,813	193,381
Government grants	19	193,321	196,725
Deferred tax liabilities	7.4	423,726	410,241
Total non-current liabilities		6,527,971	5,951,160
Borrowings	15	686,098	818,475
Derivative financial instruments		9,568	6,183
Lease liabilities		63,036	60,940
Other financial liabilities	16	367,637	1,759,195
Employee benefit obligations	17	56,440	57,263
Current tax liabilities		291,863	120,892
Trade and other payables		4,859,189	5,827,116
Provisions	18	73,432	89,958
Government grants	19	977,098	21,356
Total current liabilities		7,384,361	8,761,378
Total liabilities		13,912,332	14,712,538
TOTAL EQUITY AND LIABILITIES		24,832,055	23,644,705

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

Interim condensed consolidated statement of changes in equity

For the period ended June 30th 2022

	Share capital	Share premium	Hedging reserve	Translation reserve	Other capital reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2022	495,977	2,418,270	(58,403)	54,936	(17,700)	5,048,783	7,941,863	990,304	8,932,167
<i>Profit or loss and other comprehensive income</i>									
Net profit	-	-	-	-	-	1,569,399	1,569,399	112,561	1,681,960
Other comprehensive income	-	-	217,667	34,655	-	13,283	265,605	55,694	321,299
Comprehensive income for the period	-	-	217,667	34,655	-	1,582,682	1,835,004	168,255	2,003,259
<i>Transactions with owners, recognised directly in equity</i>									
Dividends	-	-	-	-	-	-	-	(15,703)	(15,703)
<i>Changes in ownership interests in subsidiaries</i>									
Changes in the Group	-	-	-	-	-	116	116	(116)	-
Balance as at Jun 30 2022 (unaudited)	495,977	2,418,270	159,264	89,591	(17,700)	6,631,581	9,776,983	1,142,740	10,919,723

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

Interim condensed consolidated statement of changes in equity (continued)

For the period ended June 30th 2021

	Share capital	Share premium	Hedging reserve	Translation reserve	Other capital reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2021	495,977	2,418,270	(48,540)	63,311	(17,700)	4,427,756	7,339,074	949,828	8,288,902
<i>Profit or loss and other comprehensive income</i>									
Net profit	-	-	-	-	-	230,645	230,645	23,071	253,716
Other comprehensive income	-	-	(9,941)	(21,830)	-	8,694	(23,077)	(5,456)	(28,533)
Comprehensive income for the period	-	-	(9,941)	(21,830)	-	239,339	207,568	17,615	225,183
<i>Transactions with owners, recognised directly in equity</i>									
Dividends	-	-	-	-	-	-	-	(5,119)	(5,119)
<i>Changes in ownership interests in subsidiaries</i>									
Other	-	-	-	-	-	201	201	2	203
Balance as at Jun 30 2021 (unaudited)	495,977	2,418,270	(58,481)	41,481	(17,700)	4,667,296	7,546,843	962,326	8,509,169

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

Interim condensed consolidated statement of cash flows

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>
Cash flows from operating activities		
Profit before tax	2,034,587	341,604
Depreciation and amortisation	359,136	383,798
Impairment losses	1,431	3,023
Gain on investing activities	(2,089)	(7,795)
Gain on disposal of financial assets	(47)	(2)
Share of profit of equity-accounted investees	(7,861)	(8,046)
Interest, foreign exchange gains or losses	60,401	(9,106)
Dividends	-	(193)
Fair value gain on financial assets	(68,655)	(76,981)
Increase in trade and other receivables	(122,396)	(1,389,784)
(Increase)/Decrease in inventories and property rights	(1,061,496)	426,385
(Decrease)/increase in trade and other payables	(554,545)	1,992,464
Increase in provisions	11,927	13,670
Decrease in employee benefit obligations	(12,375)	(8,105)
Increase in grants	947,935	589,720
Other adjustments	(5,207)	2,156
Income tax paid	(156,156)	(74,934)
Net cash from operating activities	1,424,590	2,177,874
Cash flows from investing activities		
Proceeds from sale of intangible assets, property, plant and equipment, and investment property	17,751	15,308
Purchase of intangible assets, property, plant and equipment, and investment property	(1,381,223)	(1,558,159)
Dividend received	-	193
Purchase of other financial assets	(1,992)	(1,997)
Proceeds from sale of other financial assets	1,992	-
Repayments of loans	-	9
Other cash provided by (used in) investing activities	(4,871)	(2,148)
Net cash from investing activities	(1,368,343)	(1,546,794)
Cash flows from financing activities		
Dividends paid	-	(80)
Proceeds from borrowings	1,012,679	1,000,415
Repayment of borrowings	(566,464)	(596,402)
Interest paid	(69,508)	(42,041)
Payment of lease liabilities	(35,395)	(36,375)
Payment of reverse factoring liabilities	(1,904,727)	(912,875)
Other financing cash proceeds/(disbursements)	5,080	11,275
Net cash from financing activities	(1,558,335)	(576,083)
Total net cash flows	(1,502,088)	54,997
Cash and cash equivalents at beginning of period	2,362,193	923,328
Effect of exchange rate fluctuations on cash held	6,876	(6,287)
Cash and cash equivalents at end of period	866,981	972,038

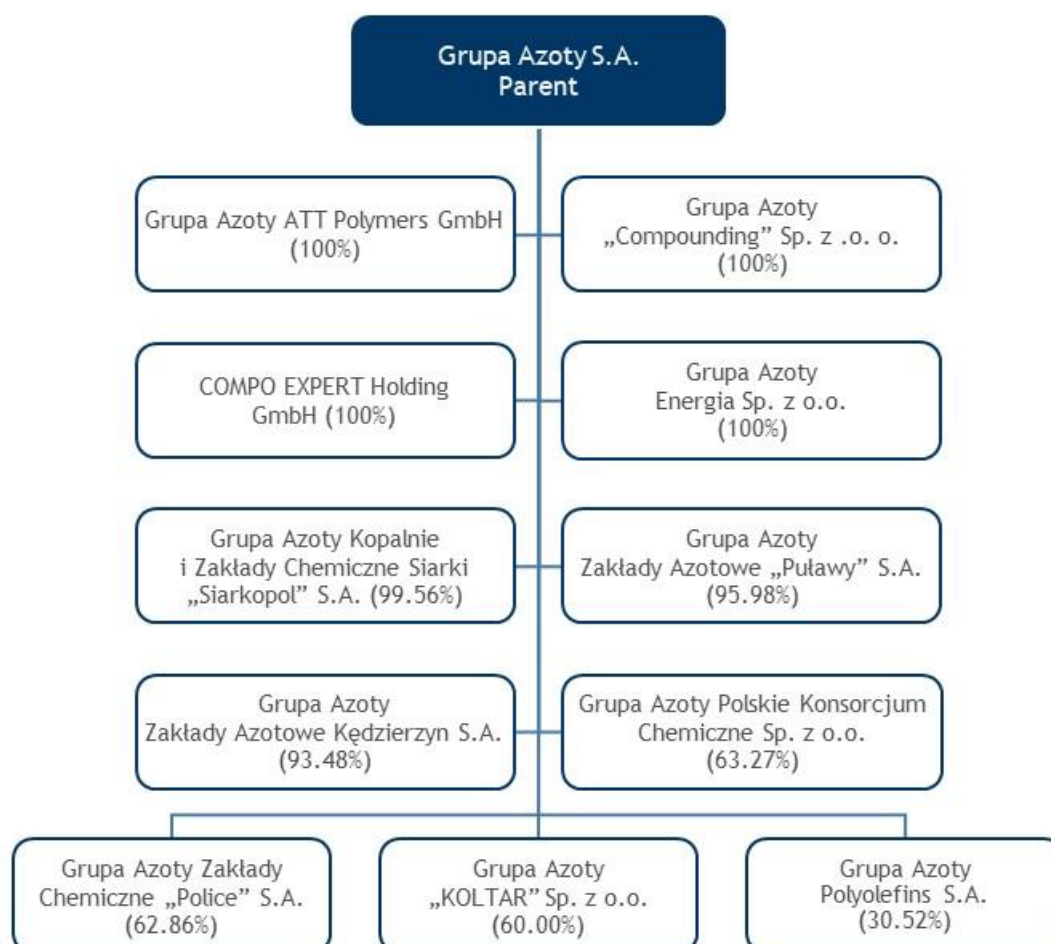
The supplementary information is an integral part of these interim condensed financial statements.

Supplementary information to the interim condensed consolidated financial statements

1. Description of the Group

1.1. Organisational structure of the Grupa Azoty Group

As at June 30th 2022, the Grupa Azoty Group (the “Grupa Azoty Group”, the “Group”) comprised Grupa Azoty Spółka Akcyjna - the ultimate Parent (the “Parent”, “GASA”), and the subsidiaries:



The Group’s principal business is in particular the 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 products.

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

As of April 22nd 2013, the Parent trades under the name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).

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

These interim condensed consolidated financial statements, drawn up in accordance with International Financial Reporting Standards (“IFRS”), as endorsed by the European Union (“EU IFRS”), were authorised for issue by the Parent’s Management Board on September 28th 2022.

Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY)

Company	Ownership interest (%)	Share capital
Agrochem Puławy Sp. z o.o.	100.00	PLN 68,639 thousand
SCF Natural Sp. z o.o.	99.99	PLN 15,001 thousand
Grupa Azoty Zakłady Fosforowe Gdańsk Sp. z o.o.	99.19	PLN 59,003 thousand
Remzap Sp. z o.o.	97.17	PLN 3,528 thousand
Grupa Azoty Zakłady Azotowe Chorzów S.A.	96.48	PLN 94,700 thousand
STO-ZAP Sp. z o.o.	96.15	PLN 1,117 thousand
Prozap Sp. z o.o. ¹⁾	78.86	PLN 892 thousand
Bałtycka Baza Masowa Sp. z o.o.	50.00	PLN 19,500 thousand
Technochimserwis S.A. (closed joint-stock company)	25.00	RUB 800 thousand
Grupa Azoty „KOLTAR” Sp. z o.o. ²⁾	20.00	PLN 54,600 thousand

¹⁾ Grupa Azoty Zakłady Chemiczne „Police” S.A. holds 7.35% of shares in Prozap Sp. z o.o.

²⁾ The Parent holds 60% and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. holds 20% of shares in Grupa Azoty KOLTAR Sp. z o.o.

Grupa Azoty PUŁAWY and the subsidiaries in which it holds equity interests of more than 50%, with the exception of STO-ZAP Sp. z o.o., are consolidated using the full method. STO-ZAP Sp. z o.o. and Technochimserwis S.A. (closed joint-stock company) are excluded from consolidation due to immateriality. Bałtycka Baza Masowa Sp. z o.o. is consolidated using the equity method.

In July 2022, Grupa Azoty PUŁAWY became aware that Technochimserwis Zamknięta Spółka Akcyjna of Moscow was removed from the Unified State Register of Legal Entities.

Grupa Azoty Zakłady Chemiczne Police S.A. (Grupa Azoty POLICE)

Company	Ownership interest (%)	Share capital
Grupa Azoty Transtech Sp. z o.o.	100.00	PLN 9,783 thousand
Grupa Azoty Police Serwis Sp. z o.o.	100.00	PLN 9,618 thousand
Grupa Azoty Africa S.A. w likwidacji (in liquidation)	99.99	XOF ³⁾ 132,000 thousand
Zarząd Morskiego Portu Police Sp. z o.o.	99.91	PLN 32,642 thousand
Budchem Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy)	48.96	PLN 1,201 thousand
Grupa Azoty Polyolefins S.A. ¹⁾ (Grupa Azoty POLYOLEFINS)	34.41	PLN 922,968 thousand
Kemipol Sp. z o.o.	33.99	PLN 3,445 thousand
Prozap Sp. z o.o. ²⁾	7.35	PLN 892 thousand

¹⁾ The Parent holds 30.52% of shares in Grupa Azoty POLYOLEFINS.

²⁾ Grupa Azoty PUŁAWY holds 78.86% of shares in Prozap Sp. z o.o.

³⁾ XOF is the West African CFA franc.

Kemipol Sp. z o.o. and Budchem Sp. z o.o. are accounted for using the equity method. The other subsidiaries of Grupa Azoty Zakłady Chemiczne Police S.A. are fully consolidated.

Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty KĘDZIERZYN)

Company	Ownership interest (%)	Share capital
ZAKSA S.A.	92.45	PLN 6,000 thousand
Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. ¹⁾ (Grupa Azoty PKCh Sp. z o.o.)	36.73	PLN 85,631 thousand
Grupa Azoty „KOLTAR” Sp. z o.o. ²⁾	20.00	PLN 54,600 thousand

1) *The Parent holds 63.27% of shares in Grupa Azoty PKCh Sp. z o.o.*

2) *The Parent holds 60% and Grupa Azoty PUŁAWY holds 20% of shares in Grupa Azoty KOLTAR Sp. z o.o.*

The subsidiary and associates of Grupa Azoty KĘDZIERZYN are fully consolidated as all of them are subsidiaries of Grupa Azoty S.A.

Grupa Azoty PKCh Sp. z o.o.

Company	Ownership interest (%)	Share capital
Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. ¹⁾	100.00	PLN 21,749 thousand
Grupa Azoty Prorem Sp. z o.o. ²⁾	100.00	PLN 11,567 thousand
Grupa Azoty Automatyka Sp. z o.o.	77.86	PLN 4,654 thousand

1) *Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. holds 12% of shares in EKOTAR Sp. z o.o.*

2) *Grupa Azoty Prorem Sp. z o.o. holds 12% of shares in EKOTAR Sp. z o.o.*

All subsidiaries of Grupa Azoty PKCh Sp. z o.o. are fully consolidated.

Compo Expert Holding GmbH Group

Company	Ownership interest (%)	Share capital
COMPO EXPERT International GmbH	100	EUR 25 thousand

COMPO EXPERT International GmbH

Company	Ownership interest (%)	Share capital
COMPO EXPERT GmbH	100.00	EUR 25 thousand
COMPO EXPERT Italia S.r.l.	100.00	EUR 10 thousand
COMPO EXPERT Spain S.L.	100.00	EUR 3 thousand
COMPO EXPERT Portugal, Unipessoal Lda.	100.00	EUR 2 thousand
COMPO EXPERT France SAS	100.00	EUR 524 thousand
COMPO EXPERT Polska Sp. z o.o.	100.00	PLN 6 thousand
COMPO EXPERT Hellas S.A.	100.00	EUR 60 thousand
COMPO EXPERT UK Ltd.	100.00	GBP 1
COMPO EXPERT Techn. (Shenzen) Co. Ltd.	100.00	CNY 2,810 thousand
COMPO EXPERT Asia Pacific Sdn. Bhd.	100.00	MYR 500 thousand
COMPO EXPERT USA&CANADA Inc.	100.00	USD 1
COMPO EXPERT Brasil Fertilizantes Ltda. ¹⁾	99.99	BRL 26,199 thousand
COMPO EXPERT Chile Fertilizantes Ltda. ²⁾	99.99	CLP 1,528,560 thousand
COMPO EXPERT India Private Limited	99.99	INR 2,500 thousand
COMPO EXPERT Benelux N.V. ³⁾	99.99	EUR 7,965 thousand
COMPO EXPERT Mexico S.A. de C.V. ⁴⁾	99.99	MXN 100 thousand
COMPO EXPERT Egypt LLC ⁵⁾	99.90	EGP 100 thousand
COMPO EXPERT Turkey Tarim Sanai ve Ticaret Ltd. Şirketi ⁶⁾	96.17	TRY 8,375 thousand
COMPO EXPERT Argentina SRL ⁷⁾	90.00	ARS 41,199 thousand

¹⁾ 0.000003% of the share capital is held by COMPO EXPERT GmbH.

- ²⁾ 0.01% of the share capital is held by COMPO EXPERT GmbH.
³⁾ 0.0103% of the share capital is held by COMPO EXPERT GmbH.
⁴⁾ 0.000311% of the share capital is held by COMPO EXPERT GmbH.
⁵⁾ 0.1% of the share capital is held by COMPO EXPERT GmbH.
⁶⁾ 3.83% of the share capital is held by COMPO EXPERT GmbH.
⁷⁾ 10.000024% of the share capital is held by COMPO EXPERT GmbH.

In addition, COMPO EXPERT GmbH holds shares in:

Company	Ownership interest (%)	Share capital
COMPO EXPERT South Africa (Pty) Ltd.	100.00	ZAR 100
COMPO EXPERT Austria GmbH	100.00	EUR 35 thousand

All companies of the COMPO EXPERT Holding GmbH Group are fully consolidated.

1.2. Changes in the Group's structure

Cancellation of Prozap Sp. z o.o. shares

Between January 1st and June 30th 2022, the Management Board of PROZAP Sp. z o.o. purchased 21 shares from the company's former employees for cancellation. Pursuant to a resolution of PROZAP Sp. z o.o.'s General Meeting, the acquired shares were cancelled.

As a result, the percentage of voting rights held by Grupa Azoty PUŁAWY at the General Meeting of PROZAP Sp. z o.o. rose from 81.89% to 82.90%.

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

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

Sale of shares in ZAKSA S.A.

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

Cancellation of Remzap Sp. z o.o. shares

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

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

On March 8th 2022, a new subsidiary Grupa Azoty Energia Sp. z o.o. was established, with the Parent acquiring 100% of shares in the company. Its objective is to support the Group in delivering its Strategy for 2021-2030 in the area of energy transition and lower emissions from production processes. In particular, the company is to implement renewable energy projects on land owned and used by the Group companies, and to participate in acquisition and development projects in the energy sector, including nuclear energy projects (modular nuclear reactors).

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

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

Agreement to incorporate COMPO EXPERT Peru S.R.L.,

On June 20th 2022, an agreement on incorporation of COMPO EXPERT Peru S.R.L., Lima/Peru was signed. The company's share capital amounts to PEN 400 thousand and is divided into 400,000 quotas, each with a par value of PEN 1.00. 99.99% of the share capital is held by COMPO EXPERT International GmbH (399960 quotas) and the remaining 0.01% by COMPO EXPERT GmbH (40 quotas).

On July 8th 2022, the share capital was paid up and the incorporation process was completed. On August 4th 2022, the deed concerning the incorporation of the company was confirmed by a notary public and, in accordance with information provided by COMPO EXPERT's legal services, the company commenced its legal existence as of that date.

Removal of Technochimserwis S.A. (closed joint-stock company) from the register of legal entities

In July 2022, Grupa Azoty PUŁAWY became aware that Technochimserwis Zamknięta Spółka Akcyjna of Moscow was removed from the Unified State Register of Legal Entities as of April 9th 2018.

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 six months ended June 30th 2022 and contain comparative data for the six months ended June 30th 2021 and as at December 31st 2021.

The interim condensed consolidated financial statements do not include all the information and disclosures required to be included in full-year financial statements and should be read in conjunction with the consolidated full-year financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2021, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union. The financial statements for 2021 were authorised for issue on April 27th 2022.

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

All amounts in these interim condensed consolidated financial statements are presented in thousands of zloty, unless indicated otherwise.

These interim condensed consolidated financial statements were authorised for issue by the Parent's Management Board on September 28th 2022.

These interim condensed consolidated financial statements were prepared under the assumption that the Group would continue as a going concern for the foreseeable future. For information on the impact of the COVID-19 pandemic on the Group's situation, see section [3.5 Effects of the COVID-19 pandemic](#). For information on the impact of war in Ukraine on the Group's business, see section [3.6](#). Considering the circumstances described in those sections, the Management Board of the Parent has concluded that they do not indicate any threat to the Parent or any of the material Group companies continuing as going concerns.

2.2. Accounting policies and data presentation

The accounting policies applied to prepare these interim condensed consolidated financial statements are consistent with those applied to draw up the Grupa Azoty Group's full-year consolidated financial statements for the year ended December 31st 2021, except changes in data presentation discussed in item [c](#)).

a) Amendments to International Financial Reporting Standards

The following standards effective as of 2022 have no material impact on the Group's business or its financial reporting:

Standard	Description of amendments	Effect on financial statements
<p>IFRS 3 Business Combinations IAS 16 Property, Plant and Equipment IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020 Cycle (Annual improvements)</p>	<p>The amendments were issued on May 14th 2020, and are effective for annual periods beginning on or after January 1st 2022. The amendments prohibit deducting from the cost of property, plant and equipment of any proceeds from selling test products manufactured while the entity is developing/preparing the asset for its intended use, and clarify what costs the entity takes into account when assessing whether a contract will generate losses.</p>	<p>As at January 1st 2022, the application of the new standards IFRS 3, IAS 16 and IAS 37 had no material effect on Group's financial statements.</p>
<p>IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021.</p>	<p>The amendment to IFRS 16 was issued on March 31st 2021 and is effective for annual periods beginning on or after April 1st 2021. The only purpose of the amendment is to extend by one year (until June 30th 2022) the period in which the granting of COVID-19-related rent concessions does not need to involve a modification of the lease contract. This amendment is closely related to the already effective amendment to IFRS 16, issued in May 2020.</p>	<p>The amendment to the standard has no impact on the financial statements of the Group.</p>

b) New standards and interpretations

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

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

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

Standard	Description of amendments	Effect on financial statements
<p>IFRS 17 Insurance Contracts</p>	<p>The new standard was issued on May 18th 2017 and subsequently amended on June 25th 2020, and is effective for annual periods beginning on or after January 1st 2023. Early application is permitted as long as IFRS 15 and IFRS 9 are also applied. The standard supersedes earlier regulations on insurance contracts (IFRS 4). On June 25th 2020, IFRS 4 was also amended to defer the effective date of IFRS 9 <i>Financial Instruments</i> for insurers until January 1st 2023.</p>	<p>Not applicable</p>

<p>IAS 1 Presentation of Financial Statements: <i>Classification of Liabilities as Current or Non-current</i></p>	<p>Amendments to IAS 1 were issued on January 23rd 2020 with its effective date subsequently modified in July 2020, and are effective for annual periods beginning on or after January 1st 2023.</p> <p>The amendment redefines the criteria for classifying liabilities as current. The amendment may affect the presentation of liabilities and their reclassification between current and non-current.</p>	<p>The Group has not yet completed the analysis of the effect of this amendment on the financial statements.</p>
<p>IAS 1 Presentation of Financial Statements: <i>Disclosure of Accounting Policies</i> IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: <i>Definition of Accounting Estimates</i></p>	<p>The amendments were issued on February 12th 2021, and are effective for annual periods beginning on or after January 1st 2023. The purpose of these amendments is to place greater emphasis on the disclosure of material accounting policies and to clarify how companies should distinguish between changes in accounting policies and changes in accounting estimates.</p>	<p>The Group has not yet completed the analysis of the effect of this amendment on the financial statements.</p>
<p>IAS 12 Income Taxes: <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i></p>	<p>The amendment to IAS 12 was issued on May 7th 2021 and is effective for annual periods beginning on or after April 1st 2023. The amendments clarify that the exemption relating to initial recognition of deferred tax does not apply to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences and entities are required to recognise deferred tax on such transactions. The amendments thus address the emerging doubts as to whether the exemption applies to transactions such as leases and decommissioning obligations.</p>	<p>The Group has not yet completed the analysis of the effect of this amendment on the financial statements.</p>
<p>IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – <i>Comparative Information</i></p>	<p>The amendment to IFRS 17 was issued on December 9th 2021 and is effective for annual periods beginning on or after April 1st 2023. It provides a transition option for comparative information on financial assets presented on initial application of IFRS 17. The amendment is intended to help entities avoid temporary accounting mismatches between financial assets and insurance contract liabilities.</p>	<p>The Group has not yet completed the analysis of the effect of this amendment on the financial statements.</p>

c) Presentation changes

Effective January 1st 2022, the Group changed its method of accounting for general and administrative expenses by reportable segment. Previously, these expenses were accounted for based on the share of cost of individual products in the total cost of products sold. The existing allocation key takes into account the approach based on the share of margin on variable costs earned by each segment in the total margin on variable costs of the entity in which the reportable segments have been identified. The margin based on variable segment costs includes variable costs of products sold as well as selling and distribution expenses.

The change in the allocation key based on the share of general and administrative expenses in the total cost of products sold more accurately reflects the allocation of this cost to the individual segments.

The presentation of these expenses in the operating segments for the period ended June 30th 2021 was changed.

The effect of inter-segment transfers is presented below:

Operating segments' income, expenses and financial results for the six months ended June 30th 2021 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	-	-	-	-	-	-
Intersegment revenue	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-
Operating expenses, including: (-)	(13,674)	15,236	(920)	3,065	(3,707)	-
<i>selling and distribution expenses (-)</i>	-	-	-	-	-	-
<i>administrative expenses (-)</i>	(11,725)	15,236	(1,983)	2,901	(4,429)	-
Other income	-	-	-	-	-	-
Other expenses (-)	-	-	-	-	-	-
Segment's EBIT	(13,674)	15,236	(920)	3,065	(3,707)	-
Finance income	-	-	-	-	-	-
Finance costs (-)	-	-	-	-	-	-
Share of profit of equity-accounted investees	-	-	-	-	-	-
Profit before tax	-	-	-	-	-	-
Income tax	-	-	-	-	-	-
Net profit	-	-	-	-	-	-
EBIT	(13,674)	15,236	(920)	3,065	(3,707)	-
Depreciation and amortisation	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
EBITDA	(13,674)	15,236	(920)	3,065	(3,707)	-

Operating segments' income, expenses and financial results for the three months ended June 30th 2021 (*unaudited*)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	-	-	-	-	-	-
Intersegment revenue	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-
Operating expenses, including: (-)	(3,197)	6,782	(1,561)	1,873	(3,897)	-
<i>selling and distribution expenses (-)</i>	-	-	-	-	-	-
<i>administrative expenses (-)</i>	(1,857)	6,782	(2,320)	1,809	(4,414)	-
Other income	-	-	-	-	-	-
Other expenses (-)	-	-	-	-	-	-
Segment's EBIT	(3,197)	6,782	(1,561)	1,873	(3,897)	-
Finance income	-	-	-	-	-	-
Finance costs (-)	-	-	-	-	-	-
Share of profit of equity-accounted investees	-	-	-	-	-	-
Profit before tax	-	-	-	-	-	-
Income tax	-	-	-	-	-	-
Net profit	-	-	-	-	-	-
EBIT	(3,197)	6,782	(1,561)	1,873	(3,897)	-
Depreciation and amortisation	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
EBITDA	(3,197)	6,782	(1,561)	1,873	(3,897)	-

d) Accounting estimates and judgments

The preparation of these interim condensed consolidated financial statements requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are based on historical experience and other factors deemed reasonable under the circumstances, and their results provide a basis for judgements regarding the net carrying amounts of assets and liabilities, where they are not directly available from other sources. Actual results may differ from these estimates.

Estimates and the underlying assumptions are subject to ongoing verification. A change in accounting estimates is recognised in the period in which the change is made or in current and future periods if the change in estimates affects both the current period and the future periods.

The key judgements and estimates made by the Management Board in preparing these interim condensed consolidated financial statements were the same as those made in preparing the consolidated financial statements for the financial year ended December 31st 2021, subject to measurement revisions resulting from the passage of time or a change of market parameters.

CO₂ emission allowances

The Group companies participating in the EU emission trading system have received or expect to receive free CO₂ emission allowances covering part of their emissions from production processes and heat generation. CO₂ emission allowances expected to be obtained for emissions planned for 2022 have been recognised as other receivables in correspondence with grants.

For details, Note 12 to these interim condensed consolidated financial statements. The amount of CO₂ emission allowances expected to be received for 2022 was determined at the market prices of the allowances as at June 30th 2022.


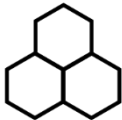



3. Selected additional information and notes

3.1. Business segment reporting

Operating segments

The Group identifies operating segments based on internal reports for each line of business. Operating results of each segment are reviewed on a regular basis by the Group's chief operating decision maker, who decides about the allocation of resources to different segments and analyses their results. Separate information prepared for each segment is available.

The identified operating segments are presented in the table below.

Name	Scope of activities
 <p>Agro Fertilizers</p>	<p>Manufacture or sale of:</p> <ul style="list-style-type: none"> • Speciality (fertilizing/fertilizer) products (liquid fertilizers for foliar feeding and fertigation, biostimulants, SRF and CRF fertilizers for precise fertilization, dedicated NPK fertilizers), • Compound fertilizers (NPK: Polifoska® and Amofoska®; NP: DAP; PK), • Nitrogen fertilizers with sulfur (solid: ammonium sulfate, ammonium sulfonitrite, urea-ammonium sulfate, calcium nitrate with sulfur; liquid: liquid: UAN- urea-ammonium nitrate solution, urea solution and ammonium sulfate solution), • Nitrogen fertilizers, • Ammonia, • Technical-grade and concentrated nitric acid, • Industrial gases.
 <p>Plastics</p>	<p>Manufacture or sale of:</p> <ul style="list-style-type: none"> • Caprolactam (an intermediate product used to manufacture polyamide 6 (PA6), • natural engineering plastics (PA6). • Modified plastics based on PA6 and other engineering resins (PA66, PPC - polypropylene, PPH, PBT - polybutylene terephthalate), • Plastic products (PA pipes, PE pipes, polyamide casings), • Production of polypropylene by Grupa Azoty POLYOLEFINS.
 <p>Chemicals</p>	<p>Manufacture or sale of:</p> <ul style="list-style-type: none"> • Melamine, • OXO products (OXO alcohols, plasticizers), • Sulfur, • Titanium white, • Iron sulfate, • Solutions based on urea and ammonia.
 <p>Energy</p>	<p>Power utilities:</p> <ul style="list-style-type: none"> • production of energy carriers: (electricity, heat, water, process and instrument air, nitrogen) for the purposes of chemical units and, to a lesser extent, for resale to external customers (mainly electricity). As part of its operations, the segment also purchases and distributes natural gas for process needs;
 <p>Other Activities</p>	<ul style="list-style-type: none"> • Research and Development Centre, • Laboratory services, • Catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts), • Rental of real estate, and • Other activities not allocated to any of the segments specified above.

Operating segments

Operating segments' income, expenses and financial results for the six months ended June 30th 2022 (*unaudited*)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	7,866,369	1,224,791	3,743,896	262,678	139,198	13,236,932
Intersegment revenue	4,384,169	404,867	1,294,290	4,457,535	505,427	11,046,288
Total revenue	12,250,538	1,629,658	5,038,186	4,720,213	644,625	24,283,220
Operating expenses, including: (-)	(10,945,469)	(1,540,920)	(4,277,978)	(4,690,070)	(603,799)	(22,058,236)
<i>selling and distribution expenses (-)</i>	<i>(464,421)</i>	<i>(38,097)</i>	<i>(108,156)</i>	<i>(139)</i>	<i>(1,466)</i>	<i>(612,279)</i>
<i>administrative expenses (-)</i>	<i>(246,640)</i>	<i>(59,472)</i>	<i>(116,249)</i>	<i>(7,510)</i>	<i>(35,838)</i>	<i>(465,709)</i>
Other income	5,308	2,862	7,245	4,066	23,236	42,717
Other expenses (-)	(4,525)	(3,678)	(4,621)	(9,245)	(31,300)	(53,369)
Segment's EBIT	1,305,852	87,922	762,832	24,964	32,762	2,214,332
Finance income	-	-	-	-	-	16,329
Finance costs (-)	-	-	-	-	-	(203,935)
Share of profit of equity-accounted investees	-	-	-	-	-	7,861
Profit before tax	-	-	-	-	-	2,034,587
Income tax	-	-	-	-	-	(352,627)
Net profit	-	-	-	-	-	1,681,960
EBIT	1,305,852	87,922	762,832	24,964	32,762	2,214,332
Depreciation and amortisation	165,785	31,206	44,324	55,143	62,678	359,136
Impairment losses	35	69	769	10	628	1,511
EBITDA	1,471,672	119,197	807,925	80,117	96,068	2,574,979

Operating segments' income, expenses and financial results for the six months ended June 30th 2021 (*unaudited*), restated*

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	3,660,581	842,155	1,711,716	167,927	152,276	6,534,655
Intersegment revenue	1,609,849	191,537	591,764	1,849,948	467,433	4,710,531
Total revenue	5,270,430	1,033,692	2,303,480	2,017,875	619,709	11,245,186
Operating expenses, including: (-)	(5,033,935)	(1,017,241)	(2,175,404)	(2,016,093)	(611,885)	(10,854,558)
<i>selling and distribution expenses (-)</i>	<i>(370,321)</i>	<i>(33,365)</i>	<i>(87,293)</i>	<i>(80)</i>	<i>(1,334)</i>	<i>(492,393)</i>
<i>administrative expenses (-)</i>	<i>(202,611)</i>	<i>(75,549)</i>	<i>(100,617)</i>	<i>(6,489)</i>	<i>(22,304)</i>	<i>(407,570)</i>
Other income	4,319	2,844	4,243	2,946	15,184	29,536
Other expenses (-)	(4,568)	(9,236)	(2,171)	(2,442)	(19,206)	(37,623)
Segment's EBIT	236,246	10,059	130,148	2,286	3,802	382,541
Finance income	-	-	-	-	-	61,480
Finance costs (-)	-	-	-	-	-	(110,463)
Share of profit of equity-accounted investees	-	-	-	-	-	8,046
Profit before tax	-	-	-	-	-	341,604
Income tax	-	-	-	-	-	(87,888)
Net profit	-	-	-	-	-	253,716
EBIT	236,246	10,059	130,148	2,286	3,802	382,541
Depreciation and amortisation	165,540	38,445	50,285	56,491	73,037	383,798
Impairment losses	-	-	-	-	-	-
EBITDA	401,786	48,504	180,433	58,777	76,839	766,339

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

Operating segments' income, expenses and financial results for the three months ended June 30th 2022 (*unaudited*)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	3,649,996	593,667	1,957,805	139,311	68,990	6,409,769
Intersegment revenue	2,178,910	203,288	629,810	2,162,414	266,217	5,440,639
Total revenue	5,828,906	796,955	2,587,615	2,301,725	335,207	11,850,408
Operating expenses, including: (-)	(5,253,296)	(761,036)	(2,181,455)	(2,284,414)	(300,958)	(10,781,159)
<i>selling and distribution expenses (-)</i>	<i>(232,014)</i>	<i>(19,474)</i>	<i>(56,437)</i>	<i>(103)</i>	<i>(1,248)</i>	<i>(309,276)</i>
<i>administrative expenses (-)</i>	<i>(130,460)</i>	<i>(34,803)</i>	<i>(63,402)</i>	<i>(4,553)</i>	<i>(19,297)</i>	<i>(252,515)</i>
Other income	2,374	2,146	5,829	2,882	15,058	28,289
Other expenses (-)	(4,211)	(2,872)	(2,709)	(4,827)	(23,732)	(38,351)
Segment's EBIT	573,773	35,193	409,280	15,366	25,575	1,059,187
Finance income	-	-	-	-	-	11,742
Finance costs (-)	-	-	-	-	-	(131,534)
Share of profit of equity-accounted investees	-	-	-	-	-	4,410
Profit before tax	-	-	-	-	-	943,805
Income tax	-	-	-	-	-	(144,215)
Net profit	-	-	-	-	-	799,590
EBIT	573,773	35,193	409,280	15,366	25,575	1,059,187
Depreciation and amortisation	83,559	15,299	22,144	28,094	31,761	180,857
Impairment losses	1	69	57	-	40	167
EBITDA	657,333	50,561	431,481	43,460	57,376	1,240,211

Operating segments' income, expenses and financial results for the three months ended June 30th 2021 (*unaudited*), restated*

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,641,753	455,538	896,422	83,344	95,616	3,172,673
Intersegment revenue	848,740	101,245	292,502	944,616	262,982	2,450,085
Total revenue	2,490,493	556,783	1,188,924	1,027,960	358,598	5,622,758
Operating expenses, including: (-)	(2,421,234)	(545,230)	(1,117,132)	(1,027,413)	(346,826)	(5,457,835)
<i>selling and distribution expenses (-)</i>	<i>(182,295)</i>	<i>(16,572)</i>	<i>(43,169)</i>	<i>(55)</i>	<i>(547)</i>	<i>(242,638)</i>
<i>administrative expenses (-)</i>	<i>(98,966)</i>	<i>(46,174)</i>	<i>(56,011)</i>	<i>(2,941)</i>	<i>(10,827)</i>	<i>(214,919)</i>
Other income	2,014	1,788	1,986	1,845	13,395	21,028
Other expenses (-)	(3,062)	(441)	714	(841)	(13,206)	(16,836)
Segment's EBIT	68,211	12,900	74,492	1,551	11,961	169,115
Finance income	-	-	-	-	-	39,436
Finance costs (-)	-	-	-	-	-	(3,592)
Share of profit of equity-accounted investees	-	-	-	-	-	4,571
Profit before tax	-	-	-	-	-	209,530
Income tax	-	-	-	-	-	(41,691)
Net profit	-	-	-	-	-	167,839
EBIT	68,211	12,900	74,492	1,551	11,961	169,115
Depreciation and amortisation	82,517	19,315	25,332	28,468	36,506	192,138
Impairment losses	-	-	-	-	-	-
EBITDA	150,728	32,215	99,824	30,019	48,467	361,253

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

Operating segments' assets and liabilities as at June 30th 2022 (*unaudited*)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	10,293,118	6,023,369	2,186,818	3,225,798	1,087,168	22,816,271
Unallocated assets	-	-	-	-	-	1,930,759
Investments in associates	-	-	-	-	-	85,025
Total assets	10,293,118	6,023,369	2,186,818	3,225,798	1,087,168	24,832,055
Segment's liabilities	4,317,374	3,426,928	331,989	1,862,694	150,914	10,089,899
Unallocated liabilities	-	-	-	-	-	3,822,433
Total liabilities	4,317,374	3,426,928	331,989	1,862,694	150,914	13,912,332

Operating segments' assets and liabilities as at December 31st 2021 (*audited*)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	8,665,117	4,658,001	1,964,011	3,130,221	1,515,944	19,933,294
Unallocated assets	-	-	-	-	-	3,618,753
Investments in associates	-	-	-	-	-	92,658
Total assets	8,665,117	4,658,001	1,964,011	3,130,221	1,515,944	23,644,705
Segment's liabilities	5,269,655	2,507,114	354,415	3,070,824	689,302	11,891,310
Unallocated liabilities	-	-	-	-	-	2,821,228
Total liabilities	5,269,655	2,507,114	354,415	3,070,824	689,302	14,712,538

Other segmental information for the six months ended June 30th 2022 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Expenditure on property, plant and equipment	166,279	926,644	44,026	97,762	67,628	1,302,339
Expenditure on investment property	-	-	-	-	28	28
Expenditure on intangible assets	53	2,954	15	705	2,921	6,648
Unallocated expenditure	-	-	-	-	-	5,678
Total expenditure	166,332	929,598	44,041	98,467	70,577	1,314,693
Segment's depreciation and amortisation	165,785	31,206	44,324	55,143	62,678	359,136
Total depreciation and amortisation	165,785	31,206	44,324	55,143	62,678	359,136

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

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Expenditure on property, plant and equipment	246,164	623,702	44,430	410,352	39,742	1,364,390
Expenditure on investment property	-	-	-	-	3	3
Expenditure on intangible assets	697	1,048	136	10,242	701	12,824
Unallocated expenditure	-	-	-	-	-	10,928
Total expenditure	246,861	624,750	44,566	420,594	40,446	1,388,145
Segment's depreciation and amortisation	165,540	38,445	50,285	56,491	73,037	383,798
Total depreciation and amortisation	165,540	38,445	50,285	56,491	73,037	383,798

Geographical areas

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

Revenue

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Poland	7,001,680	3,051,260	3,169,821	1,418,065
Germany	1,242,551	751,946	644,084	389,597
Other EU countries	3,172,633	1,682,498	1,669,679	831,958
Asia	183,381	162,366	92,242	74,551
South America	298,081	149,724	159,126	90,671
Other countries	1,338,606	736,861	674,817	367,831
	13,236,932	6,534,655	6,409,769	3,172,673

No single trading partner accounted for more than 10% of revenue in the first half of 2022 or the first half of 2021.

3.2. Impairment testing

As at June 30th 2022, two of the external impairment indicators listed in par. 12 of IAS 36 Impairment of Assets were identified,

- i.e., the carrying amount of the Parent's net assets was higher than its market capitalisation,
- market interest rates increased during the period and the increase affected the discount rate applied to calculate the value in use of cash-generating units, reducing their value.

Therefore, the Parent and the key subsidiaries reviewed the validity of the assumptions adopted for previous impairment tests and the results of those tests.

The analysis showed that:

- the adopted strategy and the key assumptions did not change,
- the definition of cash generating units (CGUs) within the Group companies and the value of assets of each CGU did not change materially relative to the respective amounts as at December 31st 2021,
- the cost dynamics were to a large extent reflected on the income side,
- for the majority of CGUs EBITDA for the six months ended June 30th 2022 was higher than planned, as was consolidated EBITDA,
- the projected financial results for 2022 for the majority of the Group's CGUs were also higher than the planned results for the period underlying the impairment tests at the end of 2021.

The risk-free interest rate (yield on 10-year Treasury bonds) rose from 3.64% at the end of 2021 to 6.87% at the end of June 2022. This drove up the weighted average cost of capital for the Grupa Azoty Group, which amounted to:

- for the Fertilizers CGU - 13.18% for the period of detailed projections and 10.40% for the residual period,
- for the Plastics CGU - 12.21% for the period of detailed projections and 9.49% for the residual period,
- for the other CGUs - 12.34% for the period of detailed projections and 9.59% for the residual period.

The lower discount rate in the residual period follows from the assumption that the current high yield on 10-year Treasury bonds is chiefly due to high inflation. Assuming that in the long term inflation rates will return to a level consistent with the inflation target of the National Bank of Poland (2.5%), the bond yields will also decrease. The increase in discount rates reduced the recoverable amount of individual CGUs. In the case of some CGUs, the higher discount rates did not reduce their recoverable amount to below the carrying amount. As a result of an analysis of the effect of the higher discount rates and other financial parameters updated as at June 30th 2022 relative to the end of 2021, an excess of the recoverable amount over the carrying amount of assets was also identified for some of the remaining CGUs. The key financial parameters included: foreign exchange rates, net changes in working capital, forecast revenue and expenses for the period July-December 2022, as well as forecasts of the prices of raw materials and products (including benzene, phenol, sulfur, coal, electricity, CO₂ emission allowances, caprolactam and polyamide) over the entire period covered by the cash flow projection.

For COMPO EXPERT, the weighted average cost of capital of 6.70% was applied, calculated on the basis of financial parameters from the German market (yield on 10-year government bonds, market risk premium for Germany). The change in the approach to calculating the weighted average cost of capital follows from the disparities between changes in financial parameters in Poland and Germany in the first half of 2022. It was considered that since COMPO EXPERT's operations are financed in the euro and its largest production plant is

situated in Germany, keeping the discount rate calculated for the Polish market could result in incorrect estimates of recoverable amount.

With respect to those CGUs for which it was determined, based on the above analysis, that their recoverable amount was higher than their carrying amount, taking into account the above circumstances, as well as the wording of par. 16(b) of IAS 36 Impairment of Assets, decision was made to not prepare a formal estimate of recoverable amounts as at June 30th 2022, considering that the estimates of recoverable amounts determined in previous tests remained valid as at June 30th 2022 and therefore no additional impairment losses were necessary; further, none of the circumstances provided any rationale for reversing impairment losses recognised in prior periods.

With respect to those CGUs for which it was determined, following the analysis, that their recoverable amount was lower than the carrying amount, that is for the Pigments CGU at Grupa Azoty POLICE, the Oxoplast CGU at Grupa Azoty KĘDZIERZYN and all assets of Grupa Azoty KOLTAR, it was decided to prepare formal estimates of recoverable amounts as at June 30th 2022, and the results of the estimates are presented in the table.

Item	Grupa Azoty POLICE	Grupa Azoty KĘDZIERZYN	Grupa Azoty KOLTAR
CGU	<i>Pigments</i>	<i>Oxoplast</i>	
Allocation to CGU Goodwill and Intangible assets with indefinite useful lives	PLN 19,617 thousand	-	PLN 1,720 thousand
Recognition of impairment loss	None	None	None
Reversal of impairment loss	None	None	None
Nominal weighted average cost of capital (WACC) (%)	12.34% for the detailed projection period, 9.59% for the residual period	12.34% for the detailed projection period, 9.59% for the residual period	12.34% for the detailed projection period, 9.59% for the residual period
Key assumptions	<p>Unlimited duration of the CGU, detailed projection period until 2027, residual value with revenue increase at the level of the long-term inflation target of the National Bank of Poland. Production output, sales volumes and margins were assumed at levels similar to past performance. Corporate assets were allocated mainly based on production costs. Corporate assets shared by the Support and Administration functions were allocated to the segments on an indirect basis. It was concluded that the most reasonable way of allocating the corporate-level assets and liabilities was:</p> <ul style="list-style-type: none"> for the Support Area - based on internal cost accounting between business units as in 2021. In 2021, internal settlement prices of products and services produced by the Support Areas were equal to their production costs, in the case of Administration, the allocation key was the same as that applied to account for general and administrative expenses (the share of 	<p>Unlimited duration of the CGU, detailed projection period until 2026, residual value with revenue increase at the level of the long-term inflation target of the National Bank of Poland. The EBITDA margin was assumed at market levels close to those observed in the past, based on forecast price trends.</p> <p>Corporate assets of the Segments not included in the tested CGU (Energy, Other Activities) were not tested separately as the Segments' operations support the tested CGU. Other Segments' expenses (cost of energy utilities, general overheads) were charged to operating profit/loss of the tested CGU, while the Segments' assets were fully allocated to the assets of the tested CGU based on:</p> <ul style="list-style-type: none"> Energy - energy consumption, taking into account assets dedicated to manufacturing products for sale, Other Activities - share of CGU's assets in total assets of all CGUs. 	<p>Unlimited duration of the CGU, detailed projection period until 2026, residual value with revenue increase at the level of the long-term inflation target of the National Bank of Poland. Margins were assumed at the level adopted in short-term financial plans, revenue and expenses indexed to inflation in the subsequent years, taking into account the effects of the implementation of tasks planned as part of the long-term strategy. The adopted inflation rates were based on financial institutions' forecasts and Bloomberg data.</p>

	general and administrative expenses of a given business unit to total general and administrative expenses, based on actual data for 2021).		
Value in use	PLN 389,598 thousand	PLN 518,297 thousand	PLN 86,927 thousand
Excess of value in use over carrying amount of assets	PLN 5,304 thousand	PLN 8,084 thousand	PLN 1,216 thousand

Impairment test of Grupa Azoty POLYOLEFINS shares

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

The model was updated in December 2021 to reflect the modification of the EPC contract schedule and value made following the General Contractor's claim submitted in the second half of 2021, which was analysed and reviewed by the subsidiary. The financial model, updated to account for the negotiated changes, was submitted to the investors and financing institutions together with documentation requiring their approval. Having obtained confirmation from the financing institutions and the required corporate approvals, on January 28th 2022 the subsidiary executed Annex No. 3 to the contract with the General Contractor.

The updated and approved financial model takes into account the provisions of Annex No. 3, in particular a EUR 72.48m increase in the contract price, update of the payment schedule, and extension of the project completion date by six months.

Based on the positive findings of the economic feasibility study carried out on the basis of the financial model referred to above, which Grupa Azoty POLYOLEFINS uses as a recoverable amount estimate for the purposes of asset impairment testing, the determination that assets of the Polimery Police project were not impaired was upheld as at June 30th 2022.

For detailed information on impairment tests and their results, see Note 2 to the Consolidated Financial Statements of the Grupa Azoty Group for the 12 months ended December 31st 2021.

3.3. Dividend

On June 29th 2022, the Parent's Annual General Meeting passed a resolution to allocate the entire amount of the Parent's net profit for the financial year 2021, of PLN 191,789,688.13, to the Parent's reserve funds.

3.4. Seasonality of operations

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

Mineral fertilizers

The first half of each year is the period when demand for fertilizers typically peaks due to fertilizer application in the spring season, which is attributable to the nature of agricultural production technologies. Unfortunately, due to a series of unfavourable developments of a market nature (including record high prices of natural gas affecting the prices of fertilizer products) the demand for fertilizers, although at times dynamic, fell a level lower than in previous years, with sales adjusted to cover current demand from the agricultural sector. The Group follows a policy of mitigating seasonality through optimum volume allocation:

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

Titanium white market

Because of its chief application (as a component of paints and varnishes), titanium white is a seasonal product used in structural construction. The demand for titanium white depends on 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. The first quarter is typically classified as a low season, a run-up to the slow beginning of a high season. However, the purchasing patterns have slightly changed over the last two years, therefore it is difficult to determine when demand will return to the patterns observed in the past.

3.5. Effects of the COVID-19 pandemic

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

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

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

3.6. Impact of the war in Ukraine

Following the invasion of Ukraine by the armed forces of the Russian Federation in February 2022, a number of countries, in particular the countries of the European Union and the United States of America, provided political, military and humanitarian assistance to Ukraine and imposed a number of very extensive economic sanctions on the Russian Federation and the Republic of Belarus, from whose territory the attack on Ukraine also took place. These sanctions include a ban on the sale of dual-use materials and military technology, the exclusion of some Russian banks from the SWIFT international clearing system, the freezing of the Russian Federation's foreign assets, as well as a ban on cooperation with a number of citizens and entities from the Russian Federation.

On February 25th 2022, a coordination team was appointed at the Group in view of the threat to operational safety and continuity of production in connection with Russia's aggression in Ukraine. The team comprises organisational unit directors/heads in charge of key areas of the Company's operations, in particular production, procurement, logistics, as well as support functions: safety, IT, finance, market protection, compliance management and investor relations.

The Group has identified areas of potential risk that may materially affect its future financial results. Below are presented the key areas of risk analysis and their status by the date of authorisation of these financial statements for issue.

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

Natural gas is supplied under a contract with Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG). As described in more detail in [Note 26](#), the gas supply contract with PGNiG in force, as at the reporting date, until October 1st 2022 was on July 7th 2022 extended until September 30th 2023. As announced by PGNiG on April 27th 2022, supplies of natural gas from Russia to Poland were withheld as a result of PGNiG's refusal to make payments for gas in the Russian currency.

As at the date of authorisation of these consolidated financial statements for issue, there were no interruptions in the supply of natural gas to the Group. The Group monitors the situation around gas supplies on an ongoing basis. Contingency scenarios have also been developed in case manufacturing operations would have to be curtailed in the event of a reduction in natural gas supplies, including in particular for reduction of the load on production units and acceleration of annual maintenance shutdowns.

In the context of the strong growth of energy commodity prices after Russia's invasion of Ukraine in February 2022, it should be noted that since the Group purchases natural gas in transactions with fixed delivery prices entered into as part of the natural gas price hedging policy, the impact of the market turbulence on the Group in the first half of 2022 was limited and had no adverse effect on the volume of production. Since mid-June 2022, a strong upward trend in natural gas prices has been observed, from approximately EUR 80/MWh to more than EUR 200/MWh, with the prices significantly above EUR 300/MWh on several days in August 2022. One of the reasons for this increase is the reduction of supplies from the Russian Federation to Germany. High prices of natural gas in the summer season have a material effect on the ability to pass them on to selling prices in the summer season, in particular in the fertilizer segment. Therefore, on August 22nd 2022 the Parent's Management Board decided to temporarily halt or cut production on the main process lines. The subsidiaries Grupa Azoty Zakłady Azotowe Puławy S.A. and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. made similar decisions. For more information, see [Note 26](#).

2. Risk associated with the prices and availability of strategic raw materials supplied from the territory of Ukraine, as well as from the Russian Federation and the Republic of Belarus

This risk relates in particular to the supply of potassium carbonate, and it may materialise due to the military hostilities in Ukraine, the economic and financial sanctions, lower availability, price increases, as well as problems in the area of logistics and financial settlements. Intensive efforts to secure supplies of raw materials from alternative sources have been undertaken and are continuing. As regards propylene, as mentioned in the previous financial statements, supplies from the eastern direction were fully replaced with supplies from alternative sources. As at the date of authorisation of these financial statements for issue, the sanctions did not have any impact on deliveries to the Group companies and no production constraints were identified.

In addition, a major and growing risk is related to the availability of hard coal, which was largely imported from Russia. The imports have been suspended due to the sanctions. Companies of the Grupa Azoty Group did not import hard coal from Russia. Hard coal is the key feedstock for the plants operated by the Group's main companies, necessary to produce process steam for production purposes. The strong increase in natural gas prices triggered growth of electricity prices, which significantly increased the economic feasibility and volumes of coal-fired electricity generation in Europe, translating directly into a major rise in coal consumption. The increased demand for hard coal and lack of coal supplies from Russia have led to a price surge, but also to logistics problems related to ensuring the supply of coal to Europe from sources alternative to Russia.

The Group monitors the situation with respect to securing hard coal supplies by negotiating deliveries with domestic coal producers and looking for alternative import sources. As a result of preventive measures being undertaken, as at the date of authorisation of these financial statements for issue there was no material risk to the continuity of coal supply to the production plants operated by the Group's main companies.

3. Potential risk to timely implementation of projects carried out at the Company and the Grupa Azoty Group due to possible issues related to unavailability or constrained availability of contractor staff following the general mobilisation order in Ukraine.

As at the date of authorisation of these consolidated financial statements for issue, the Parent and its subsidiaries did not observe any significant impact of the risk on their investment and maintenance activities. For information on claims raised on April 22nd 2022 by the general contractor for the "Construction of coal-fired power generating unit" project at Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna ("Grupa Azoty PUŁAWY"), caused by the consequences of the war in Ukraine, see [3.9](#).

4. Higher risk of an increase in financing costs, interest rate rises and depreciation of the Polish currency against the euro and the US dollar sparked by the current economic turbulence

An important direct consequence of the outbreak of war in Ukraine was the rise of concerns in the financial markets, resulting in a significant appreciation of the US dollar and euro exchange rates against the currencies of emerging markets, including Poland. At the same time, the rapid inflation growth that started before the beginning of the war brought about interest rate increases. Those factors increase the currency risk and the cost of debt service in the zloty. The Group has in place a policy for the management of currency and interest rate risks. Despite a decrease in debt following repayment of working capital and term facilities and repayment of 2021 reverse factoring, financing costs rose significantly compared with the first half of the year in the wake of interest rate hikes. Due to the spikes in natural gas prices observed from the end of the second quarter of 2022, temporary production shutdowns and cuts by the Parent and its subsidiaries (Grupa Azoty Zakłady Azotowe Puławy S.A. and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.), as well as forecasts of economic slowdown in Poland and in the eurozone, the Group's liquidity position in subsequent periods may deteriorate, which will result in higher debt and a corresponding increase in financing costs.

In addition to the above detailed risk description, it should be noted that the Parent and its subsidiaries do not hold any material assets in Ukraine, Russia or Belarus. In the first half of 2022, sales to Ukraine accounted for 1.3% of the Grupa Azoty Group's revenue and were mainly sales of mineral fertilizers. Sales to Russia and Belarus did not exceed 0.05% of revenue, with deliveries executed mostly on a pre-paid basis or secured with trade credit insurance policies. Since the outbreak of war in Ukraine, sales of products by the Parent and its subsidiaries to customers in Russia and Belarus have been suspended. Sales to the Ukrainian market have been reduced due to the unavailability of trade receivables insurance and the financial condition of the buyers. Accordingly, the outbreak of the war in Ukraine did not have a material effect on the Group's sales or the value of its assets.

The Grupa Azoty Group is monitoring the political and economic situation caused by Russia's aggression against Ukraine, analysing the impact of these circumstances on the Parent's and Group's business and taking appropriate measures in response.

3.7. Information on sanctions

Sanctions imposed on a minority shareholder of the Parent

On April 6th 2022, Mr Vyacheslav Moshe Kantor, who holds a controlling interest in the Russian chemical company ACRON, was placed on the United Kingdom sanctions list, on April 8th 2022 - on the European Union sanctions list, and on April 25th 2022, together with the entities through which he controls 19.82% of Grupa Azoty shares - on the Polish sanction list. Mr Kantor is a minority shareholder who has no influence over the operations of Grupa Azoty or the right to nominate members of the Parent's governing bodies, and therefore, despite his shareholding, Mr. Kantor does not own or control the Parent within the meaning of Council Regulation (EU) No. 269/2014 of March 17th 2014 on restrictive measures with regard to actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine.

None of the prerequisites for Grupa Azoty S.A. and its subsidiaries to be directly or indirectly subjected to any sanctions are met. Grupa Azoty S.A. and its subsidiaries comply with all sanctions regulations, condemn the Russian aggression and any actions directed against Ukraine and have no relations with the government of the Russian Federation.

Embargo on Russian commodities

A ban on the import of coal from the Russian Federation was introduced by the European Union (under the applicable Council Regulation) on April 8th 2022 and by Poland (under the applicable act) on April 13th 2022. In both cases the relevant legal regulations entered into force. The Polish embargo has been in effect as of April 16th and the EU embargo will become effective as of August 10th 2022.

Those sanctions, together with the increase in coal demand due to high natural gas prices, led to a significant reduction in the availability of thermal coal and a surge in its prices. Coal supplies are further limited by logistics constraints related to handling capacities in ports and railway transport capacities. This risk may have a material effect on the Group's operations in subsequent periods.

3.8. Industrial failure at Grupa Azoty POLICE

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

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

3.9. Other information

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

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

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

On June 1st 2022, Polimex Mostostal S.A. applied for extension of the contract until June 30th 2023.

By a letter dated May 13th 2022, Grupa Azoty PUŁAWY requested the contractor to remedy certain deficiencies in the application and submit detailed documentation along with relevant evidence.

Work, involving the Legal Adviser, the Contract Engineer and an independent expert, is now under way to review those additionally submitted documents.

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

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

On May 18th 2022, Grupa Azoty PUŁAWY received a private ruling from the Head of the National Revenue Information on the rules of using a tax credit resulting from the permit held by the Company in connection with the project to construct a plant for the manufacturing of granulated fertilizers based on ammonium nitrate in a Special Economic Zone. The result for the period includes the tax credit due to the Company, related to the execution of the second stage of construction of the plant for the manufacturing of granulated fertilizers based on ammonium nitrate.

3.10. Notes

Note 1. Revenue from contracts with customers

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Revenue from sale of products and services	13,023,607	6,383,637	6,306,705	3,103,491
Revenue from sale of merchandise and materials	211,254	146,305	101,430	64,801
Revenue from sale of property rights	-	2,880	-	2,758
Revenue from sale of licences	2,071	1,833	1,634	1,623
	13,236,932	6,534,655	6,409,769	3,172,673

In the first half of 2022, the Grupa Azoty Group generated revenue of PLN 13,237m, an increase of 103% (PLN 6,702year on year). The key driver of the increase are higher product prices due to rising prices of raw materials, including mainly record-high gas prices determined by the availability of gas on the European market and Russia's supply policy. In addition, the increase in revenue was driven by supply and demand imbalance (limited supply due to limited European production capacities, geopolitical situation leading to disruptions in the supply chain).

For the six months ended June 30th 2022 (unaudited)

Description	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Main product lines						
Revenue from sale of products and services	7,753,499	1,224,791	3,732,184	203,885	109,248	13,023,607
Revenue from sale of merchandise and materials	110,799	-	11,712	58,793	29,950	211,254
Revenue from sale of licences	2,071	-	-	-	-	2,071
	7,866,369	1,224,791	3,743,896	262,678	139,198	13,236,932
Geographical regions						
Poland	4,848,292	134,160	1,641,461	262,678	115,089	7,001,680
Germany	451,309	474,637	307,170	-	9,435	1,242,551
Other EU countries	1,345,987	520,393	1,294,555	-	11,698	3,172,633
Asia	152,984	20,177	8,290	-	1,930	183,381
South America	281,473	7,233	9,375	-	-	298,081
Other countries	786,324	68,191	483,045	-	1,046	1,338,606
	7,866,369	1,224,791	3,743,896	262,678	139,198	13,236,932
Customer type						
Legal persons	7,820,837	1,224,791	3,743,719	262,153	135,475	13,186,975
Individuals	45,532	-	177	525	3,723	49,957
	7,866,369	1,224,791	3,743,896	262,678	139,198	13,236,932
Agreement type						
Fixed-price contracts	2,362,471	1,215,551	732,802	120,781	89,775	4,521,380
Time-and-materials contracts	-	544	-	-	5,383	5,927
Other	5,503,898	8,696	3,011,094	141,897	44,040	8,709,625
	7,866,369	1,224,791	3,743,896	262,678	139,198	13,236,932
Customer relations						
Long-term	2,758,545	218,880	1,366,857	177,153	38,545	4,559,980
Short-term	5,107,824	1,005,911	2,377,039	85,525	100,653	8,676,952
	7,866,369	1,224,791	3,743,896	262,678	139,198	13,236,932
Revenue recognition timing						
Revenue recognised at a point in time	7,866,369	1,224,791	3,743,896	262,678	133,424	13,231,158
Revenue recognised over time	-	-	-	-	5,774	5,774
	7,866,369	1,224,791	3,743,896	262,678	139,198	13,236,932
Sale channels						
Direct sales	2,899,950	923,411	3,482,326	242,436	137,031	7,685,154
Intermediated sales	4,966,419	301,380	261,570	20,242	2,167	5,551,778
	7,866,369	1,224,791	3,743,896	262,678	139,198	13,236,932

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

Description	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Main product lines						
Revenue from sale of products and services	3,574,970	842,078	1,701,873	130,027	134,689	6,383,637
Revenue from sale of merchandise and materials	83,778	-	9,843	35,097	17,587	146,305
Revenue from sale of property rights	-	77	-	2,803	-	2,880
Revenue from sale of licences	1,833	-	-	-	-	1,833
	3,660,581	842,155	1,711,716	167,927	152,276	6,534,655
Geographical regions						
Poland	1,942,715	109,982	700,342	167,927	130,294	3,051,260
Germany	246,884	318,804	183,780	-	2,478	751,946
Other EU countries	762,364	312,696	594,673	-	12,765	1,682,498
Asia	112,893	45,185	4,225	-	63	162,366
South America	132,773	10,536	6,415	-	-	149,724
Other countries	462,952	44,952	222,281	-	6,676	736,861
	3,660,581	842,155	1,711,716	167,927	152,276	6,534,655
Customer type						
Legal persons	3,643,834	842,155	1,711,619	167,465	150,167	6,515,240
Individuals	16,747	-	97	462	2,109	19,415
	3,660,581	842,155	1,711,716	167,927	152,276	6,534,655
Agreement type						
Fixed-price contracts	912,472	216,150	294,390	78,989	64,870	1,566,871
Time-and-materials contracts	-	606,465	-	-	56,850	663,315
Other	2,748,109	19,540	1,417,326	88,938	30,556	4,304,469
	3,660,581	842,155	1,711,716	167,927	152,276	6,534,655
Customer relations						
Long-term	1,291,922	327,887	548,131	129,844	47,232	2,345,016
Short-term	2,368,659	514,268	1,163,585	38,083	105,044	4,189,639
	3,660,581	842,155	1,711,716	167,927	152,276	6,534,655
Revenue recognition timing						
Revenue recognised at a point in time	3,660,581	842,155	1,711,716	167,927	78,971	6,461,350
Revenue recognised over time	-	-	-	-	73,305	73,305
	3,660,581	842,155	1,711,716	167,927	152,276	6,534,655
Sale channels						
Direct sales	1,409,657	621,490	1,584,423	159,831	147,277	3,922,678
Intermediated sales	2,250,924	220,665	127,293	8,096	4,999	2,611,977
	3,660,581	842,155	1,711,716	167,927	152,276	6,534,655

Note 2. Operating expenses

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Depreciation and amortisation	356,928	381,460	179,686	190,946
Raw materials and consumables used	8,880,790	3,871,695	4,452,228	1,950,689
Services	807,024	639,788	413,932	330,329
Taxes and charges	365,395	294,261	178,890	100,138
Salaries and wages	809,897	758,838	424,018	408,050
Social security and other employee benefits	220,843	198,297	114,839	102,544
Other	79,814	78,698	45,874	47,544
Costs by nature of expense	11,520,691	6,223,037	5,809,467	3,130,240
Change in inventories of finished goods (+/-)	(505,047)	(137,063)	(457,318)	(144,877)
Work performed by the entity and capitalised (-)	(142,668)	(53,206)	(80,141)	(22,866)
Selling and distribution expenses (-)	(612,279)	(492,393)	(309,276)	(242,638)
Administrative expenses (-)	(465,709)	(407,570)	(252,515)	(214,919)
Cost of merchandise and materials sold	138,972	111,259	68,512	45,253
Cost of sales	9,933,960	5,244,064	4,778,729	2,550,193
including excise duty	2,860	2,566	1,061	1,209

The individual items of operating expenses changed year on year mainly as a result of:

- raw materials and consumables used - higher prices of mainly gas, petroleum-derived raw materials, phosphate rock, potassium chloride and electricity purchased, with reduced consumption volumes,
- services - higher costs of transport services as a result of an increase in the costs of delivery handling and subcontractor services used to carry out maintenance works,
- taxes and charges - increase costs related to CO₂ emission allowances,
- salaries and wages - increase due to higher employee benefits.

Note 3. Other income

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Reversed impairment losses - property, plant and equipment	3	-	2	-
Reversed impairment losses - other receivables	5,093	282	4,795	142
Income from lease of investment property	7,592	6,443	4,431	3,342
Provisions reversed	716	1,501	257	1,422
Received compensation	5,938	5,080	2,937	3,276
Government grants	8,945	7,292	5,163	3,851
Other	14,430	8,938	10,704	8,995
	42,717	29,536	28,289	21,028

Note 4. Other expenses

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Loss on disposal of property, plant and equipment, intangible assets, and right-of-use assets	5,543	8,147	5,543	(507)
Recognised impairment losses - property, plant and equipment	1,424	859	169	224
Recognised impairment losses - investment property	90	131	-	131
Recognised impairment losses - other receivables	439	571	385	398
Investment property maintenance costs	7,256	6,816	3,708	3,617
finances and compensations,	2,547	1,684	1,732	1,224
Downtime costs	809	833	399	413
Failure recovery costs	8,102	4,138	3,670	1,705
Recognised provisions	16,282	5,318	14,005	2,553
Other expenses	10,877	9,126	8,740	7,078
	53,369	37,623	38,351	16,836

Note 5. Finance income

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Interest on bank deposits	7,323	-	5,424	-
Interest on cash pooling and loans	5	-	(4)	-
Interest on trade receivables	2,522	1,183	1,438	670
Other interest income	480	209	340	145
Foreign exchange gains	-	57,327	-	38,232
Discount on provisions and loans	4,567	729	3,882	696
Dividends received	-	193	-	193
Other finance income	1,432	1,839	662	(500)
	16,329	61,480	11,742	39,436

Note 6. Finance costs

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Interest on bank term and overdraft facilities	55,847	24,021	32,057	13,586
Interest on cash pooling and loans	1,038	928	2	415
Interest on factoring, discounting and lease liabilities	11,220	9,755	5,709	5,211
Interest on trade payables	1,401	599	885	620
Interest on public charges	152	178	20	85
Other interest expense	7,274	3,148	7,180	2,880
Loss on sale of financial investments	-	-	(152)	-
Losses on measurement of financial assets and liabilities at fair value through profit or loss	16,150	70,286	2,809	(18,137)
Foreign exchange losses	110,673	-	82,966	-
Unwind of discount on provisions and loans	180	558	(21)	467
Sureties	-	602	-	602
Other finance costs:	-	388	79	(2,137)
	203,935	110,463	131,534	3,592

The line item 'Losses on measurement of financial assets and liabilities at fair value through profit or loss' includes the effect of the measurement of currency risk hedging instruments that were not designated as hedging instruments under hedge accounting. Of this amount, PLN 28m represents the negative measurement of financial instruments executed by Grupa Azoty POLYOLEFINS in connection with implementation of the Polimery Police project.

Foreign exchange losses of PLN 110,673 thousand (first half of 2021: foreign exchange gains of PLN 57,327 thousand presented under finance income) comprised:

- net realised foreign exchange losses of PLN 3,781 thousand (first half of 2021: net realised foreign exchange gains of PLN 12,609 thousand),
- net foreign exchange losses on realised transactions in currency derivatives of PLN 55,154 thousand (first half of 2021: net foreign exchange gains on realised transactions in currency derivatives of PLN 34,879 thousand),
- net foreign exchange losses on measurement of receivables and liabilities denominated in foreign currencies of PLN 52,448 thousand as at the reporting date (first half of 2021: net foreign exchange gains on measurement of receivables and liabilities denominated in foreign currencies of PLN 12,432 thousand as at the reporting date),
- net foreign exchange gains on measurement of other items of PLN 710 thousand as at the reporting date (first half of 2021: net foreign exchange losses on measurement of other items of PLN 2,593 thousand as at the reporting date).

Note 7. Income tax

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

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Current income tax:				
Current income tax expense	344,918	64,758	167,947	18,469
Adjustments to current income tax for previous years	(3,552)	(3,834)	(3,552)	(3,834)
	341,366	60,924	164,395	14,635
Deferred income tax:				
Deferred income tax associated with origination and reversal of temporary differences	11,261	26,964	(20,180)	27,056
	11,261	26,964	(20,180)	27,056
Income tax expense disclosed in the statement of profit or loss	352,627	87,888	144,215	41,691

Note 7.2. Effective tax rate

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Profit before tax	2,034,587	341,604	943,805	209,530
Tax calculated at the applicable tax rate	386,572	64,905	179,323	39,811
Effect of tax rates applicable in foreign jurisdictions	16,491	6,557	8,245	3,278
Effect of tax-exempt income	(8,309)	(8,978)	(4,152)	(4,489)
Effect of non tax-deductible expenses and temporary differences for which no deferred tax is recognised	6,165	12,308	3,031	6,154
Effect of tax losses deducted in the period	512	951	256	475
Public aid used in the reporting period, including public aid related to business activity conducted in the Special Economic Zone	(3,631)	37	(1,017)	18
Recognition of state aid deductible in future periods	(79,883)	333	(40,900)	167
Other	34,710	11,775	(571)	(3,723)
Income tax expense disclosed in the statement of profit or loss	352,627	87,888	144,215	41,691
Effective tax rate	17.3%	25.7%	15.3%	19.9%

Note 7.3. Income tax expense disclosed in other comprehensive income

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Tax on items that will not be reclassified to profit or loss (+/-)				
Actuarial gains from defined benefit plans	3,134	2,252	3,134	2,252
Other income	(488)	-	(488)	-
Tax on items that are or may be reclassified to profit or loss (+/-)	(1,927)	3,591	(405)	5,162
Measurement of hedging instruments through hedge accounting	(1,927)	3,591	(405)	5,162
Income tax expense disclosed in other comprehensive income	1,207	5,843	2,729	7,414

Note 7.4. Deferred tax assets and liabilities

	Assets (-)		Liabilities (+)	
	Jun 30 2022 <i>unaudited</i>	Dec 31 2021 <i>audited</i>	Jun 30 2022 <i>unaudited</i>	Dec 31 2021 <i>audited</i>
Property, plant and equipment	(100,897)	(105,114)	458,648	438,738
Right-of-use assets	(340)	(471)	124,010	122,804
Investment property	(1,883)	(1,823)	15,026	15,272
Intangible assets	(6,385)	(3,885)	246,277	246,241
Financial assets	(13,306)	(13,869)	2,938	2,950
Inventories and property rights	(30,220)	(22,496)	183,266	163,958
Trade and other receivables	(13,403)	(12,756)	24,756	10,160
Trade and other payables	(219,892)	(255,620)	1,863	921
Other assets	(327)	(5,977)	51	56
Employee benefits	(97,422)	(102,227)	588	573
Provisions	(69,689)	(62,993)	9,090	6,221
Borrowings	(8,579)	(5,547)	3,934	1,556
Other financial liabilities, including leases	(64,282)	(59,723)	(211)	235
Derivative financial instruments	(1,819)	-	45	-
Measurement of hedging instruments through hedge accounting	(11,138)	(9,211)	3,092	3,091
State aid deductible in future periods	(75,052)	(56,369)	-	-
Tax losses	(3,268)	(4,419)	-	-
Other	(43,223)	(1,074)	9,261	15,593
Deferred tax assets (-)/liabilities (+)	(761,125)	(723,574)	1,082,634	1,028,369
Offset	658,908	618,128	(658,908)	(618,128)
Deferred tax assets (-)/liabilities (+) recognised in the statement of financial position	(102,217)	(105,446)	423,726	410,241

Note 8. Earnings per share:

Basic earnings per share were calculated based on net profit and the weighted average number of shares outstanding in the reporting period. The amounts were determined as follows:

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
Net profit	1,569,399	230,645	715,806	143,075
Number of shares at beginning of period	99,195,484	99,195,484	99,195,484	99,195,484
Number of shares at end of period	99,195,484	99,195,484	99,195,484	99,195,484
Weighted average number of shares in the period	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per share:				
Basic (PLN)	15.82	2.33	7.22	1.44
Diluted (PLN)	15.82	2.33	7.22	1.44

Diluted earnings per share

There are no potentially dilutive shares which would cause dilution of earnings per share.

Note 9. Property, plant and equipment

Net carrying amount of property, plant and equipment

	Land	Mineral deposits	Buildings and structures	Plant and equipment	Vehicles	Other property plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount as at Jan 1 2022	59,559	4,935	2,835,974	3,604,945	123,248	165,455	5,163,569	11,957,685
Increase, including:	724	-	122,750	211,440	12,457	26,257	1,346,522	1,720,150
Purchase, production, commissioning	-	-	97,679	201,861	11,668	25,968	1,319,669	1,656,845
Reversal and use of impairment losses	21	-	7	-	78	-	4	110
Reclassification from other items	-	-	195	4,421	711	60	25,445	30,832
Translation of exchange differences	703	-	4,440	4,656	-	229	496	10,524
Increase in liabilities related to remediation costs	-	-	20,424	-	-	-	-	20,424
Other increase	-	-	5	502	-	-	908	1,415
Decrease, including: (-)	(57)	(827)	(77,413)	(226,893)	(16,903)	(14,841)	(352,612)	(689,546)
Depreciation	-	(827)	(71,724)	(205,972)	(8,259)	(14,806)	-	(301,588)
Sale, liquidation	(57)	-	(743)	(771)	(8,547)	(33)	(1,164)	(11,315)
Commissioning	-	-	-	-	-	-	(340,844)	(340,844)
Recognition of impairment loss	-	-	(332)	(52)	-	(2)	(1,038)	(1,424)
Reclassification to investment property	-	-	(1,172)	-	-	-	(360)	(1,532)
Reclassification to other assets	-	-	(3,370)	(20,098)	(59)	-	(1,667)	(25,194)
Translation of exchange differences	-	-	-	-	(38)	-	-	(38)
Decrease in liabilities related to remediation costs	-	-	(72)	-	-	-	-	(72)
Other decrease	-	-	-	-	-	-	(7,539)	(7,539)
Net carrying amount as at Jun 30 2022 (unaudited)	60,226	4,108	2,881,311	3,589,492	118,802	176,871	6,157,479	12,988,289

For information on impairment tests performed and recognition of impairment losses on property, plant and equipment, see Section [3.2 of](#) these interim condensed consolidated financial statements.

The increase in property, plant and equipment under construction reflected mainly the expenditure made on strategic investment projects, in particular *Polimery Police*, as well as capex projects undertaken by Grupa Azoty PUŁAWY.

Net carrying amount of property, plant and equipment

	Land	Mineral deposits	Buildings and structures	Plant and equipment	Vehicles	Other property plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount as at Jan 1 2021	59,391	6,655	2,777,833	3,679,994	120,712	162,216	3,766,303	10,573,104
Increase, including:	325	-	304,755	464,933	32,447	45,885	2,351,315	3,199,660
Purchase, production, commissioning	222	-	301,550	457,242	27,625	45,049	2,342,841	3,174,529
Reversal and use of impairment losses	8	-	1,086	69	1,117	6	1,388	3,674
Reclassification from investment property	-	-	415	-	-	-	-	415
Reclassification from other items	95	-	702	7,389	2,972	824	-	11,982
Translation of exchange differences	-	-	-	-	-	-	67	67
Other increase	-	-	1,002	233	733	6	7,019	8,993
Decrease, including: (-)	(157)	(1,720)	(246,614)	(539,982)	(29,911)	(42,646)	(954,049)	(1,815,079)
Depreciation	-	(1,720)	(154,054)	(433,977)	(24,005)	(29,629)	-	(643,385)
Sale, liquidation	(23)	-	(1,670)	(3,981)	(2,598)	(107)	(10)	(8,389)
Commissioning	-	-	-	-	-	-	(842,197)	(842,197)
Recognition of impairment loss	-	-	(84,670)	(100,143)	(2,731)	(12,668)	(94,114)	(294,326)
Reclassification to investment property	-	-	(729)	-	-	-	(546)	(1,275)
Reclassification to other assets	-	-	-	(686)	-	(183)	(6,688)	(7,557)
Translation of exchange differences	(134)	-	(886)	(951)	(22)	(58)	-	(2,051)
Other decrease	-	-	(4,605)	(244)	(555)	(1)	(10,494)	(15,899)
Net carrying amount as at Dec 31 2021 (audited)	59,559	4,935	2,835,974	3,604,945	123,248	165,455	5,163,569	11,957,685

Note 10. Right-of-use assets

Carrying amount

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Perpetual usufruct of land	646,005	650,983
Land	471	462
Buildings and structures	30,255	33,395
Plant and equipment	72,694	78,397
Vehicles	66,094	41,458
Other fixtures and fittings, tools and equipment	726	168
	816,245	804,863
Right-of-use assets under construction	8	-
	816,253	804,863

Note 11. Intangible assets

Carrying amount

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Trademarks, including:	286,632	283,188
<i>recognised upon acquisition of Grupa Azoty POLICE</i>	55,073	55,073
<i>recognised upon acquisition of Grupa Azoty PULAWY</i>	33,100	33,100
<i>recognised upon acquisition of COMPO EXPERT</i>	198,459	195,015
Corporate logo recognised upon acquisition of COMPO EXPERT	129,475	127,234
Customer portfolio, including	308,195	312,033
<i>recognised upon acquisition of Grupa Azoty PULAWY</i>	24	24
<i>recognised upon acquisition of COMPO EXPERT</i>	308,171	312,009
Patents and licences	76,603	76,338
Software	22,003	24,046
Development costs	3,918	4,224
Other intangible assets	49,297	51,003
Intangible assets under development	124,734	120,548
	1,000,857	998,614

Note 12. Property rights

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Emission allowances	1,933,736	1,558,457
Energy certificates	10,558	1,715
Total property rights	1,944,294	1,560,172

The PLN 384,122 thousand increase in the value of **property rights** was due to the settlement of futures contracts used to redeem emissions for 2021, adjusted by redemption related to the settlement of emissions for 2021.

Note 12.1. CO₂ emission allowances

CO₂ emission allowances held (number of units)

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Balance at beginning of period (units held)	5,277,013	4,742,055
Allocated	4,728,688	4,774,325
Purchased	2,799,553	2,890,048
Redeemed	(7,441,163)	(7,129,415)
Balance at end of period (units held)	5,364,091	5,277,013
Free allocation of CO ₂ emission allowances expected to be received for 2022 (recognised as receivables)	143,584	-
Emissions in the reporting period	3,536,880	7,249,936

By June 30th 2022, free CO₂ emission allowances due to the Group for 2022 were not fully credited to the EU ETS installation accounts. Of the allowances awarded, at least 18,125 will be returned. The excess emission allowances will be returned once the European Commission has approved the adjusted final annual quantity of emission allowances allocated to the installations for 2022.

Note 13. Trade and other receivables

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Trade receivables - related parties	5,138	1,972
Trade receivables - other entities	2,306,036	1,777,084
Receivables from state budget, except for income tax	206,435	529,637
Amounts receivable under construction contracts	3,707	9,357
Prepayments for deliveries of property, plant and equipment and intangible assets	165,768	214,286
Prepayments for deliveries of materials, goods and services	43,477	33,685
Accrued expenses	480,472	355,720
Other receivables	198,807	74,390
	3,409,840	2,996,131
including		
Long-term	573,999	542,552
Short-term	2,835,841	2,453,579
	3,409,840	2,996,131

The increase in short-term receivables is attributable to higher sales volumes with deferred payment dates, with a concurrent increase in selling prices of products, and is an effect of recognising receivables from CO₂ emission allowances expected to be received.

Note 14. Cash

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Cash in hand	582	315
Bank balances in PLN	182,282	192,399
Bank balances in foreign currencies (translated to PLN)	221,600	148,496
Bank deposits – up to 3 months	458,800	2,008,635
Other bank deposits	3,225	6,830
Cash and cash equivalents under cash pooling	-	5,518
Other	492	-
	866,981	2,362,193
Cash and cash equivalents in the statement of financial position	866,981	2,362,193
Cash and cash equivalents in the statement of cash flows	866,981	2,362,193

As at June 30th 2022, the amount of funds in the split payment account was PLN 14,887 thousand (December 31st 2021: PLN 64,442 thousand) and was included in the total amount of cash at banks (PLN) of PLN 182,282 thousand.

Note 15. Borrowings

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Bank borrowings	4,365,330	3,954,499
Loans	539,342	504,647
	4,904,672	4,459,146
including		
Long-term	4,218,574	3,640,671
Short-term	686,098	818,475
	4,904,672	4,459,146

In the first half of 2022, the Group paid its borrowing-related liabilities when due. There is no threat to the Group's ability to continue the timely service of its debt.

The Grupa Azoty Group has access to umbrella overdraft limits under PLN-, EUR- and USD- current-account facilities covered by 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. Additionally, the Group has access to bilateral overdraft limits and multi-purpose facilities.

The amount of limits under overdraft and multi-purpose credit facilities available to the Group as at June 30th 2022 was PLN 1,023m. In addition, as at the reporting date, the Group had access to corporate credit facilities of approximately PLN 1,111m. The Group also had access to special purpose loans totalling PLN 18m.

As at June 30th 2022, the subsidiary Grupa Azoty POLYOLEFINS had limits approximately PLN 4,375m under special-purpose credit facilities to finance the Polimery Police project. The facilities are secured on the assets of Grupa Azoty POLYOLEFINS.

In connection with the Credit Facilities Agreement, the Parent and the subsidiary Grupa Azoty POLICE entered into the following agreements:

- with Grupa Azoty POLYOLEFINS and Bank Polska Kasa Opieki S.A. (acting as the facility agent and security agent) - a support loan provision guarantee agreement for up to EUR 105 m in the form of a subordinated loan, the main objective of which is to cover a potential liquidity deficit, construction cost overruns, operating costs and debt service costs in the operation phase,
- with Bank Pekao S.A. (as the assignee, acting as the security agent for the Bank Syndicate) - an agreement for the assignment of rights under:
 - loans advanced to Grupa Azoty POLYOLEFINS by the Parent, up to PLN 405,325 thousand (as at June 30th 2022 following capitalisation), and by Grupa Azoty POLICE, up to PLN 457,068 thousand (as at June 30th 2022 after capitalisation), and promissory notes issued by Grupa Azoty POLYOLEFINS to the Parent and Grupa Azoty POLICE as security for the loans,
 - a support loan guarantee for up to EUR 105m and promissory notes issued by Grupa Azoty POLYOLEFINS in favour of the Parent and Grupa Azoty POLICE as security for the support loan, jointly as security for parallel debt under the Intercreditor Agreement, executed in connection with the Credit Facility Agreement between the Bank Syndicate and Grupa Azoty POLYOLEFINS on May 30th 2020, covering term loans of up to EUR 487,800 thousand and USD 537,700 thousand, a USD 180m revolving credit facility, and

- a VAT credit facility of up to PLN 150m,
- in the first half of 2022 and up to the date of authorisation of these consolidated financial statements for issue, no circumstances arose whereby payment under the loan guarantee or the exercise of rights under the aforementioned rights transfer agreement could be sought.

As at June 30th 2022, under the agreements specified above the Group had access to total credit limits of approximately PLN 6,527m.

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.

Security for borrowings

The corporate financing package is secured through harmonised sureties and guarantees granted by key subsidiaries, i.e. Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN. Each of the above-mentioned subsidiaries provided sureties/guarantees up to 1/3 of 120% of the value of the loan agreements, including:

- the PLN 3,000m revolving credit facility and term credit facility (total sureties of up to PLN 3,600 million),
- the PLN 310m overdraft credit facility from PKO BP (total sureties of up to PLN 372m),
- the PLN 240m multi-purpose credit facility from PKO BP (total sureties of up to PLN 288m),
- the PLN 550m loan facility from the European Investment Bank (total guarantees of up to PLN 660m),
- the EUR 145m loan facility from the European Investment Bank (total guarantees of up to EUR 174m),
- the PLN 150m loan facility from the European Bank for Reconstruction and Development (total guarantees of up to PLN 180m),
- the PLN 500m loan facility from the European Bank for Reconstruction and Development (total guarantees of up to PLN 600m).

Additionally, certain subsidiaries of the Group have mortgages and registered pledges securing their bank credits and loans contracts. Such mortgages and pledges do not violate the covenants included in the above-mentioned corporate financing package.

Maturity of borrowings as at June 30th 2022

Currency	Reference rate	Amount as at the reporting date in foreign currency	Amount as at the reporting date in PLN	Up to 1 year	1-2 years	2-5 years	Over 5 years
PLN	variable/not applicable	-	2,186,728	433,161	370,866	1,046,410	336,291
EUR	variable / fixed	407,429	1,880,822	219,728	187,315	752,165	721,614
USD	variable	198,293	806,253	2,340	-	-	803,913
BRL	fixed	35,883	30,869	30,869	-	-	-
			4,904,672	686,098	558,181	1,798,575	1,861,818

Maturity of borrowings as at December 31st 2021

Currency	Reference rate	Amount as at the reporting date in foreign currency	Amount as at the reporting date in PLN	Up to 1 year	1-2 years	2-5 years	Over 5 years
PLN	variable/not applicable	-	2,339,491	406,984	368,408	1,198,113	365,986
EUR	variable / fixed	374,795	1,709,026	390,071	191,715	777,879	349,361
USD	variable	94,636	389,214	-	-	-	389,214
BRL	fixed	29,415	21,415	21,415	-	-	-
			4,459,146	818,470	560,123	1,975,992	1,104,561

As part of debt under borrowings maturing in up to one year from the reporting date, i.e., by June 30th 2023, the Group presented PLN-, USD- and EUR-denominated debt under umbrella working capital facilities as at June 30th 2022, of PLN 380 thousand (December 31st 2021: PLN 2,600 thousand).

The umbrella working capital facility agreements are due to expire on September 30th 2022. The Group plans to extend the use of these instruments.

Note 16. Other financial liabilities

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Reverse factoring liabilities	364,137	1,755,695
Other obligations	673,454	633,860
	1,037,591	2,389,555
including		
Long-term	669,954	630,360
Short-term	367,637	1,759,195
	1,037,591	2,389,555

The amount of other financial liabilities is mainly a result of the repayment of reverse factoring liabilities of PLN 1,391,558 thousand and reflects the valuation of financial liabilities resulting from the equity contributions made to Grupa Azoty POLYOLEFINS, taken up by Grupa LOTOS, Hyundai and KIND (increase of PLN 44,060 thousand).

Note 17. Employee benefit obligations

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Pension benefit obligations	202,119	208,670
Jubilee benefit obligations	223,411	228,926
Pensioner Social Fund benefit obligations	13,525	18,551
Other obligations	15,516	21,252
	454,571	477,399
including		
Long-term	398,131	420,136
Short-term	56,440	57,263
	454,571	477,399

The decrease in employee benefit obligations follows from changes in actuarial assumptions, and mainly from an increase in the discount rate (to 6.87%) (December 31st 2021: 3.64%).

Note 18. Provisions

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Provision for litigation	24,368	22,803
Provision for environmental protection	234,069	206,657
Other provisions	60,808	53,879
	319,245	283,339
including		
Long-term	245,813	193,381
Short-term	73,432	89,958
	319,245	283,339

Note 19. Government grants

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Government grants	1,170,419	218,081
including		
Long-term	193,321	196,725
Short-term	977,098	21,356
	1,170,419	218,081

The PLN 955,742 thousand increase in short-term grants was mainly attributable to the recognition of CO₂ emission allowances for 2022, received or expected to be received.

As at June 30th 2022, the amount of grants to be settled under CO₂ emission allowances was PLN 961,714 thousand.

Note 20. Other material changes in the statement of financial position

The PLN 967,927 thousand decrease in short-term **trade and other payables** was mainly attributable to lower prepayments related to CO₂ emission provision following redemption for 2021, and to payment of trade payables.

Note 21. Financial instruments

Categories of financial instruments

Financial assets

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
At fair value through profit or loss	157,603	1,801
At amortised cost	3,053,815	3,987,141
At fair value through other comprehensive income	341,963	255,393
	3,553,381	4,244,335
Recognised in the statement of financial position as:		
Derivative financial instruments	157,603	1,801
Shares	10,346	12,915
Trade and other receivables	2,513,688	1,862,803
Cash and cash equivalents	866,981	2,362,193
Other financial assets	4,763	4,623
	3,553,381	4,244,335

Financial liabilities

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
At fair value through profit or loss	9,568	97,255
At amortised cost	9,660,862	10,784,656
	9,670,430	10,881,911
Recognised in the statement of financial position as:		
Long-term borrowings	4,218,574	3,640,671
Short-term borrowings	686,098	818,475
Derivative financial instruments	9,568	97,255
Trade and other payables	3,297,481	3,527,856
Non-current lease liabilities	358,082	347,159
Current lease liabilities	63,036	60,940
Other non-current financial liabilities	669,954	630,360
Other current financial liabilities	367,637	1,759,195
	9,670,430	10,881,911

Credit risk

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

With respect to trade receivables, it is expected that historical payment data reflects credit risk that will be incurred in future periods. Expected credit losses for this group of counterparties have been estimated using a provision matrix and percentage ratios assigned to specific aging ranges of trade receivables (e.g. receivables claimed in court, receivables from insolvent counterparties) that make it possible to estimate the value of trade receivables that are not expected to be repaid.

If a receivable from a given counterparty is past due by more than 90 days, the Group assumes that the counterparty has probably defaulted on its obligation and recognises an impairment loss for the full amount of the receivable.

For financial assets included in the estimation of expected losses other than trade receivables, the Group measures the risk of default of the counterparties based on ratings assigned by credit rating agencies (e.g. to financial institutions) or ratings assigned using an internal credit rating model (e.g. for intra-group loans) that is appropriately converted to reflect the probability of default. In accordance with IFRS 9, the expected credit loss was calculated taking into account estimates of potential recoveries from collateral obtained and the time value of money.

Trade receivables by business segment

	as at Jun 30 2022 <i>unaudited</i>	as at Dec 31 2021 <i>audited</i>
Agro Fertilizers	1,288,527	813,741
Plastics	291,508	229,340
Chemicals	656,043	624,972
Energy	50,152	64,062
Other Activities	24,944	46,941
	2,311,174	1,779,056

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

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

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

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

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

Fair value of financial instruments

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

- cash and cash equivalents, short-term bank deposits and short-term bank borrowings, factoring and reverse factoring transactions, and sale and discount of receivables - the carrying amount of the instruments approximates their fair value due to their short maturities,
- trade receivables, other receivables and trade payables - the carrying amount of the instruments approximates their fair value due to their short-term nature,

- long-term variable rate borrowings - the carrying amount of the instruments approximates their fair value due to the variable nature of their interest rates.
- long-term fixed rate borrowings - the carrying amount of the instruments amounts to PLN 856,938 thousand, and their fair value is about PLN 806,853 thousand (Level 2 in the hierarchy),
- foreign currency derivatives - the carrying amount of the instruments equals their fair value.

The table below presents financial instruments of the Group, carried at fair value, by levels in the fair value hierarchy, as at June 30th 2022:

Hierarchy level	Level 2	Level 3
Financial assets at fair value, including:	157,603	341,963
at fair value through profit or loss - derivative financial instruments	157,576	-
measured at fair value through other comprehensive income,	27	341,963
<i>shares</i>	-	8,994
<i>trade receivables</i>	-	332,969
<i>derivative financial instruments</i>	27	-
Financial liabilities at fair value, including:	9,568	660,940
at fair value through profit or loss, including:	9,568	660,940
<i>derivative financial instruments</i>	9,568	-
<i>other financial liabilities</i>	-	660,940

The table below presents financial instruments of the Group, carried at fair value, by levels in the fair value hierarchy, as at December 31st 2021:

Hierarchy level	Level 2	Level 3
Financial assets at fair value, including:	1,801	255,393
at fair value through profit or loss - derivative financial instruments	1,801	-
measured at fair value through other comprehensive income,	-	255,393
<i>shares</i>	-	11,563
<i>trade receivables</i>	-	243,830
Financial liabilities at fair value, including:	97,255	616,880
at fair value through profit or loss, including:	97,255	616,880
<i>derivative financial instruments</i>	97,255	-
<i>other financial liabilities</i>	-	616,880

There were no transfers between the levels in the first half of 2022 or in 2021.

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

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

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

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

The fair value of financial instruments presented in Level 2, i.e. foreign currency contracts and interest rate hedges is determined on the basis of measurements carried out by the counterparty banks. The valuations are verified by discounting the expected cash flows from the contracts at market interest rates effective as at the reporting date.

The fair value of financial instruments presented in level III is determined as follows:

- The fair value of short-term trade receivables which are or may be transferred under factoring agreements is presented by the Group as financial assets measured at fair value through other comprehensive income. In the Group's opinion, the fair value of these receivables does not materially differ from their carrying amounts due to their short maturities.
- The fair value of the shares (equity investments) was measured using the discounted cash flow method.

Foreign currency derivatives

As at June 30th 2022, the notional amount of the Group's open foreign currency derivatives (FX Forward) was EUR 84.5m (maturing in 2022 and 2023) and EUR 6.5m under options, maturing in 2022, entered into by Grupa Azoty POLICE.

The total notional amount of Grupa Azoty's currency derivatives was EUR 91m.

In the case of USD, the notional amount of the Group's open FX forwards was USD 12m (with maturities in 2022).

The above foreign currency derivatives include forward contracts to sell an expected excess cash in EUR or, to a lesser extent, USD.

In the six months ended June 30th 2022, Grupa Azoty POLYOLEFINS held and entered into FX forward contracts to buy EUR and PLN for USD to hedge the expected expenditure in EUR and PLN related to contractual payments for the Polimery Police project, to be covered from disbursements under the term facility made available on the basis of the Credit Facilities Agreement.

In the six months ended June 30th 2022, the company replaced with FX forward contracts some of its call options for the purchase of EUR for USD, securing a planned increase in the Polimery Police project costs to be covered with proceeds from the term facility.

As at June 30th 2022, Grupa Azoty POLYOLEFINS had the following open contracts:

- FX forward to buy approximately EUR 175m for USD (hedging expenditure planned to be financed with proceeds from the USD-denominated term facility available under the Credit Facilities Agreement),
- FX forward to buy approximately PLN 138m for USD (hedging expenditure planned to be covered with proceeds from the term facility made available under the Credit Facilities Agreement in USD).

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

As at June 30th 2022, the total result on the measurement of open transactions hedging currency risk executed by the company was PLN -155,559 thousand, including PLN -28,260 thousand attributable to the measurement of transactions designated for hedge accounting purposes.

In the six months ended June 30th 2022, Grupa Azoty POLYOLEFINS was party to IRSs with a zero floor whereby positive values of EURIBOR and USD LIBOR are exchanged for a fixed interest rate. The contracts hedge the planned interest expense on the term facility made available under the Credit Facilities Agreement. They constitute security required under the Credit Facilities Agreement.

As at June 30th 2022, Grupa Azoty POLYOLEFINS had the following open contracts:

- IRS with a zero floor on EURIBOR for a maximum notional amount of approximately EUR 370m (the notional amounts increase and then are amortised in accordance with the Company's expectations regarding the notional amounts resulting from the term facility under the Credit Facilities Agreement in EUR);
- IRS with a zero floor on USD LIBOR for a maximum notional amount of approximately USD 408m (the notional amounts increase and then are amortised in accordance with the Company's expectations regarding the notional amounts resulting from the term facility under the Credit Facilities Agreement in USD).

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

As at June 30th 2022, the total result on the measurement of open IRSs with a zero floor executed by the Company was PLN 312,927 thousand, including PLN 286,040 thousand attributable to the measurement of transactions designated for hedge accounting purposes.

Obligation to repurchase shares in Grupa Azoty POLYOLEFINS from non-controlling shareholders

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

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

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

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

On November 16th 2020, each of the Co-Sponsors entered into a subscription agreement with Grupa Azoty POLYOLEFINS, under which 15,348,963 Series G shares were taken up by Hyundai, 1,052,184 Series G shares - by KIND, and 15,967,352 Series G shares - by Grupa LOTOS. Following the execution of the subscription agreements, the Co-Sponsors made cash contributions to pay for the new shares in Grupa Azoty POLYOLEFINS as follows: Hyundai paid USD 73,000,000 (equivalent to PLN 275,808,600, as translated at the NBP rate for November 16th 2020 (Table 223/A/NBP/2020 of November 16th 2020)), KIND paid USD 5,000,000 (equivalent to PLN 18,891,000, as translated at the NBP rate for November 16th 2020 (Table 223/A/NBP/2020 of November 16th 2020)), and Grupa LOTOS paid PLN 300,000,000.

As at November 16th 2020, the share of non-controlling interests on account of the shares covered by the put option was reduced by PLN 212,426 thousand and the other financial liabilities were increased by PLN 230,126 thousand, with PLN 17,700 thousand recognised in other capital reserves. Subsequent measurement of the recognised liability as at December 31st 2020 was partly charged to property, plant and equipment under construction and partly to profit or loss.

As at June 30th 2022, the Group continued to measure the recognised liability, charging it partly to property, plant and equipment under construction and partly to profit or loss.

The amount of the liability is PLN 282,592 thousand (as at June 30th 2021: PLN 253,270 thousand).

The call option over Grupa Azoty POLYOLEFINS shares granted to the Parent and Grupa Azoty POLICE is a derivative instrument relating to the entity's own equity instrument from the perspective of the Group's consolidated financial statements, and is therefore excluded from the scope of IFRS 9 *Financial Instruments* and not recognised in the financial statements.

For details regarding repurchase of Grupa Azoty POLYOLEFINS shares from non-controlling shareholders, see Note 18.6 to the consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2021.

Recognition of a future obligation to repurchase shares in Grupa Azoty POLYOLEFINS from non-controlling shareholders for subsequent cancellation, involving a rate-of-return stabilisation mechanism

The Shareholders' Agreement provides for additional exit mechanisms for the Co-Sponsors as shareholders of Grupa Azoty POLYOLEFINS. In particular, these mechanisms include a public issue of Grupa Azoty POLYOLEFINS shares; joint sale of Grupa Azoty POLYOLEFINS shares to third-party investors; first refusal rights over Grupa Azoty POLYOLEFINS shares granted to the Original Sponsors; an option for Grupa LOTOS to acquire a majority interest in Grupa Azoty POLYOLEFINS if the co-financing necessary to complete the Polimery Police project is not possible; and the exit mechanism for Grupa LOTOS, Hyundai and KIND, with respect to the shares not covered by the put option and the call option, through repurchase of such shares by Grupa Azoty POLYOLEFINS at fair value for subsequent cancellation. The shares should be repurchased using funds generated and accumulated by Grupa Azoty POLYOLEFINS once the senior debt financing has been fully repaid. The share repurchase is expected after 2035, in line with the current financial model adopted for the Polimery Police project. The repurchase price based on the future fair value of Grupa Azoty POLYOLEFINS shares as at the repurchase date, taking into account earlier dividend payments, will ensure that the Co-Sponsors receive the rate of return specified in the Shareholders' Agreement with respect to the contribution made on November 16th 2020 towards the Grupa Azoty POLYOLEFINS share capital increase, covered by the mechanism. If the rate of return is lower than agreed, the Original Sponsors will be jointly and severally obliged to make supplementary payments to the Co-Sponsors so as to increase the rate of return on the Co-Sponsors' investments covered by the share repurchase-based exit mechanism to the agreed level, but in any case by no more than a specified number of percentage points. Similarly, if the rate of return on the Co-Sponsors' investments in the shares covered by the share repurchase-based exit mechanism exceeds the level expected by the Co-Sponsors, they will be obliged to make payments to the Original Sponsors so as to reduce the rate of return on the Co-Sponsors' investments to the agreed level, but in any case by no more than a specified number of percentage points (the same as in the above-mentioned case where the rate of return on the Co-Sponsors' investments is increased by the Original Sponsors).

In view of the above, the Grupa Azoty POLYOLEFINS shares taken up for by Grupa LOTOS, Hyundai and KIND, which can be bought back in the future for cancellation in accordance with the Shareholders' Agreement, are recognised as a financial liability. As at June 30th 2022, the liability was initially measured at the carrying amount equal to the rate of return expected by the Co-Sponsors for the period from the contribution date to June 30th 2022. The liability is subsequently measured at fair value, taking into account the rate of return required by the Co-Sponsors.

The amount of the liability is PLN 378,348 thousand (as at December 31st 2021: PLN 363,610 thousand).

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

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

made by the Original Sponsors to the Co-Sponsors after the shares are repurchased for cancellation following repayment of the senior debt financing.

As at June 30th 2022, given the status of the Polimery Police project, i.e., the stage of completion of approximately 94.25% (96.33% as at August 31st 2022), there are no indications of any material risks to the expected rate of return relative to the baseline scenario, a number of micro- and macroeconomic factors affecting the delivery and profitability of the Polimery Police project, as well as a distant date for the exercise of rights or discharge of obligations under the said rate-of-return stabilisation mechanism, which makes the estimation of final settlement highly uncertain, the Parent decided not to recognise a financial asset on that account. This decision will be reviewed and revised in subsequent periods, in keeping with the progress of the Polimery Police project.

Hedge accounting

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

- EUR 54,486 thousand as at June 30th 2022 (December 31st 2021: EUR 63,567 thousand), repayable in the period from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each;
- EUR 128,667 thousand as at June 30th 2022 (December 31st 2021: EUR 138,334 thousand), repayable in the period from September 2021 to March 2029 in 16 half-yearly instalments, including: the first instalment of EUR 6,666 thousand, 14 instalments of EUR 9,666.7 thousand each, and the last instalment of EUR 3,000 thousand.

As at June 30th 2022, the carrying amount of both these credit facilities was PLN 856,938 thousand (December 31st 2021: PLN 928,228 thousand). In the six months ended June 30th 2022, the hedging reserve included PLN (58,622) thousand (2021: PLN (48,479) thousand) on account of the effective hedge. In the six months ended June 30th 2022, the Parent reclassified PLN 7,752 thousand (2021: PLN 5,658 thousand) from other comprehensive income to the statement of profit or loss in connection with the settlement of a hedging relationship with respect to payment of foreign currency loan instalments against proceeds from sales in the euro.

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

As at June 30th 2022, PLN (28,260) thousand on the measurement of FX hedging transactions and PLN 286,040 thousand on the measurement of interest rate risk hedging transactions were recognised in the hedge reserve.

Note 22. Contingent liabilities, contingent assets, sureties and guarantees

Contingent assets

	as at Jun 30 2022 unaudited	as at Dec 31 2021 audited
Contingent receivables	22,796	29,659

Contingent liabilities and guarantees/sureties

	as at Jun 30 2022 unaudited	as at Dec 31 2021 audited
Other contingent liabilities, including guarantees	42,418	37,697

Note 23. Related-party transactions

Related-party transactions accounted for using the equity method and not consolidated

Trade transactions

	Revenue	Receivables	Purchases	Liabilities
In the six months ended June 30th 2022 and as at that date (unaudited)				
Related parties of Grupa Azoty POLICE	8,273	20,014	2,122	1,887
Related parties of Grupa Azoty PUŁAWY	200	370	8,528	865
	8,473	20,384	10,650	2,752

	Revenue	Purchases
In the six months ended June 30th 2021 (unaudited)		
Related parties of Grupa Azoty POLICE	7,317	4,210
Related parties of Grupa Azoty PUŁAWY	123	7,326
	7,440	11,536

	Receivables	Liabilities
As at Dec 31 2021 (audited)		
Related parties of Grupa Azoty POLICE	1,934	1,518
Related parties of Grupa Azoty PUŁAWY	38	930
	1,972	2,448

Other transactions

	Other income	Other expenses	Finance income	Finance costs
In the six months ended June 30th 2022 (unaudited)				
Related parties of Grupa Azoty PUŁAWY	35	125	-	298
	35	125	-	298

	Other income	Other expenses	Finance income	Finance costs
In the six months ended June 30th 2021 (unaudited)				
Related parties of Grupa Azoty POLICE	1	-	-	-
Related parties of Grupa Azoty PUŁAWY	422	-	-	-
	423	-	-	-

Note 24. Investment commitments

In the period ended June 30th 2022, the Group signed contracts to continue ongoing projects and to commence new projects. The projects involve mainly the provision of construction, mechanical, electrical, and engineering design services.

The largest capital commitments were:

	as at Jun 30 2022 unaudited	as at Dec 31 2021 audited
Propane dehydrogenation (PDH) and polypropylene unit at Grupa Azoty POLICE	1,635,858	2,338,821
Construction of CHP plant at Grupa Azoty PUŁAWY	217,524	223,480
Construction of nitric acid units at Grupa Azoty PUŁAWY	104,427	104,397

As at June 30th 2022, the total amount of investment commitments under the contracts was PLN 2,456,581 thousand (December 31st 2021: PLN 3,157,707 thousand).

Note 25. Accounting estimates and assumptions

Changes in impairment losses on property, plant and equipment

	for the period Jan 1 – Jun 30 2022 unaudited	for the period Jan 1 – Jun 30 2021 unaudited	for the period Apr 1 – Jun 30 2022 unaudited	for the period Apr 1 – Jun 30 2021 unaudited
At beginning of period	620,956	331,566	622,210	332,187
Recognised	1,424	861	169	226
Reversed (-)	(3)	(3)	(3)	-
Used (-)	(107)	(966)	(106)	(955)
At end of period	622,270	331,458	622,270	331,458

Changes in inventory write-downs

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
At beginning of period	89,217	62,619	89,102	61,957
Recognised	20,854	19,471	8,529	12,236
Acquisition of companies	-	127	-	127
Reversed (-)	(6,439)	(3,592)	(3,503)	(1,653)
Used (-)	(15,237)	(11,456)	(5,452)	(5,347)
Exchange differences	831	(343)	550	(494)
At end of period	89,226	66,826	89,226	66,826

Changes in impairment losses on receivables

	for the period Jan 1 – Jun 30 2022 <i>unaudited</i>	for the period Jan 1 – Jun 30 2021 <i>unaudited</i>	for the period Apr 1 – Jun 30 2022 <i>unaudited</i>	for the period Apr 1 – Jun 30 2021 <i>unaudited</i>
At beginning of period	87,907	86,252	87,420	86,043
Recognised	4,852	5,062	2,826	3,838
Reversed (-)	(2,687)	(3,638)	(1,208)	(2,151)
Used (-)	(2,061)	(1,720)	(153)	(1,646)
Exchange differences	1,047	(209)	173	(337)
At end of period	89,058	85,747	89,058	85,747

Note 26. Events after the reporting date

Extension of Individual Contracts with PGNiG S.A.

On July 7th 2022, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN and Grupa Azoty SIARKOPOL (collectively the “Grupa Azoty Group Customers”) executed an annex to the Gas Sale Framework Agreement of April 13th 2016 and annexes to Individual Contracts.

As a result of the execution of the annexes to the Individual Contracts, PGNiG will remain the strategic supplier of gas fuel for the Grupa Azoty Group Customers until September 30th 2023.

The total value of the annexes executed with the Azoty Group Customers for the term of extension of the Individual Contracts is estimated at PLN 13.4bn. The pricing formula applied in the Individual Contracts is based on gas market price indices.

Melamine production cut and temporary shutdown of some units

In view of the prevailing market conditions, i.e., growing prices of natural gas and achievable product selling prices which were not sufficient to cover costs to the required extent, the Parent and the subsidiaries Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN decided to temporarily reduce or suspend production on selected process lines.

On July 8th 2022, the Management Board of Grupa Azoty PUŁAWY decided to reduce melamine production, and on August 10th 2022, given the record-high prices of natural gas and declining demand for melamine - to suspend the production of melamine completely until further notice. Obligations to supply melamine under trade contracts, being largely of a short-term nature, will be performed in reliance on the accumulated stocks.

On August 22nd 2022, the Management Board of the Parent decided to temporarily shut down the units producing nitrogen fertilizers, caprolactam and polyamide 6. The Company continues to produce catalysts, polyamide casings, humic acids, thermoplastic starch and concentrated nitric acid.

During the announced temporary shutdown of production units, investment and repair work is being carried out, including the scheduled overhaul of the Polyamide unit.

On August 22nd 2022, the subsidiary Grupa Azoty PUŁAWY introduced temporary production cuts. The subsidiary reduced its ammonia output to about 10% of capacity. Production activities in the Plastics and Agro Segments has also been halted, with the exception of production of ammonium sulfate from the FGD Plant, NOXy®, Likam and PULNOX®.

During the temporary shutdown of the subsidiary’s production units, investment and repair work is being carried out.

On August 23rd 2022, the Management Board of the subsidiary Grupa Azoty KĘDZIERZYN decided to reduce, as of August 24th 2022, the operation of production units to a minimum, i.e., to 43% in the case of the Fertilizers Unit.

The decisions are due to the extraordinary and unprecedented increase in natural gas prices.

The current situation in the gas market, which determines the profitability of production activities, is extraordinary and completely beyond the control of the Grupa Azoty Group, and could not have been predicted.

The purpose of the production cuts on certain process lines is to optimise the Group's financial performance. To that end, intensive efforts are being made to sell the existing inventories at prices sufficient to cover production costs and to reduce expenses. In addition, the Group's performance is being affected by sales of products which continue to be manufactured. Also some maintenance tasks were accelerated relative to original plans, which will increase the availability of the plant's capacities in future periods.

The Group companies keep monitoring the level of natural gas prices and conditions prevailing on the buyer market. Given the seasonal nature of the fertilizer market, the production scaledown is not having a material impact on the security of supply for the time being. If the market environment improves to an extent ensuring economically feasible production, the units will be re-started.

On September 20th 2022, the Polish Council of Ministers adopted a draft law on the rules of implementation of business support programmes in view of the situation on the energy market in 2022-2024. Mechanisms proposed to be implemented are intended to partially compensate for the impact of high energy costs on the business and financial performance of enterprises, particularly energy-intensive ones. As at the date of issue of these financial statements, the legislative work was in progress and therefore it was not possible to determine the potential effect of the proposed regulations on the business and financial performance of the Company and its subsidiaries.

Execution of an agreement to negotiate potential acquisition of shares in a company developing a PV farm project

On July 20th 2022 the Parent entered into an agreement with VSB Holding GmbH of Dresden, Germany, Janusz Franciszek Siemieniec (collectively the "Sellers") and Solarfarm Brzezinka Sp. z o.o. of Wrocław ("Solarfarm") (the Parent, the Sellers and Solarfarm are collectively referred to as the "Parties") to conduct negotiations, on an exclusive basis, regarding the potential acquisition of 100% of shares in the share capital of Solarfarm Brzezinka sp. z o.o. (the "Agreement").

The Parties expressed their interest in collaborating on a project to build the Brzezinka solar PV power plant with a capacity of approximately 270 MWp that is being developed by Solarfarm, comprising preparatory, construction and installation work, grid connection, commissioning and potential operation of the power plant (the "PV Project"). Once the Parties have agreed on the target business model and technical and economic parameters and once the conditions precedent agreed upon during negotiations have been met, the PV Project may be acquired by the Parent or its subsidiary Grupa Azoty Energia Sp. z o.o. through the acquisition of 100% of the shares in Solarfarm, unless the Parties agree on a different transaction model.

The Agreement sets out the terms and conditions of the negotiations to be conducted by the Parties on an exclusive basis with a view to closing the transaction and defining the terms of the collaboration, as well as the key parameters necessary for closing the transaction and enabling the collaboration, including the financial model and technical and economic parameters of the PV Project, the purchase price of Solarfarm shares, the price payment terms and price adjustment methods, if applicable.

If the transaction is closed, it will significantly contribute to achieving the goals outlined in the part of the Grupa Azoty Strategy 2021-2030 where it provides for the acquisition of own renewable energy sources.

Approaching the State Treasury with a proposal regarding acquisition and integration of ZEW Niedzica S.A. into the Grupa Azoty Group

On September 12th 2022, having completed a due diligence and valuation of the business of Zespół Elektrowni Wodnych Niedzica S.A. ("ZEW Niedzica") and considering the Grupa Azoty Group's Strategy for 2021-2030 envisaging, among other things, the Group's transition towards renewable energy sources, the Management Board of the Company decided to request the Polish State Treasury, as the sole shareholder in ZEW Niedzica, to initiate a process leading to its potential acquisition and merger into the Grupa Azoty Group.

The principal business of ZEW Niedzica is the generation of renewable energy from hydropower assets - the pumped-storage hydroelectric power station in Niedzica, and the hydroelectric power plants in Sromowce Wyżne on the Dunajec River, and in Łączany and Smolice on the Vistula River. Their annual electricity output is approximately 100 GWh.

Further steps in the potential transaction and its optimal structure will be subject to specific arrangements with the State Treasury.

Execution of coal purchase contract

On September 19th 2022, following a tender procedure, the Parent entered into a framework contract for the purchase of coal with the successful bidder Polska Grupa Importowa Premium Sp. z o.o.

The contract provides for the supply of imported thermal coal. Coal deliveries to be made under the contract will be complementary to other sources of coal used by the Parent for energy generation purposes.

The Contract has been concluded for an indefinite period and contains general terms and conditions of cooperation related to the supply and offtake of coal. The total value of coal to be delivered in 2022 is estimated at approximately PLN 110m, VAT-exclusive.

Framework contracts for the purchase of coal with Polska Grupa Importowa Premium Sp. z o.o. were also executed by the subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KEDZIERZYN. Coal deliveries to be made under the respective contracts will be complementary to deliveries received by the

subsidiaries from their strategic suppliers. The Contract also permits the Customers to redirect the contracted coal supplies between themselves

The total value of deliveries to be made by the seller to the subsidiaries in 2022 is estimated at approximately PLN 160m (exclusive of VAT).

The Group may order further deliveries under the contract in the future.

Annex 8 to the multi-purpose credit facility (MPCF) agreement with PKO BP S.A.

On September 26th 2022, the Parent and its subsidiaries signed an annex to the PLN 240m multi-purpose credit facility agreement with PKO BP S.A. Under the annex:

- the term of the MPCF agreement, originally expiring on September 30th 2022, was extended until September 30th 2025, with the option to extend it for subsequent 12-month periods,
- the credit limit under the MPCF agreement was increased to PLN 1bn,
- an overdraft facility was made available within the facility limit to the Parent,
- a revolving working capital facility, bank guarantees and bank letters of credit were made available within the facility limit to the Parent and the Group companies being parties to the MPCF agreement;
- the following companies: Grupa Azoty PUŁAWY, Grupa Azoty KĘDZIERZYN and Grupa Azoty POLICE were released from their obligations under a surety agreement for the MPCF agreement of June 29th 2018.

As at the annex date, the following limits and sub-limits were set within the facility limit with effect from September 30th 2022:

- limit of the overdraft facility for the Parent: up to PLN 300m;
- sub-limits of the revolving facility, bank guarantees and bank letters of credit: up to PLN 575m for the Parent, up to PLN 62m for Grupa Azoty POLICE, up to PLN 1m for Grupa Azoty PUŁAWY, up to PLN 30m for Grupa Azoty KĘDZIERZYN, and up to a total of PLN 32m for the other Group companies being borrowers under the MPCF agreement.

The annex to the MPCF agreement is part of a long-term financing package designed to finance general corporate needs and to ensure security of financing for the Group companies through the umbrella nature of limit allocation and actual intra-Group redistribution.

The MPCF agreement as amended by the annex supersedes and consolidates the existing overdraft facility agreements for up to PLN 310m and up to EUR 75m (or its equivalent in USD), both executed with PKO BP, expiring on September 30th 2022.

For detailed information on the annex to the multi-purpose credit facility agreement, refer to Current Report No. 30/2022 of September 26th 2022.

Physical cash pooling (PCP) agreement with PKO BP S.A.

On September 26th 2022, the Parent and the Group companies executed a new PLN, EUR and USD physical cash pooling agreement with PKO BP S.A. with a term running until September 30th 2025.

The CPR agreement supersedes and consolidates the existing PLN physical cash pooling agreement and the PLN, EUR and USD physical cash pooling agreement, both executed with PKO BP S.A., expiring on September 30th 2022.

For detailed information on the physical cash pooling agreement, refer to Current Report No. 30/2022 of September 26th 2022.

Signatures of members of the Management Board

Signed with qualified electronic signature

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Tomasz Hinc

President of the Management Board

Signed with qualified electronic signature

.....

Mariusz Grab

Vice President of the Management Board

Signed with qualified electronic signature

.....

Filip Grzegorzczak, PhD

Vice President of the Management Board

Signed with qualified electronic signature

.....

Tomasz Hryniewicz

Vice President of the Management Board

Signed with qualified electronic signature

.....

Grzegorz Kądziałowski, PhD

Vice President of the Management Board

Signed with qualified electronic signature

.....

Marek Wadowski

Vice President of the Management Board

Signed with qualified electronic signature

.....

Zbigniew Paprocki

*Member of the Management Board Director
General*

Person responsible for maintaining accounting records

Signed with qualified electronic signature

.....

Piotr Kołodziej

*Head of the Corporate
Finance Department*

Tarnów, September 28th 2022