Separate financial statements of Grupa Azoty Spółka Akcyjna for the 12 months ended December 31st 2019 prepared in accordance with International Financial Reporting Standards as endorsed by the European Union

Contents

(all amounts in PLN '000 unless indicated otherwise)

Separate statement of profit or loss and other comprehensive income

	Note	for the period Jan 1 – Dec 31 2019	for the period Jan 1 – Dec 31 2018
Profit/loss			
Revenue	1	1,987,039	1,825,771
Cost of sales	2	(1,588,371)	(1,499,486)
Gross profit		**398,668**	**326,285**
Selling and distribution expenses	2	(105,391)	(96,713)
Administrative expenses	2	(193,340)	(169,523)
Other income	3	13,705	10,955
Other expenses	4	(24,415)	(23,243)
Operating profit		**89,227**	**47,761**
Finance income	5	124,961	186,799
Finance costs	6	(108,540)	(51,255)
Net finance income		**16,421**	**135,544**
Profit before tax		**105,648**	**183,305**
Income tax	7	(47,399)	(12,241)
Net profit		**58,249**	**171,064**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial losses from defined benefit plans		(12,121)	(3,809)
Tax on items that will not be reclassified to profit or loss	7.3	2,303	724
		(9,818)	**(3,085)**
Items that are or may be reclassified to profit or loss			
Cash flow hedging – effective portion of change in fair value		4,952	(16,724)
Tax on items that are or may be reclassified to profit or loss	7.3	(941)	3,178
		4,011	**(13,546)**
Total other comprehensive income		**(5,807)**	**(16,631)**
Comprehensive income for the year		**52,442**	**154,433**
Earnings per share:	9		
Basic (PLN)		0.59	1.72
Diluted (PLN)		0.59	1.72

The separate statement of profit or loss and other comprehensive income should be read in conjunction with the notes to these full-year separate financial statements, which form their integral part.

(all amounts in PLN '000 unless indicated otherwise)

Separate statement of financial position

	Note	as at Dec 31 2019	as at Dec 31 2018 restated*
Assets			
Non-current assets			
Property, plant and equipment	10	1,661,561	1,650,232
Perpetual usufruct of land		-	365
Right-of-use assets	11	47,411	-
Intangible assets	12	50,838	49,108
Investment property	13	23,049	15,885
Shares	14.1	5,410,006	5,012,908
Other financial assets	14.3	292,001	285,626
Other receivables	17	5,855	9,757
Deferred tax assets	7.4	-	10,277
Total non-current assets		**7,490,721**	**7,034,158**
Current assets			
Inventories	15	251,022	246,106
Property rights	16	45,513	35,688
Derivative financial instruments	30.6	1,025	720
Other financial assets	14.3	61,409	47,340
Trade and other receivables	17	232,229	238,558
Cash and cash equivalents	18	1,158,379	1,000,980
Assets held for sale	20	95	95
Total current assets		**1,749,672**	**1,569,487**
Total assets		**9,240,393**	**8,603,645**

* In accordance with the information provided in section 2.2.

Separate statement of financial position
the separate statement of cash flows should be read in conjunction with the notes to these full-year separate financial statements, which form their integral part.

(all amounts in PLN '000 unless indicated otherwise)

Separate statement of financial position (continued)

	Note	as at Dec 31 2019	as at Dec 31 2018 restated*
Equity and liabilities			
Equity			
Share capital	21.1	495,977	495,977
Share premium	21.2	2,418,270	2,418,270
Hedging reserve	21.3	5,872	1,861
Retained earnings, including:		1,920,511	1,872,080
Net profit for the year		*58,249*	*171,064*
Total equity		**4,840,630**	**4,788,188**
Liabilities			
Borrowings	22	2,413,532	2,311,248
Lease liabilities	23	38,962	1,695
Other financial liabilities	24	19,042	21,930
Employee benefit obligations	26	64,080	51,289
Trade and other payables	28	32	32
Provisions	27	31,619	31,069
Grants	29	47,048	40,666
Deferred tax liabilities	7.4	1,426	-
Total non-current liabilities		**2,615,741**	**2,457,929**
Borrowings	22	1,118,985	893,947
Lease liabilities	23	13,199	714
Other financial liabilities	24	262,879	103,122
Employee benefit obligations	26	4,678	3,511
Current tax liabilities		1,168	493
Trade and other payables	28	378,443	352,908
Provisions	27	2,251	1,205
Grants	29	2,419	1,628
Total current liabilities		**1,784,022**	**1,357,528**
Total liabilities		**4,399,763**	**3,815,457**
Total equity and liabilities		**9,240,393**	**8,603,645**

* In accordance with the information provided in section 2.2.

Separate statement of financial position
the separate statement of cash flows should be read in conjunction with the notes to these full-year separate financial statements, which form their integral part.

(all amounts in PLN '000 unless indicated otherwise)

Separate statement of changes in equity for the period ended December 31st 2019

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at Jan 1 2019	**495,977**	**2,418,270**	**1,861**	**1,872,080**	**4,788,188**
Profit or loss and other comprehensive income					
Net profit	-	-	-	58,249	58,249
Other comprehensive income	-	-	4,011	(9,818)	(5,807)
Comprehensive income for the year	**-**	**-**	**4,011**	**48,431**	**52,442**
Balance as at Dec 31 2019	**495,977**	**2,418,270**	**5,872**	**1,920,511**	**4,840,630**

Separate statement of changes in equity for the period ended December 31st 2018

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at Jan 1 2018	**495,977**	**2,418,270**	**15,407**	**1,828,096**	**4,757,750**
Profit or loss and other comprehensive income					
Net profit	-	-	-	171,064	171,064
Other comprehensive income	-	-	(13,546)	(3,085)	(16,631)
Comprehensive income for the year	**-**	**-**	**(13,546)**	**167,979**	**154,433**
Transactions with owners, recognised directly in equity					
Dividends	-	-	-	(123,995)	(123,995)
Total transactions with owners	**-**	**-**	**-**	**(123,995)**	**(123,995)**
Balance as at Dec 31 2018	**495,977**	**2,418,270**	**1,861**	**1,872,080**	**4,788,188**

Separate statement of changes in equity
the separate statement of cash flows should be read in conjunction with the notes to these full-year separate financial statements, which form their integral part.

(all amounts in PLN '000 unless indicated otherwise)

Separate statement of cash flows

	Note	for the period Jan 1 – Dec 31 2019	for the period Jan 1 – Dec 31 2018 restated*
Cash flows from operating activities			
Profit before tax		**105,648**	**183,305**
Adjustments for:		*119,989*	*(19,298)*
Depreciation and amortisation		134,528	112,210
Impairment losses		33,048	2,080
Loss on investing activities		2,006	1,520
(Gain) on disposal of financial assets		(400)	-
Interest, foreign exchange gains or losses		38,666	23,133
Dividends		(87,267)	(159,223)
Net change in fair value of financial assets at fair value through profit or loss		(592)	982
		225,637	***164,007***
Increase/(Decrease) in trade and other receivables	35	5,671	(24,156)
Increase in inventories and property rights		(14,741)	(39,832)
Increase in trade and other payables	35	350,315	99,467
Increase in provisions, accruals and government grants	35	49,231	22,720
Other adjustments	35	(3,500)	(3,500)
Cash generated from operating activities		***612,613***	***218,706***
Income tax paid		(33,658)	(2,293)
Net cash from operating activities		**578,955**	**216,413**

In accordance with the information provided in section 2.2.

The separate statement of cash flows should be read
in conjunction with the notes to these full-year separate financial statements, which form their integral part.

(all amounts in PLN '000 unless indicated otherwise)

Separate statement of cash flows (continued)

	Note	for the period Jan 1 – Dec 31 2019	for the period Jan 1 – Dec 31 2018 restated*
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment, intangible assets and investment property		1,137	579
Purchase of property, plant and equipment, intangible assets and investment property		(150,781)	(204,213)
Dividend received		87,267	159,223
Proceeds from sale of other financial assets		466	-
Purchase of other financial assets	14.1	(417,901)	(1,144,246)
Interest received		18,278	14,715
Loans		(66,160)	(83,975)
Repayments of loans		46,983	70,707
Other disbursements		(2,984)	(2,314)
Net cash from investing activities		**(483,695)**	**(1,189,524)**
Cash flows from financing activities			
Dividends paid		-	(123,995)
Proceeds from borrowings		435,853	1,574,506
Repayment of borrowings		(100,396)	(39,235)
Interest paid		(53,953)	(35,679)
Commission fees on bank borrowings		(6,540)	(20,522)
Payment of lease liabilities		(9,654)	(741)
Other cash provided by financing activities		58,319	44,105
Repayment of reverse factoring		(261,707)	-
Net cash from financing activities		**61,922**	**1,398,439**
Total net cash flows		**157,182**	**425,328**
Cash and cash equivalents at beginning of period		**1,000,980**	**572,711**
Effect of exchange rate fluctuations on cash held		217	2,941
Cash and cash equivalents at end of period		**1,158,379**	**1,000,980**

In accordance with the information provided in section 2.2.

The separate statement of cash flows
should be read in conjunction with the notes to these full-year separate financial statements, which form their integral part.

Notes to the separate financial statements

1. General information

1.1. Organisation of the Company

Grupa Azoty Spółka Akcyjna (the "Company"), with its registered office in Tarnów, was established as Zakłady Azotowe w Tarnowie-Mościcach Spółka Akcyjna on February 21st 1991 by Notary Deed A No. 910/91. Since April 22nd 2013, when relevant amendments to the Company's Articles of Association were registered, the Company has been trading under the name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).
The Company operates in Poland under the Polish Commercial Companies Code. The Company is entered in the Register of Businesses in the National Court Register maintained by the District Court in Kraków, 12th Commercial Division of the National Court Register, under entry No. KRS 0000075450. The Company's REGON number for public statistics purposes is 850002268. The Company has been established for an indefinite term.

The Company is the parent of the Grupa Azoty Group (the "Group") and also prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as endorsed by the European Union.
The consolidated financial statements were authorised for issue on April 7th 2020.

The Company's business includes in particular:
- Manufacture of basic chemicals,
- Manufacture of fertilizers and nitrogen compounds,
- Manufacture of plastics and synthetic rubber in primary forms,
- Manufacture of plastics.

These financial statements were authorised for issue by the Company's Management Board on April 7th 2020.

These financial statements cover the year ended on December 31st 2019 and include comparative data for the year ended December 31st 2018.

1.2. Composition of the Management Board and Supervisory Board of the Company

Management Board
As at January 1st 2019, the Management Board was composed of:
- Wojciech Wardacki – President of the Management Board,
- Witold Szczypiński – Vice President of the Management Board,
- Mariusz Grab – Vice President of the Management Board,
- Grzegorz Kądzielawski – Vice President of the Management Board,
- Paweł Łapiński − Vice President of the Management Board,
- Artur Kopeć – Member of the Management Board.

On June 12th 2019, the Supervisory Board appointed Tomasz Hryniewicz as Member of the Management Board. The Supervisory Board appointed Tomasz Hryniewicz as Vice President of the Company's Management Board, with effect from July 5th 2019.

As at December 31st 2019, the Management Board was composed of:
- Wojciech Wardacki – President of the Management Board,
- Witold Szczypiński – Vice President of the Management Board,
- Mariusz Grab – Vice President of the Management Board,
- Tomasz Hryniewicz – Vice President of the Management Board,
- Grzegorz Kądzielawski – Vice President of the Management Board,
- Paweł Łapiński − Vice President of the Management Board,
- Artur Kopeć – Member of the Management Board.

The Supervisory Board
As at January 1st 2019, the Supervisory Board was composed of:
- Tomasz Karusewicz – Chairman of the Supervisory Board,
- Michał Gabryel – Deputy Chairman of the Supervisory Board,
- Zbigniew Paprocki – Secretary of the Supervisory Board,
- Piotr Czajkowski – Member of the Supervisory Board,
- Monika Fill – Member of the Supervisory Board,
- Robert Kapka – Member of the Supervisory Board,
- Bartłomiej Litwińczuk – Member of the Supervisory Board,
- Ireneusz Purgacz – Member of the Supervisory Board,
- Roman Romaniszyn – Member of the Supervisory Board.

On February 26th 2019, Tomasz Karusewicz resigned as Chairman and Member of the Supervisory Board. No reasons for the resignation were given. On the same day, by way of a resolution of the Company's Extraordinary General Meeting, Ireneusz Purgacz was removed from the Supervisory Board. At the same time, by way of resolutions of the Company's Extraordinary General Meeting, the following persons were appointed to the Supervisory Board:
- Paweł Bielski,
- Marcin Pawlicki.

By way of the Annual General Meeting's resolution of June 27th 2019, Marcin Pawlicki was appointed Chair of the Supervisory Board.
As at December 31st 2019, the Management Board was composed of:
- Marcin Pawlicki – Chairman of the Supervisory Board,
- Michał Gabryel – Deputy Chairman of the Supervisory Board,
- Zbigniew Paprocki – Secretary of the Supervisory Board,
- Paweł Bielski – Member of the Supervisory Board,
- Piotr Czajkowski – Member of the Supervisory Board,
- Monika Fill – Member of the Supervisory Board,
- Robert Kapka – Member of the Supervisory Board,
- Bartłomiej Litwińczuk – Member of the Supervisory Board,
- Roman Romaniszyn – Member of the Supervisory Board.

Supervisory Board's Audit Committee
The Audit Committee was appointed on July 4th 2013 by resolution of the Supervisory Board in order to streamline the work of the Supervisory Board and improve control of the Parent and the Group.
Composition of the Audit Committee as at January 1st 2019:
- Ireneusz Purgacz – Chair,
- Michał Gabryel – Member,
- Tomasz Karusewicz – Member.

Following changes in the composition of the Supervisory Board made on February 26th 2019, on March 7th 2019 the Supervisory Board passed a resolution to fill the vacancy on the Audit Committee and appoint its Chair. The Supervisory Board appointed Marcin Pawlicki and Paweł Bielski to the Committee. It also appointed Michał Gabryelow as Chair of the Audit Committee.
As a result, as of March 7th 2019, the Audit Committee is composed of:
- Michał Gabryel – Chair,
- Marcin Pawlicki – Member,
- Paweł Bielski – Member.

Responsibilities of the Audit Committee
The Audit Committee operates pursuant to the Rules of Procedure for the Audit Committee, adopted by the Supervisory Board by way of a resolution of July 4th 2013. The main tasks of the Committee include:
- Monitoring of the financial reporting process;
- Monitoring of the effectiveness of the Company's internal control, internal audit and risk management systems;
- Monitoring of financial audit;

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

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

As at January 1st 2019, the Strategy and Development Committee was composed of:
- Robert Kapka – Chair,
- Piotr Czajkowski – Member,
- Zbigniew Paprocki – Member.

On March 29th 2019, the Supervisory Board appointed Paweł Bielski to the Strategy and Development Committee.
Therefore, as at December 31st 2019, the Committee was composed of:
- Robert Kapka – Chair,
- Paweł Bielski – Member,
- Piotr Czajkowski – Member,
- Zbigniew Paprocki – Member.

As at January 1st 2019 and December 31st 2019, the Nomination and Remuneration Committee was composed of:
- Bartłomiej Litwińczuk – Chair,
- Piotr Czajkowski – Member,
- Monika Fill – Member,
- Roman Romaniszyn – Member.

In the period from December 31st 2019 to the date of authorisation of these financial statements for issue, the composition of the Management Board, the Supervisory Board and the Committees of the Supervisory Board did not change.

2. Significant accounting policies

2.1. Compliance statement

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the EU ("EU IFRS"). As at the date of authorisation of these financial statements for issue, given the ongoing process of implementing IFRS in the EU, the IFRS applicable to these financial statements did not differ from the EU IFRS.

The EU IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB").

2.2. Changes in applied accounting policies and data presentation

The accounting policies applied to prepare these separate financial statements are consistent with the policies applied to draw up the Company's full-year financial statements for the year ended December 31st 2018, except for those presented below and related to IFRS 16 *Leases* having taken effect and the presentation of reverse factoring in the statement of cash flows.

a) Implementation of IFRS 16 *Leases*

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

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

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

Effect on the Company's accounting – the Company as a lessor

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

Effect on the Company accounting – the Company as a lessee

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

(all amounts in PLN '000 unless indicated otherwise)

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

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

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

Effect of implementation of IFRS 16 on the financial statements

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

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

(all amounts in PLN '000 unless indicated otherwise)

Changes related to the presentation of leases are set out below:

	Dec 31 2018	Presentation changes	Dec 31 2018 restated
Liabilities			
Lease liabilities	-	1,695	1,695
Other financial liabilities	23,625	(1,695)	21,930
Other non-current liabilities	2,434,304	-	2,434,304
Total non-current liabilities	**2,457,929**	**-**	**2,457,929**
Lease liabilities	-	714	714
Other financial liabilities	103,836	(714)	103,122
Other current liabilities	1,253,692	-	1,253,692
Total current liabilities	**1,357,528**	**-**	**1,357,528**
Total liabilities	**3,815,457**	**-**	**3,815,457**

The impact of the changes related to the implementation of IFRS 16 on the Company's assets is presented below:

	Dec 31 2018	Impact of change IFRS 16	Jan 1 2019
Non-current assets			
Property, plant and equipment	1,650,232	(3,488)	1,646,744
Perpetual usufruct of land	365	(365)	-
Right-of-use assets	-	40,901	40,901
Other non-current assets	**5,383,561**	**-**	**5,383,561**
Total non-current assets	**7,034,158**	**37,048**	**7,071,206**
Total current assets	**1,569,487**	**-**	**1,569,487**
Total assets	**8,603,645**	**37,048**	**8,640,693**

The impact of the changes related to the implementation of IFRS 16 on the Company's liabilities is presented below:

	Dec 31 2018 restated	Impact of change IFRS 16	Jan 1 2019
Liabilities			
Lease liabilities	1,695	32,687	34,382
Other financial liabilities	21,930	-	21,930
Other non-current liabilities	2,434,304	-	2,434,304
Total non-current liabilities	**2,457,929**	**32,687**	**2,490,616**
Lease liabilities	714	4,361	5,075
Other financial liabilities	103,122	-	103,122
Other current liabilities	1,253,692	-	1,253,692
Total current liabilities	**1,357,528**	**4,361**	**1,361,889**
Total liabilities	**3,815,457**	**37,048**	**3,852,505**

For more information on the effect of the amendments to IFRS 16 on the full-year financial statements for 2019, see Notes 2.3 and 11 in Selected notes and supplementary information.

(all amounts in PLN '000 unless indicated otherwise)

b) Change in presentation of reverse factoring in the statement of cash flows

	for the period Jan 1 – Dec 31 2018	Presentation changes	for the period Jan 1 – Dec 31 2018 restated
Cash flows from operating activities			
Profit before tax	**183,305**	**-**	**183,305**
Adjustments for:	*(19,298)*	-	*(19,298)*
Depreciation and amortisation	112,210	-	112,210
Impairment losses	2,080	-	2,080
Loss on investing activities	1,520	-	1,520
Interest, foreign exchange gains or losses	23,133	-	23,133
Dividends	(159,223)	-	(159,223)
Fair value loss on financial assets at fair value	982	-	982
	164,007	**-**	***164,007***
Increase in trade and other receivables	(24,156)	-	(24,156)
Increase in inventories	(39,832)	-	(39,832)
Increase in trade and other payables	52,200	47,267	99,467
Increase in provisions, accruals and government grants	22,720	-	22,720
Other adjustments	43,767	(47,267)	(3,500)
Cash generated from operating activities	***218,706***	**-**	***218,706***
Income tax paid	(2,293)	-	(2,293)
Net cash from operating activities	**216,413**	**-**	**216,413**

	for the period Jan 1 – Dec 31 2018	Presentation changes	for the period Jan 1 – Dec 31 2018 restated
Net cash from investing activities	**(1,189,524)**	**-**	**(1,189,524)**
Net cash from financing activities	**1,398,439**	**-**	**1,398,439**
Total net cash flows	**425,328**	**-**	**425,328**
Cash and cash equivalents at beginning of period	**572,711**	**-**	**572,711**
Effect of exchange rate fluctuations on cash held	2,941	-	2,941
Cash and cash equivalents at end of period	**1,000,980**	**-**	**1,000,980**

This change results from recognition of the change in reverse factoring liabilities due to the change in trade payables. Previously, the change in factoring liabilities was recognised under Other adjustments in cash flows from operating activities.

c) Other changes in International Financial Reporting Standards

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

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

- *Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2015–2017 Cycle* (issued on December 12th 2017) − effective for annual periods beginning on or after January 1st 2019;

2.3. 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:

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) − pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version (not endorsed by the EU by the date of authorisation of these financial statements for issue) – effective for annual periods beginning on or after January 1st 2016;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) − work leading to endorsement of the amendments was deferred by the EU for an indefinite period − effective date was deferred by the IASB for an indefinite period;
- IFRS 17 *Insurance Contracts* (issued on May 18th 2017) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2021;
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) − effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 3 *Business Combinations* (published on October 22nd 2018) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2020;
- Amendments to IAS 1 and IAS 8: *Definition of materiality* (published on October 31st 2018) – effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 9, IAS 39 and IFRS 7: *Interest rate benchmark reform* (published on September 26th 2019) – effective for annual periods beginning on or after January 1st 2020;
- Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current* (published on January 23rd 2020) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2022.

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

2.4. Basis of accounting

These separate financial statements have been prepared on the historical cost basis except for assets and liabilities measured at fair value, i.e.:

- derivatives measured at fair value through profit or loss,
- financial instruments at fair value through profit or loss,
- financial instruments measured at fair value through other comprehensive income.

2.5. Functional currency and presentation currency

These separate financial statements are presented in the Polish złoty, rounded off to the nearest thousand. The Polish złoty is the Company's functional currency.

2.6. Professional judgement and estimates

The preparation of the financial statements in conformity with IFRS EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and the related assumptions are based on historical experience and other factors that are considered reasonable under the circumstances, and their results provide the basis for judgement as to the carrying amount

of the assets and liabilities that does not arise directly from other sources. The actual values of the assets and liabilities may differ from the estimates.
Estimates and the underlying assumptions are subject to ongoing verification. A change in accounting estimates is recognised in the period in which the estimate is revised, or in the current and future periods if the revised estimate relates to both the current and future periods.

- The main accounting estimates and assumptions are presented in the relevant notes to the financial statements: estimates of impairment losses on shares are presented in Note 14.1,
- estimates and assumptions concerning the feasibility of realising deferred tax assets, in particular with respect to the change in recognition of assets arising from the activities conducted in the Special Economic Zone, are presented in Note 7.4,
- estimates concerning recognition of lease contracts and the lessee's incremental borrowing rate are presented in Note 11,
- estimates concerning useful lives of property, plant and equipment, usufruct right, intangible assets and investment property are presented in Notes 10, 11, 12, 13,
- estimates of impairment losses on property, plant and equipment are presented in Note 10,
- estimates of write-downs of inventories to net realisable value are presented in Note 15,
- estimates and assumptions regarding impairment losses on receivables are presented in Note 17,
- judgement regarding reclassification of a trade liability to financial liabilities with respect to liabilities settled through reverse factoring are presented in Note 24;
- estimates of employee benefits are presented in Notes 26–28,
- estimates of recognised provisions for liabilities are presented in Notes 27–28.

Uncertainty related to tax settlements
The regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes and amendments, Furthermore, the applicable tax laws lack clarity, which leads to differing opinions and diverse interpretations, both between various public authorities and between public authorities and businesses.
Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, the tax risk in Poland is higher than in countries with more mature tax systems.
The amounts presented and disclosed in the financial statements may therefore change in the future as a result of a decision by an inspection authority.
On July 15th 2016, the tax legislation was amended to reflect the provisions of the General Anti-Abuse Rule ("GAAR"). GAAR is intended to prevent the creation and use of artificial legal structures designed to avoid paying taxes in Poland. GAAR defines tax avoidance as an act performed primarily for the purpose of obtaining a tax advantage which, in given circumstances, is contrary to the objective and purpose of the tax law. Under GAAR, such an activity does not result in a tax advantage if the legal structure used was artificial. Any arrangements involving (i) separation of transactions or operations without sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements operating in a similar way, may be viewed as an indication of the existence of an artificial scheme subject to GAAR. The new regulations will require much more judgement when assessing the tax consequences of particular transactions.
The GAAR clause should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but the benefit of the tax advantage obtained through the arrangement continued or still continues after that date. Implementation of the above regulations will provide Polish tax inspection authorities with grounds to challenge certain legal arrangements made by taxpayers, including restructuring or reorganisation of corporate groups.
The Management Board is aware of the obligations to report MDR tax schedules under the Tax Law of August 29th 1997.
The Company recognises and measures current and deferred tax assets or liabilities in accordance with IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments* based on tax profit (loss), tax base, unused tax losses, unused tax credits and tax rates, taking into account the assessment of uncertainties related to tax settlements.
The Company treats all tax settlements with a high degree of care, in particular with respect to classification of expenses as tax-deductible costs and with respect to deduction of VAT. For more information, see section 2.30.

(all amounts in PLN '000 unless indicated otherwise)

2.7. Going concern assumption

These full-year separate financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.
For information on changes in working capital and the financing structure as at December 31st 2019, see Note 30 Financial instruments. For information on the impact of the COVID-19 pandemic on the Company's situation, see Note 38 *Information on the effects of the COVID-19 pandemic*. In view of the above, the Company's Management Board concludes that these circumstances do not indicate any threat to the Company continuing as a going concern.

2.8. Foreign currencies

Transactions denominated in foreign currencies are translated into the Polish złoty using the exchange rate from the transaction date.
At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the Polish złoty at the average exchange rate published for a given currency on the reporting date by the National Bank of Poland. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated at the exchange rate from the transaction date. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate from the date on which the fair value was determined.
Foreign exchange gains/(losses) are recognised in the statement of profit or loss as finance income or costs, except for differences arising on translation of equity instruments and qualifying cash flow hedges, which are recognised as other comprehensive income.
The following exchange rates were used for measurement purposes:

	Dec 31 2019	**Dec 31 2018**
EUR	4.2585	4.3000
USD	3.7977	3.7597

2.9. Property, plant and equipment

2.9.1. Own property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes purchase price of an asset and costs directly attributable to bringing the asset to a condition necessary for it to be capable of use, including expenses relating to transport, loading, unloading, and storage. Discounts, rebates and other similar reductions and recoveries reduce the cost of an asset. The cost of an item of property, plant and equipment under construction comprises all costs incurred by the Company during its construction, installation, adaptation and improvement until the date of its acceptance for use (or, if the item has not yet been commissioned for use, until the reporting date). The cost also includes, where required, a preliminary estimate of the costs of dismantling and removing items of property, plant and equipment and restoring them to their original condition. Purchased software which is necessary for the proper functioning of the related equipment is capitalised as part of the equipment.
When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (significant parts) of property, plant and equipment.

An item of property, plant and equipment may be derecognised from the statement of financial position upon its disposal or when no economic benefits are expected from further use of the asset. Gains or losses arising from the derecognition of property, plant and equipment are determined as the difference between the net proceeds from disposal and the carrying amount of the item and are recognised as other income or other expenses in the statement of profit or loss.
Property, plant and equipment under construction are tangible assets under construction or in the course of assembly, and are stated at cost less impairment losses. Property, plant and equipment under construction are not depreciated until their construction is completed and they are available for use.
Prepayments for property, plant and equipment are presented under other receivables in non-current assets.

(all amounts in PLN '000 unless indicated otherwise)

2.9.2. Subsequent expenditure

Subsequent expenditure is capitalised only when it can be measured reliably and it is probable that the future economic benefits associated with the expenditure will flow to the Company. Other expenditure are recognised in the statement of profit or loss as an expense.

2.9.3. Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of an item of property, plant and equipment or its major components. The estimated useful lives are as follows:

Type	Amortisation rate	Period
Land	Not depreciated	-
Buildings and structures	1% - 33%	3 - 100 years
Plant and equipment	2% - 100%	1 - 50 years
Office equipment	10% - 100%	1 - 10 years
Vehicles	14% - 100%	1 - 7 years
Computers	20% - 100%	1 - 5 years

Depreciation commences when an item of property, plant and equipment is at the location and in condition necessary for it to be capable of operating in the manner intended by the entity’s management. Depreciation ends no later than when accumulated depreciation equals the cost of the asset, or the asset is derecognised following its liquidation or sale, or when the asset is found to be deficient. The depreciable amount is determined after deducting its residual value.
Assets under construction are not depreciated.
Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

2.10. Right-of-use assets

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When assessing whether a contract conveys the rights to use an identified asset, the Company assesses:

- **Identifiability of an asset** that can be identified unambiguously in the contract or that can be implicitly identified when the asset is available for use (e.g. a delivery report). An asset must be physically distinct or represent substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset If the supplier has a significant right to replace the asset throughout its useful life, the asset is not identifiable.

- **The right to obtain substantially all of the economic benefits from the use of the asset over the lease term.**

- **Right to direct the use of an asset** – the Company has the right to decide how and for what purpose the asset is used throughout its useful life. In rare cases when decisions have been made taken in advance on how and for what purpose an asset is to be used, the Company has the right to direct the use when:
  - the Group has the right to use the asset (or to direct others to use the asset in a manner determined by the Company) throughout its useful life and the supplier has no right to change the Company’s instructions for the use of the asset, or
  - the Company has designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

The Company determines a non-cancellable period of a lease taking into account:
- periods covered by an option to extend if the lessee is reasonably certain to exercise the option to extend the lease, and
- periods covered by the option to terminate the lease is reasonably certain not to exercise the option to terminate the lease.

The Company updates the lease term when there has been a change in the non-cancellable period of the lease.

Lease contracts for definite term
In the case of definite-term contracts and with a termination option available only to the lessee, the Company determines if the exercise of the option and the date of the exercise are sufficiently certain.

Lease contracts for indefinite term
Indefinite-term contract in which the lessee has a termination option are recognised as leases during their expected term, taking into account the possibility of material future modification of the terms of such contracts. Based on the Company's judgement, for most indefinite-term contracts a material modification of terms may occur over a period of three to five years, depending on the group of assets, with the proviso that for real estate contracts the Company assumes a period of five years, unless the Company has a reason to assume a longer period (i.e. for real estate – period of depreciation of the asset by the lessor). The Company reviews the estimate at least once a year at the end of each financial year. In determining the lease term, the Company determines the enforceability period of a contract. A lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the contract without the need to obtain the other party's authorisation without incurring penalties greater than insignificant. The Company assesses the materiality of such penalties, i.e. in addition to matters arising directly from contractual provisions, any other material economic factors that would discourage termination of the contract (e.g. significant investments in leased assets, availability of alternative solutions, relocation costs) are taken into account. If neither the Company as a lessee nor a lessor incurs a substantial termination penalty (generally understood), the lease ceases to be enforceable and its term is the notice period. On the other hand, if any of the parties, in accordance with professional judgement, incurs a material penalty for termination (generally defined), the Company determines the lease term as sufficiently certain (i.e. the period for which it can reasonably be assumed that the contract will continue).

Short-term leases and leases of low-value underlying asset
The Company decided not to recognise the right to use financial assets and liabilities for short-term leases with a non-cancellable period of 12 months or less and leases where the value of underlying assets as at the date of initial recognition is low, i.e. no more than PLN 10,000. The Company recognises lease payments for such leases as costs on a straight-line basis during the lease term.
Initial measurement
At the lease commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:
- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee, and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Subsequent measurement
After the lease commencement date, the Company measures the right-of-use asset at cost less any accumulated depreciation (amortisation) calculated on a straight-line-basis. The right-of-use asset is depreciated (amortised) from the commencement date of the lease to the end of the useful life of the asset or until the end of the lease term, whichever is earlier. The estimated useful life of an asset is determined on the same basis as the estimated useful life of property, plant and equipment taking into account the lease term. In addition, the right-of-use asset is tested for impairment and adjusted for impairment losses, if any, and adjusted for remeasurement of the lease liability.

Presentation
Right-of-use assets are presented separately from other assets in the statement of financial position, i.e. as right-of-use assets.

(all amounts in PLN '000 unless indicated otherwise)

2.11. Intangible assets

2.11.1. Research and development

Research costs are recognised as an expense in the statement of profit or loss when incurred.
Development costs whose effects are used in design or production of new or substantially improved products and processes are capitalised only if the product or process is technically and commercially feasible and the Company has sufficient technical, financial and other resources to complete the development.
Expenditure on development activities is measured at cost less accumulated amortisation and impairment losses, if any. Completed development work is amortised over the expected period when the benefits from the development project will be obtained.
Capitalised development costs are tested for impairment at each reporting date if the asset has not yet been brought into use or if the impairment indicators have been identified and indicate that the carrying amount may not be recoverable.

2.11.2. Other intangible assets

Other intangible assets acquired in a separate transaction are recognised in the statement of financial position at cost.
Subsequent to initial recognition, intangible assets with a finite useful life are measured at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets with an indefinite useful life are measured at cost less accumulated impairment losses, if any.
Except for development costs, internally generated intangible assets are not recognised in the statement of financial position and the related expenditure is disclosed in the statement of profit or loss when incurred.

2.11.3. Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalised only when it increases future economic benefits associated with the given asset. Other expenditure is recognised in the statement of profit or loss as an expense when incurred.

2.11.4. Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives, unless such useful life is indefinite. Intangible assets with indefinite useful lives and those not yet in use are tested for impairment annually in relation to individual assets or at the level of a cash-generating unit. Other intangible assets are assessed for any impairment indication annually.
The Company assumes the following useful lives for each category of intangible assets:

Type	Amortisation rate	Period
Licences	5%-100%	1–20 years
Software	16% - 100%	1–6 years
Technology licences	2% - 100%	1–50 years
REACH	2% - 100%	1–50 years
Development work	2% - 100%	1–50 years

The adopted useful lives, amortisation methods and residual values of intangible assets are reviewed at the end of each reporting period and revised prospectively.

2.12. Investment property

Investment property comprises land, structures and buildings held by the Company for capital appreciation or other benefits, e.g. to earn rental income.
Investment property is measured in accordance with the Company's valuation policies applicable to property, plant and equipment.
Income from leases of investment property is presented in other income and related expenses are presented in other expenses.

2.13. Shares

Shares include shares in subsidiaries and other entities. Shares in subsidiaries are recognised in the statement of financial position at cost less impairment losses recognised in accordance with IAS 36 *Impairment*

2.14. Trade receivables

Trade receivables are non-derivative financial assets, not quoted in an active market, with fixed or determinable payments. They are initially recognised at fair value and are subsequently measured at amortised cost with the effective interest rate method, less impairment losses.
Where the difference between the amortised cost and amount due is not significant, trade and other receivables due within 12 months are measured at amounts due, less impairment losses.
An expected loss on trade receivables is estimated based on the simplified approach (provisions matrix) from the date of initial recognition of receivables.
An expected loss on trade and other receivables and the corresponding impairment loss on a given financial asset are recognised for both past due and not past due receivables:

- based on the probability-weighted estimate of credit losses that will be incurred if the payment is past due for more than 90 days.
  Losses estimated using the simplified approach are charged to operating expenses as distribution costs if they relate to trade receivables, except for expected losses on receivables under lease of investment property, or to other expenses/other income, if they relate to other receivables;
- in the event of any of the following:
  a) receivables from debtors put into liquidation or bankruptcy;
  b) receivables from debtors in the case of whom a bankruptcy petition has been dismissed on the grounds that the debtor's assets are insufficient to cover the costs of the bankruptcy proceedings;
  c) past due receivables disputed by debtors and sought under court proceedings (disputed receivables), where, based on assessment of the debtor's assets and financial condition, the debtor is unlikely to pay the full contractual amount of the receivable;
  d) receivables which are equivalent to an increase in the amount receivable in respect of which impairment losses have been recognised;
  e) receivables which are past due by 180 days as at the reporting date;
  f) receivables under administrative enforcement, court proceedings or court enforcement proceedings;
  an impairment loss equal to 100% of the receivable amount is recognised.

2.15. Presentation of factoring and receivables discounting contracts

The Company uses contracts for purchase of receivables by the financing party before their maturities:

- factoring with recourse, or purchase or discounting of receivables with recourse – secured by assignment of rights under an insurance policy, in which the financing party purchases the receivables before maturity with recourse, against payment of a fee and interest from the date of purchase to the maturity date. If the debtor does not pay at the maturity date or within the maximum allowed period after the maturity date, the financing party is allowed to claim repayment of the price paid. Due to the assignment of rights under an insurance policy, the financing party is first entitled to satisfy its claims from the policy, without exercising its right of recourse to the Company. Therefore, the Company derecognises the receivables as at the transaction date, and settles their amount against the amount received from the financing party and discloses a contingent liability resulting from factoring (receivables discounting);
- factoring with recourse, or purchase or discounting of receivables with recourse – secured by assignment of rights under an insurance policy, in which the financing party purchases the receivables before maturity with recourse, against payment of a fee and interest from the date of purchase to the maturity date. If the debtor does not pay at the maturity date or within the maximum allowed period after the maturity date, the financing party is allowed to claim repayment of the price paid. Therefore, if the financing party does not receive payment from the debtor, it first exercises its right of recourse to the Company. Thus, the receivables amount is not settled against the amount received for their sale until the debtor pays the debt to the financing party, and in the period from the sale of debt to the date of payment the Company presents cash received from the financing party as other financial liabilities resulting from factoring (receivables discounting);

- The Company also uses reverse factoring agreements under which its trade payables towards suppliers are paid when due by the financing party. The payment deadline for such payables taken over by the financing party is then contractually deferred in exchange for payment of interest by the Company for the period between the original due date of an amount payable and the deferred date, when such amount is paid by the Company together with accrued interest. Accordingly, due to the change of nature of liability, at the time when such amounts payable towards suppliers are paid by the financing institution, the Company transfers them to other current financial liabilities and then accounts for such amounts on the dates of deferred payments to the financing institution. Liabilities under reverse factoring agreements are presented under other financial liabilities. Paid interest is recognised in finance costs. The repayment made by the Company to the financing party on the deferred payment date is recognised as expenditure on other financing activities.

2.16. Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or raw materials used in production or in rendering of services.
Inventories are measured at the lower of cost and net realisable value as at the reporting date. The cost of inventories is determined using the weighted average method.
The cost is the purchase price of an asset, including the amount due to the seller, excluding recoverable value added tax and excise, increased by relevant import taxes and duties (if applicable), adjusted for other directly attributable costs incurred when bringing the asset to its current location and condition, including transport, loading and unloading, less any rebates, discounts or similar recovered amounts. Finished goods, semi-finished products and work in progress are valued at production cost comprising a justified part of fixed indirect production costs, calculated on the assumption that normal production capacity is used.
Net realisable value is the estimated selling price in the ordinary course of business, net of discounts and rebates, less the estimated costs of completion and estimated costs necessary to make the sale.
Write-down of inventories of raw materials and consumables are determined based on assessment of their economic usefulness. Write-downs of inventories are recognised in the statement of profit or loss as cost of sales. Reversals of inventory write-downs are recognised as reduction of cost of sales.

2.17. Property rights

Property rights include CO_2 emission allowances and energy certificates.
Emission allowances received free of charge and rights allocated in connection with projects executed under the National Investment Plan are initially recognised as property rights, with a corresponding entry in deferred income (as government grants in accordance with IAS 20), at fair value at the date of registration.
Acquired emission allowances are recognised at cost.
Liabilities resulting from the emission of pollutants to the air, presented under other liabilities, are recognised as cost of sales (taxes and charges) and measured as follows:

- if the Company has a sufficient amount of allowances to cover its liabilities arising from the emission: as a product of the amount of allowances required to be redeemed to settle the obligation and the unit cost of allowances held by the Company at the reporting date. The unit cost of allowances required to settle the estimated emissions is determined using the weighted average method,
- if the Company does not have a sufficient amount of allowances to cover its liabilities arising from the emission: as a product of the amount of allowances held by the Company and recognised as receivable at the reporting date and the unit cost of such emission allowances, increased by the fair value of the deficit. If the Company has concluded futures contracts to hedge the settlement of a shortfall in emission allowances in a reporting period and allowances under those contracts will be delivered before the time limit set for redemption of those allowances in the National Centre for Emissions Balancing and Management (KOBiZE), then the price to be used with respect to the shortfall covered with those instruments will be the price in the futures contract.

Government grants related to allowances received free of charge are recognised in the statement of profit or loss as a reduction to cost of sales (taxes and charges) in the proportion of CO_2 emission realised in the reporting period to the estimated annual emissions. Government grants related to allowances received in the execution of National Investment Plan projects are accounted for as other income during the period of depreciation and amortisation of assets acquired in the execution of National Investment Plan projects.

Redemption of emission allowances is charged against the corresponding liability when redemption of the allowances for the previous reporting period is registered in the relevant register. Allowances allocated under National Investment Plan projects may be used for physical redemption of allowances for a given year.

The energy certificates awarded to the Company for electricity production in cogeneration are recognised as they become receivable as property rights and as a decrease in electricity production cost. Purchased energy certificates are recognised at cost.
Certificate redemption liabilities resulting from the sale of energy, presented in other liabilities, are recognised as cost of sales (taxes and charges), and are measured at the unit cost of certificates held by the Company or based on the appropriate emission charge.
Redemption of certificates is charged against the corresponding liability when a redemption request is filed with the Energy Regulatory Office.

In the case of energy certificates received in connection with execution of investment projects, the same rules apply as for the CO_2 emission allowances received as part of the National Investment Plan.

2.18. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits with original maturities of less than three months, and funds transferred to the Group companies participating in the cash pooling arrangement. Cash and cash equivalents presented in the statement of cash flows include the above-mentioned items.

2.19. Impairment of non-financial assets

The carrying amounts of the Company's assets other than inventories, deferred tax assets and financial instruments, measured under different principles, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the Company estimates the recoverable amount of the asset or cash-generating unit (CGU). The recoverable amount of CGUs including goodwill and intangible assets not yet put into use and with an indefinite useful life is estimated at each reporting date.
Impairment losses are recognised when the carrying amount of an asset or its related CGU exceeds the recoverable amount.
The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.
The Company's common (corporate) assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to the CGU based on consistent and reasonable basis and are tested for impairment as part of the CGU.
Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.
Impairment losses on goodwill are not reversed. For other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that impairment loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.20. Equity

Equity is divided by type according to the applicable laws and the Company's Articles of Association.
Share capital is measured at the nominal value of the issued shares.
Transaction costs incurred on incorporation of the entity or associated with the issue of equity securities reduce share premium.
Capital reserves from previous years, accumulated profit (losses) from previous years, and profit (loss) for the period are presented in the financial statements as retained earnings.

2.21. Employee benefits

Employee benefits include all forms of consideration given by the Company in exchange for services rendered by employees. They include benefits paid during the employment period and post-employment benefits.

2.21.1. Defined contribution plans

Under current regulations, the Company has the obligation to withhold and pay social security contributions for its employees. Under IAS 19, these benefits are a defined contribution state plan. The Company's obligations relating to such contributions are estimated based on the amounts payable for the year and are recognised as an employee benefit expense in the period during which related services are rendered by employees.
Additionally, pursuant to an agreement with employees, the Company pays fixed contributions into a separate entity and has no other legal or constructive obligation to pay further amounts. Obligations to make contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

2.21.2. Defined benefit plans

The Company's obligations in respect of defined benefit plans are calculated for each benefit plan separately by estimation of the present value of future benefits earned by employees in the current period and previous periods. Current service costs are recognised in the statement of profit or loss as employee expenses. Interest on obligations in respect of defined benefit plans is recognised in the statement of profit or loss as finance costs. Revaluation of the obligations is recognised in other comprehensive income.

2.21.2.1. Defined benefit plans - retirement and death benefits

Under current Labour Code and collective bargaining agreement regulations, the Company has the obligation to pay retirement and death benefits.
The Company's retirement benefit obligation is calculated by a qualified actuary using the projected unit credit method. The estimate of the future salaries at the retirement date and the amount of future benefits to be paid is included in the calculation. The Company's death benefit obligation is calculated by a qualified actuary by estimating the amount of the future benefits.
The benefits are discounted to determine their present value. The discount rate is the yield at the end of the reporting period on government bonds that have maturity dates approximating the terms of the Company's obligations. Employee turnover is estimated based on the past experience and the expected turnover rates in the future. Retirement and death benefit obligations are recognised proportionally to the expected period of the employee's service.

2.21.2.2. Defined benefit plans - provisions for Company Social Fund benefits for pensioners

Under current regulations, the Company has the obligation to pay social benefits to the pensioners. Therefore, the Company recognises obligations for contributions to the Company Social Benefits Fund related to post-employment benefits. The obligations are estimated based on average wages in the Polish economy. They are discounted to determine their present value in a similar way as other classes of employee benefits. The amount of provision for the fund benefits is calculated individually for each employee and equals the present value of future benefits.

2.21.3. Other long-term employee benefits – jubilee benefits

The Company offers jubilee benefits to its employees. The cost of such benefits depends on the length of service and remuneration of an employee at the time when the benefit is paid.
Benefits are calculated using the projected unit credit method. The Company's obligation under jubilee benefits is calculated by estimating future remuneration at the date the employee is entitled to receive the award and the amount of future award to be paid. The benefits are discounted to determine their present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Company's obligations. Employee turnover is estimated based on the past experience and the expected turnover rates in the future. The obligation is recognised proportionally to the expected period of the employee's service.

2.21.4. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. An obligation is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.22. Provisions

Provisions are recognised if:
- a present obligation (legal or constructive) has arisen as a result of a past event,
- the outflow of economic benefits is probable,
- the amount can be measured reliably.

The amount of a provision is the best estimate of the expenditure to be incurred which is required to settle the obligation at the reporting date. The estimates are based on the management's judgement, supported by the experience resulting from similar past events and independent experts opinions, if required.
If the Company expects to be reimbursed for expenditures required to settle the obligation covered by a provision, e.g. by the insurer, the reimbursement is recognised as a separate asset if it is virtually certain that the reimbursement will be received.

2.22.1. Site restoration costs

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land or other property is recognised when the land or other property is contaminated.

2.22.2. Litigation

Provisions for the effects of litigation and claims are recognised considering all available evidence, including lawyers' opinions. If as at the reporting date the outflow of benefits is assessed as probable based on the analysis performed, the respective provision is recognised (provided the other recognition criteria are met).

2.23. Trade payables

Trade payables are initially recognised at fair value. Subsequently they are measured at amortised cost using the effective interest rate method.
Liabilities due in up to 12 months, when the difference between the amortised cost and amount due is not significant, are measured at amounts due.

2.24. Interest-bearing borrowings

Interest-bearing borrowings and other debt instruments are initially recognised at fair value (adjusted for the transaction costs associated with the issue of debt).

Subsequently interest-bearing borrowings and other debt instruments are measured at amortised cost using the effective interest rate method.

2.25. Lease liabilities

Initial measurement
At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease interest rate is the rate of interest that causes the present value of the lease payments and the residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of a lessee.

The lessee's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of use asset in a similar economic environment.

Subsequent measurement
After the commencement date, the Company measure the lease liability by:
- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect the lease payments made, and
- remeasuring the carrying amount in order to take account of any reassessment or modifications of the lease referred to below or to reflect revised lease payments.

Reassessment of the lease liability
The Company remeasures the lease liability by discounting the revised lease payments using a revised discount rate, if either:
- there is a change in the lease term – the Company then determines the revised lease payments on the basis of the revised lease term; or
- there is a change in the assessment of an option to purchase the underlying asset – the Company then determines the revised lease payments to reflect the change in amounts payable under the purchase option.

The Company reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:
- is within the control of the Company; and
- affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

The Company revises the lease term if there is a change in the non-cancellable period of a lease. For example, the non-cancellable period of a lease will change if:
- the Company exercises an option not previously included in the Company's determination of the lease term;
- the Company does not exercise an option previously included in the Company's determination of the lease term;
- an event occurs that contractually obliges the Company to exercise an option not previously included in the Company's determination of the lease term; or
- an event occurs that contractually prohibits the Company from exercising an option previously included in the Company's determination of the lease term.

The Company remeasures the lease liability by discounting the revised lease payments using a unrevised discount rate, if either:
- there is a change in the amount expected to be payable under a residual value guarantee; the Company determines the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee;
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The Company remeasures the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). The Company determines the revised lease payments for the remainder of the lease term based on the revised contractual payments.

The remeasurements of the lease liability are recognised as adjustments to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognises any remaining amount of the remeasurement in profit or loss.

Presentation
A lease liability is presented in a separate line item of the statement of financial position, broken down by non-current and current portion.

2.26. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A **financial asset** is any asset that is:

a) cash,
b) an equity instrument of another entity,
c) a contractual right:
   - to receive cash or another financial asset from another entity; or
   - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
d) a contract that will or may be settled in the entity's own equity instruments and is:
   - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
   - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the Company's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the Company's own equity instruments.

A **financial liability** is any liability that is:
a) a contractual obligation:
   - to deliver cash or another financial asset to another entity; or
   - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
b) a contract that will or may be settled in the entity's own equity instruments and is:
   - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or
   - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include: instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

A **derivative** is a financial instrument or another contract that meets all of the following three conditions:
a) its value changes in response to the change of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (the underlying);
b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
c) it is settled at a future date.

2.27. Initial recognition and derecognition of financial assets and liabilities

The Company recognises a financial asset or a financial liability in its financial statements when it becomes party to the contractual provisions of the instrument.
A regular way purchase or sale of a financial asset or a financial liability is recognised on the transaction date, i.e. the date on which the Company agreed to purchase a financial asset or to sell a financial liability. A regular way purchase or sale of a financial asset is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.
The Company derecognises a financial asset from the statement of financial position if:
a) the contractual rights to the cash flows from the financial asset expire; or
b) it transfers the financial asset and the transfer qualifies for derecognition.

The Company removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract:
a) is discharged, or
b) is cancelled, or
c) expires.

2.28. Initial measurement of financial instruments

Except for trade receivables, at initial recognition all financial assets and financial liabilities are recognised at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability (except for financial assets classified as financial assets at fair value through profit or loss, in the case of which transaction costs are not added to or deducted from the fair value).

2.28.1. Classification and measurement of financial instruments as at the reporting date

Classification of financial assets

Financial assets are classified into the following measurement categories:

- measured at amortised cost, including:
  - trade and other receivables not to be sold,
  - cash and cash equivalents,
  - loans,
- measured at fair value through profit or loss, including:
  - derivative financial instruments,
- measured at fair value through other comprehensive income, including:
  - trade receivables to be sold,
  - shares in unrelated entities.

Measurement subsequent to initial recognition

For the purpose of measurement subsequent to initial recognition, financial assets are classified into one of the following four categories:

- Debt instruments measured at amortised cost,
- Debt instruments measured at fair value through other comprehensive income,
- Equity instruments measured at fair value through other comprehensive income,
- Financial assets measured at fair value through profit or loss.

Debt instruments – financial assets at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company classifies the following as financial assets measured at amortised cost:

- trade and other receivables not to be sold,
- loans that meet the SPPI classification test, and, in line with the business model, are recognised as held to collect cash flows,
- cash and cash equivalents.

Interest income is calculated using the effective interest rate method and shown in the statement of profit or loss under *Finance income*.

Debt instruments – financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income as well as foreign exchange and impairment gains and losses are recognised in profit or loss and calculated in the same manner as financial assets measured at amortised cost. Other changes in fair value are recognised through other comprehensive income. When a financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Interest income is calculated using the effective interest rate method and shown in the statement of profit or loss under *Finance income*.

In debt instruments measured at fair value through other comprehensive income the Company classifies trade receivables to be sold.

Equity investments – financial assets at fair value through other comprehensive income

Upon initial recognition, the Company can make an irrevocable election to recognise in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading or is not a contingent consideration recognised by the acquirer in a business combination falling within the scope of IFRS 3. Such election is made separately for each such equity instrument. The cumulative gain or loss previously recognised in other comprehensive income is not reclassified to profit or loss. Dividends are recognised in profit or loss when an entity's right to receive payments is established, unless the dividend clearly represents recovery of a portion of the investment cost.

In equity instruments measured at fair value through other comprehensive income the Company classifies its equity interests in unrelated entities.

Financial assets at fair value through profit or loss

Financial assets which do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

If the Company:

- has a legally enforceable right of set-off and
- intends either to settle on a net basis or to realise the financial asset and settle the financial liability simultaneously,

then the financial asset and liability are set off against each other and disclosed on a net basis in the statement of financial position.

The framework agreement referred to in IAS 32.50 does not provide any basis for the set-off of assets and liabilities, unless both of the criteria specified above are satisfied.

2.28.2. Derivative financial instruments

The Company uses derivative financial instruments to manage its currency risk exposure resulting from operating, financing and investment activities. In accordance with its treasury policy, the Company does not use or issue derivatives held for trading.
Initially, the financial assets and liabilities are recognised at fair value.
Any gains and losses arising from changes in the fair value are recognised in finance income or finance costs, as appropriate, in the statement of profit or loss.
Derivative financial instruments include in particular options, forward contracts, swaps, and embedded derivatives.
Derivative financial instruments are presented as a separate item in the statement of financial position.

2.28.3. Impairment of financial assets

The Company recognises an impairment allowance for expected credit losses on initial recognition of a financial asset and then measures it not less frequently than as at March 31st, June 30th, September 30th, December 31st.
The Company recognises an allowance for expected credit losses on financial assets measured:
a) at amortised cost,
b) at fair value through other comprehensive income.

The impairment allowance is measured as the difference between the present value of cash flows receivable by the Company under the contract throughout the expected life of the asset and the amount of cash flows that the Company expects to receive, provided that:
a) expected credit losses are determined in a way that reflects the probability that they will occur and any provided collateral;
b) the present value of the cash flows is calculated based on all contractual cash flows discounted at the original (i.e. determined on initial recognition) effective interest rate, or credit-adjusted effective interest rate in the case of purchased or originated credit-impaired financial assets.

The Company uses the following models for estimating allowances for expected credit losses:

a) general approach,
b) simplified approach (provision matrix).

Under the general approach, the Company monitors on an ongoing basis the credit risk associated with financial assets and possible changes in the level of this risk. For the purpose of identification of a significant increase in credit risk, the Company groups financial instruments on the basis of shared credit risk characteristics.
Based on credit risk changes since initial recognition, financial assets are allocated to one of the following stages:

a) Stage 1 – financial assets for which no significant increase in credit risk has been identified and financial assets with low credit risk as at the reporting date;
b) Stage 2 – financial assets for which a significant increase in credit risk has been identified;
c) Stage 3 – financial assets for which impairment has been identified.

In the case of Stage 1 financial assets, allowances for expected credit losses are estimated based on 12-month expected losses.
In the case of financial assets classified to Stage 2 and Stage 3, allowances are estimated based on lifetime expected losses.
At least once every quarter the Company analyses whether there is any indication that a financial asset should be classified to any of the above stages.
The Company applies the general approach for financial assets other than trade receivables.
The simplified model is applied to trade receivables.
Under the simplified approach, the Company estimates the impairment allowance based on historical credit loss experience.
In the case of purchased or originated credit-impaired financial assets, the Company only recognises the cumulative changes in lifetime expected credit losses since initial recognition as an impairment allowance.
The expected credit losses amount is recognised in profit or loss for the period as an impairment gain or loss.
The Company recognises favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were recognised on initial recognition.

2.29. Hedge accounting

As regards hedge accounting, the Company decided to continue applying the principles set out in IAS 39.
Financial instruments (including derivatives) designated as hedges whose fair value or cash flows are expected to offset changes in the fair value or cash flows of the hedged items are recognised by the Company in accordance with the principles of hedge accounting, provided that at least all of the following conditions are met:

- At the inception of the hedge, the Company possesses documentation that includes as a minimum: a definition of the objective of risk management and the risk management policy, an identification of the hedging instrument, an identification of the hedged asset, liability or forecast transaction, a description of the nature of the risk associated with the hedged item or forecast transaction, an identification of the hedging period and a description of how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk,
- The hedge is highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk. Its effectiveness is assessed by comparing the changes in the value of the hedge or cash flows associated with the hedge against the changes in the value or cash flows associated with the hedged item. A hedge is considered highly effective if throughout the hedging period nearly the entire amount of changes in the fair value of, or in the cash flows associated with, the hedged item is offset by changes in the fair value of, or in the cash flows associated with, the hedge, and the actual effectiveness of the hedge is within a range of 80%-125%,
- The effectiveness of the hedge can be reliably estimated through reliable measurement of the fair value of, or the cash flows associated with, the hedged item, and the fair value of the hedge. The effectiveness of a hedge is assessed retrospectively (through ex-post tests) to check whether a given hedging relationship was highly effective in the analysed accounting periods, as well as prospectively (through ex-ante tests) to check whether a given hedging relationship can still be expected to be highly effective,

- If the hedge relates to cash flows associated with a forecast transaction, the transaction is highly probable.

2.29.1. Cash flow hedges

Financial instruments (including derivatives) used as cash flow hedges hedge the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability, an unrecognised firm commitment or highly probable forecast transaction. The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and presented as hedging reserve in equity. Any ineffective portion of changes in the fair value of the hedging instrument is recognised immediately in the statement of profit or loss. When the hedged item is a non-financial asset, the Company includes the amount accumulated in equity in the initial carrying amount of that asset. In other cases, the amount accumulated in equity is reclassified to the statement of profit or loss in the same period that the hedged item affects profit or loss. If the forecast transaction is no longer highly probable to occur, the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to the statement of profit or loss for the current period.

2.30. Revenue

2.30.1. Revenue from contracts with customers

Revenue comprises revenue under contracts with customers. Recognition of revenue represents a transfer of goods or services to a customer in the amount that reflects the amount of consideration the Company expects to receive in exchange for those goods or services. A key criterion for revenue recognition is the time when the Entity satisfies the performance obligation, that is the time when the control of the asset is transferred to the customer. Revenue is recognised based on the following five-step revenue recognition model:
1. identifying the contract;
2. identifying the performance obligations;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations;
5. recognising revenue on satisfaction of performance obligations.

For a detailed description of identifying contracts with customers, see ‘Revenue from contracts with customers’.

2.30.2. Other income

Other operating income is income not derived from the Company’s core business.
In particular, other income includes:
- income from lease of investment property is recognised in the statement of profit or loss on a straight-line basis over the lease period, in accordance with relevant rental contracts,
- received damages/compensations,
- stock-taking surpluses,
- reversal of provisions.

2.30.3. Finance income

Finance income comprises the interest on funds invested by the Company, loans and other interest-bearing instruments, dividends receivable, gains on disposal of available-for-sale financial assets, fair value gains on financial instruments at fair value through profit or loss, foreign exchange gains and such gains on derivatives (except for the contracts for CO_2 emission allowances) which are recognised in the statement of profit or loss.
Interest income is recognised as it accrues in the statement of profit or loss, using the effective interest rate method. Dividend income is recognised in the statement of profit or loss on the date that the Company’s right to receive the dividend is established.

2.30.4. Government grants received

A government grant is recognised at fair value if there is reasonable assurance that the Company will comply with the conditions attaching to it, and that the grant will be received.

If a grant relates to a cost item, it is recognised as a reduction to the cost item which the grant is intended to compensate.
Amounts of cash recognised as grants, received to finance purchase or production of property, plant and equipment, intangible assets or investment property, including assets under construction, increase other income, with matching depreciation or amortisation charges.

2.31. Expenses

2.31.1. Cost of sales

Cost of sales includes all expenses related to the Company's principal business, except for selling and distribution expenses, administrative expenses, other expenses and finance costs. Production cost includes direct costs and an appropriate share of production overheads based on normal operating capacity.

2.31.2. Selling and distribution expenses

Selling and distribution expenses comprise recognised costs related to sales, such as:
- cost of packaging,
- transport, loading and unloading costs,
- customs duties and trade fees,
- carriage insurance cost,
- recognition/reversal of impairment losses on trade receivables, excluding impairment losses on receivables under lease of investment property (presented in other income/expenses) and interest on receivables (presented in finance income/costs).

2.31.3. Administrative expenses

Administrative expenses comprise:
- general and administrative expenses associated with the management of the Group,
- general production overheads (related to the production, including maintenance and functioning of general departments, not associated with the direct production).

2.31.4. Finance costs

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, net foreign exchange losses, fair value losses on financial instruments through profit or loss, interest on leases, and impairment losses recognised on financial assets. Interest expense is recognised using the effective interest rate method.
Finance costs that are directly attributable to acquisition, construction or production of a qualifying asset are capitalised. Other borrowing costs that are not directly attributable to acquisition, construction or production of a qualifying asset are recognised in profit or loss when incurred.

2.32. Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the statement of profit or loss for the current period except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.
Current tax is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable is calculated based on taxable profit (tax base) for the period. Taxable profit differs from profit (loss) before tax because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes. Deferred tax is not recognised for: 1) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, 2) temporary differences related to investments in subsidiaries and jointly controlled entities to the extent it is probable that they will not be realised in the foreseeable future, 3) temporary differences arising on initial recognition of goodwill.
Taxable income on activities in special economic zones may be tax exempt up to the amount determined in the applicable rules governing the operation of special economic zones. Future benefits

resulting from tax exemption are treated as investment tax credits and recognised, by analogy, as deferred tax assets, in accordance with IAS 12.
The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured using tax rates enacted or substantively enacted at the reporting date.
Deferred tax assets are recognised only to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised. Deferred tax assets are not recognised to the extent it is not probable that taxable income will be available to utilise all temporary differences or their part. Such assets are subsequently recognised if it becomes probable that sufficient taxable income will be available.
The Company recognises a deferred tax asset for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. When assessing whether any available future taxable income is likely to be sufficient, the Group considers the nature, origin, and schedule of such income.
Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority. Deferred tax assets and liabilities are not discounted and are presented in the statement of financial position as non-current assets or liabilities.

Uncertainty over income tax treatments
If the Company concludes it is probable that the taxation authority will accept an uncertain tax treatment, the Company determines the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, the Company assumes that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information.
If the Company concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the Company reflects the effect of uncertainty in the period when such determination is made. The Company recognises an income tax liability using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty:

- the Company determines the most likely amount – the single most likely amount in a range of possible outcomes; or
- the Company recognises the expected value – the sum of the probability-weighted amounts in a range of possible outcomes.

2.33. Segment reporting

The Company identifies operating segments based on internal reports. Operating results of each segment are reviewed on a regular basis by the Company'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 Company identifies the following operating segments:
- Agro Fertilizers
- Plastics
- Energy
- Other Activities segment, comprising other activities, such as laboratory services, property rental and other activities that cannot be allocated to other segments.

None of the Company's operating segments has been combined with another segment to create reportable segments.

The Company presents administrative, selling and distribution expenses and other income and expenses allocated to the segments. Performance of each segment is measured based on its revenue, EBIT and EBITDA. The Company's financing (including finance costs and finance income) and income tax are monitored at the level of the Company and are not allocated to the segments.

Transaction prices applied in transactions between operating segments are established on an arm's length basis, similarly as in transactions with unrelated parties.

The Company identifies the following geographical areas:
- Poland
- Germany
- Other EU countries
- Asia
- South America
- Other countries

2.34. Discontinued operations and non-current assets held for sale

Non-current assets are classified as held for sale when their carrying amount will be recovered through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale, the Company's management must actively seek the buyer and sale must be highly probable within a year from classification as held for sale. The assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.
Discontinued operations are a part of the Company's operations which represent a separate major line of business or a geographical area of operations and which have been sold or disposed of, or are a subsidiary acquired exclusively for re-sale. Classification as discontinued operations occurs on disposal or when the operations meet the criteria to be classified as held for sale, if earlier. When operations are classified as discontinued operations, the comparative statement of profit or loss is restated as if the operations had been discontinued from the start of the comparative period.

3. Notes to the separate financial statements

Business segment reporting

Operating segments
The Company pursues its business objectives through three reportable segments, which offer different products and services, and are managed separately because they require different technologies and marketing strategies. For each segment, the Management Board reviews internal management reports on a monthly basis.

The operations of each of the Company's reportable segments comprise:

- **Agro Fertilizers segment** comprises the manufacturing and marketing of the following products:
  - nitrogen fertilizers (nitro-chalk, ammonium nitrate),
  - nitrogen fertilizers with sulfur (ammonium sulfate, ammonium sulfonitrite),
  - ammonia,
  - concentrated nitric acid;

- **Plastics segment** comprises the manufacturing and marketing of the following products and goods:
  - caprolactam,
  - Engineering plastics (PA 6, POM) and their modifications,
  - modified plastics (PPC, PPH, PBT, PA66),
  - Plastic products (PA pipes, PE pipes, polyamide casings);

- **Energy segment** includes the production of energy carriers (electricity, heat, water, process and instrument air, nitrogen) for the purposes of chemical units and, to a lesser extent, for resale (mainly of electricity) to external customers. As part of its operations, the segment also purchases and distributes natural gas for process needs;

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

Key financial results and performance of each of the segments are discussed below. The key performance metrics for each segment are revenue, EBIT and EBITDA.

(all amounts in PLN '000 unless indicated otherwise)

Operating segments' income, expenses and net profit (loss) for the 12 months ended December 31st 2019

	Agro Fertilizers	Plastics	Energy	Other	Total
External revenue	816,828	1,105,273	26,811	38,127	1,987,039
Intersegment revenue	241,013	278,195	514,467	38,846	1,072,521
Total revenue	**1,057,841**	**1,383,468**	**541,278**	**76,973**	**3,059,560**
Operating expenses, including: (-)	(985,629)	(1,358,495)	(543,702)	(71,797)	(2,959,623)
selling and distribution expenses (-)	*(74,308)*	*(29,919)*	*(362)*	*(802)*	*(105,391)*
administrative expenses (-)	*(82,632)*	*(104,815)*	*(2,150)*	*(3,743)*	*(193,340)*
Other income	2,500	1,555	1,408	8,242	13,705
Other expenses (-)	(2,954)	(6,684)	(4,831)	(9,946)	(24,415)
Segment's EBIT	**71,758**	**19,844**	**(5,847)**	**3,472**	**89,227**
Finance income	-	-	-	-	124,961
Finance costs (-)	-	-	-	-	(108,540)
Profit before tax	-	-	-	-	**105,648**
Income tax	-	-	-	-	(47,399)
Net profit	-	-	-	-	**58,249**
EBIT*	71,758	19,844	(5,847)	3,472	89,227
Depreciation and amortisation	53,772	43,209	14,326	12,394	123,701
Unallocated depreciation and amortisation	-	-	-	-	10,827
EBITDA**	**125,530**	**63,053**	**8,479**	**15,866**	**223,755**

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.
** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

(all amounts in PLN '000 unless indicated otherwise)

Operating segments' income, expenses and net profit (loss) for the 12 months ended December 31st 2018

	Agro Fertilizers	Plastics	Energy	Other	Total
External revenue	653,601	1,105,806	35,068	31,296	1,825,771
Intersegment revenue	274,161	293,114	527,739	36,650	1,131,664
Total revenue	927,762	1,398,920	562,807	67,946	2,957,435
Operating expenses, including: (-)	(1,003,790)	(1,272,528)	(561,967)	(59,101)	(2,897,386)
selling and distribution expenses (-)	*(66,259)*	*(30,030)*	*(151)*	*(273)*	*(96,713)*
administrative expenses (-)	*(74,302)*	*(92,020)*	(1,706)	*(1,495)*	*(169,523)*
Other income	1,144	244	1,425	8,142	10,955
Other expenses (-)	(3,652)	(6,877)	(2,086)	(10,628)	(23,243)
Segment's EBIT	**(78,536)**	**119,759**	**179**	**6,359**	**47,761**
Finance income					186,799
Finance costs (-)	-	-	-	-	(51,255)
Profit before tax	**-**	**-**	**-**	**-**	**183,305**
Income tax	-	-	-	-	(12,241)
Net profit	**-**	**-**	**-**	**-**	**171,064**
EBIT**	(78,536)	119,759	179	6,359	47,761
Depreciation and amortisation	41,576	36,495	14,221	11,427	103,719
Unallocated depreciation and amortisation	-	-	-	-	8,491
EBITDA* **	**(36,960)**	**156,254**	**14,400**	**17,786**	**159,971**

Revenues from intersegment transactions are eliminated. The segments' operating profit in 2019 excludes finance income of PLN 124,961 thousand (2018: PLN 186,799 thousand) and finance costs of PLN 108,540 thousand (2018: PLN 51,255 thousand).

(all amounts in PLN '000 unless indicated otherwise)

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

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

Operating segments' assets and liabilities as at December 31st 2018

	Agro Fertilizers	Plastics	Energy	Other	Total
Segment's assets	704,239	909,400	313,248	173,493	2,100,380
Unallocated assets	-	-	-	-	6,503,265
Total assets	**704,239**	**909,400**	**313,248**	**173,493**	**8,603,645**
Segment's liabilities	77,107	170,431	146,929	56,460	450,927
Unallocated liabilities	-	-	-	-	3,364,530
Total liabilities	**77,107**	**170,431**	**146,929**	**56,460**	**3,815,457**

As at December 31st 2019, unallocated assets include deferred tax assets – none (December 31st 2018: PLN 10,277 thousand), loans to related entities of PLN 352,438 thousand (December 31st 2018: PLN 332,966 thousand), shares of PLN 5,410,006 thousand (December 31st 2018: PLN 5,012 908 thousand), measurement of foreign exchange derivatives of PLN 1,025 thousand (December 31st 2018: PLN 720 thousand), and cash and cash equivalents of PLN 1,158,379 thousand (December 31st 2018: PLN 1,000,980 thousand), as the assets are managed at the Company level.
As at December 31st 2019, the segment's unallocated liabilities included income tax liabilities of PLN 1,168 thousand (December 31st 2018: PLN 493 thousand), liabilities under borrowings of PLN 3,532,517 thousand (December 31st 2018: PLN 3,205,195 thousand), deferred tax liabilities of PLN 1,426 thousand (December 31st 2018: nil), as these liabilities are managed at the Company level.

(all amounts in PLN '000 unless indicated otherwise)

Other segmental information for the 12 months ended December 31st 2019

	Agro Fertilizers	Plastics	Energy	Other	Total
Expenditure on property, plant and equipment	30,565	31,468	12,821	11,147	86,001
Expenditure on intangible assets	214	-	1	244	459
Unallocated expenditure	-	-	-	-	52,333
Total expenditure	**30,779**	**31,468**	**12,822**	**11,391**	**138,793**
Segment’s depreciation and amortisation	53,772	43,209	14,326	12,394	123,701
Unallocated depreciation and amortisation	-	-	-	-	10,827
Total depreciation and amortisation	**53,772**	**43,209**	**14,326**	**12,394**	**134,528**

Other segmental information for the 12 months ended December 31st 2018

	Agro Fertilizers	Plastics	Energy	Other	Total
Expenditure on property, plant and equipment	100,867	45,406	3,832	3,461	153,566
Expenditure on intangible assets	-	-	-	20	20
Unallocated expenditure	-	-	-	-	53,959
Total expenditure	**100,867**	**45,406**	**3,832**	**3,481**	**207,545**
Segment’s depreciation and amortisation	41,576	36,495	14,221	11,427	103,719
Unallocated depreciation and amortisation	-	-	-	-	8,491
Total depreciation and amortisation	41,576	36,495	14,221	11,427	**112,210**

Capital expenditure is made to purchase property, plant and equipment and intangible assets.

(all amounts in PLN '000 unless indicated otherwise)

Geographical areas

Revenue split by geographical areas is determined based on the location of customers. Assets allocated to a geographical area are identified on the basis of their geographical location.

Revenue

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Poland	790,146	664,780
Germany	535,677	528,181
Other EU countries	463,076	487,357
Asia	38,151	14,128
South America	42,914	29,577
Other countries	117,075	101,748
Total	**1,987,039**	**1,825,771**

Non-current assets

The Company's non-current assets, totalling PLN 7,192,865 thousand (December 31st 2018: PLN 6,728,498 thousand) are located in Poland.

The non-current assets include property, plant and equipment, intangible assets, investment property and shares.

The non-current assets do not include financial instruments, other receivables and deferred tax assets.

Material customers

In the Plastics segment revenue from the subsidiary Grupa Azoty ATT Polymers GmbH of Guben, Germany, was PLN 688,990 thousand (2018: PLN 684,943 thousand). The company plays an important role in the manufacturing and trading chain of the Plastics segment. No other trading partner accounts for a separately significant part of the Company's revenue.

(all amounts in PLN '000 unless indicated otherwise)

Note 1 Revenue from contracts with customers

For the period Jan 1 – Dec 31 2019

	Agro Fertilizers	Plastics	Energy	Other	Total
Main product lines					
Revenue from sale of products and services	816,828	1,024,606	21,991	35,781	1,899,206
Revenue from sale of merchandise and materials	-	78,912	4,814	2,346	86,072
Revenue from sale of property rights	-	1,755	6	-	1,761
Total	**816,828**	**1,105,273**	**26,811**	**38,127**	**1,987,039**
Geographical regions					
Poland	556,275	177,405	26,811	29,655	790,146
Germany	74,185	461,141	-	351	535,677
Other EU countries	86,546	376,528	-	2	463,076
Asia	-	35,264	-	2,887	38,151
South America	33,393	9,521	-	-	42,914
Other countries	66,429	45,414	-	5,232	117,075
Total	**816,828**	**1,105,273**	**26,811**	**38,127**	**1,987,039**
Customer type					
Legal persons	815,766	1,105,273	26,162	38,093	1,985,294
Individuals	1,062	-	649	34	1,745
Total	**816,828**	**1,105,273**	**26,811**	**38,127**	**1,987,039**
Agreement type					
Fixed-price contracts	816,828	1,103,518	25,586	38,127	1,984,059
Other	-	1,755	1,225	-	2,980
Total	**816,828**	**1,105,273**	**26,811**	**38,127**	**1,987,039**
Customer relations					
Long-term	697,448	939,751	13,016	19,122	1,669,337
Short-term	119,380	165,522	13,795	19,005	317,702
Total	**816,828**	**1,105,273**	**26,811**	**38,127**	**1,987,039**
Revenue recognition timing					
Revenue recognised at a point in time	816,828	1,105,273	26,811	38,127	1,987,039
Total	**816,828**	**1,105,273**	**26,811**	**38,127**	**1,987,039**
Sale channels					
Direct sales	78,062	1,054,239	25,586	38,127	1,196,014
Intermediated sales	738,766	51,034	1,225	-	791,025
Total	**816,828**	**1,105,273**	**26,811**	**38,127**	**1,987,039**

(all amounts in PLN '000 unless indicated otherwise)

For the period Jan 1 – Dec 31 2018

	Agro Fertilizers	Plastics	Energy	Other	Total
Main product lines					
Revenue from sale of products and services	651,520	1,085,377	18,791	24,815	1,780,503
Revenue from sale of merchandise and materials	2,021	20,429	14,800	6,481	43,731
Revenue from sale of property rights	60	-	1,477	-	1,537
Total	**653,601**	**1,105,806**	**35,068**	**31,296**	**1,825,771**
Geographical regions					
Poland	424,545	174,329	35,068	30,838	664,780
Germany	70,414	457,759	-	8	528,181
Other EU countries	70,420	416,606	-	331	487,357
Asia	-	14,009	-	119	14,128
South America	21,935	7,642	-	-	29,577
Other countries	66,287	35,461	-	-	101,748
Total	**653,601**	**1,105,806**	**35,068**	**31,296**	**1,825,771**
Customer type					
Legal persons	652,749	1,105,806	34,416	31,241	1,824,212
Individuals	852	-	652	55	1,559
Total	**653,601**	**1,105,806**	**35,068**	**31,296**	**1,825,771**
Agreement type					
Fixed-price contracts	653,601	1,105,806	20,660	31,296	1,811,363
Other	-	-	14,408	-	14,408
Total	**653,601**	**1,105,806**	**35,068**	**31,296**	**1,825,771**
Customer relations					
Long-term	519,616	40,422	25,498	19,510	605,046
Short-term	133,985	1,065,384	9,570	11,786	1,220,725
Total	**653,601**	**1,105,806**	**35,068**	**31,296**	**1,825,771**
Revenue recognition timing					
Revenue recognised at a point in time	653,601	1,105,806	35,068	31,296	1,825,771
Revenue recognised over time	-	-	-	-	-
Total	**653,601**	**1,105,806**	**35,068**	**31,296**	**1,825,771**
Sale channels					
Direct sales	62,851	1,044,454	20,660	31,296	1,159,261
Intermediated sales	590,750	61,352	14,408	-	666,510
Total	**653,601**	**1,105,806**	**35,068**	**31,296**	**1,825,771**

Fixed-price contracts include revenue from contracts where prices are not determined on a time-and-materials basis.
The breakdown of customers into short- and long-term accounts is based on the duration of contract.

In 2019, the Company was compensated for maintaining electricity prices for end-users at the level of 2018 prices. The compensation was recognised in revenue from sale of electricity.

Revenue from sale of products, services, merchandise and materials
The key categories of products, services, merchandise and materials sold by the Company are listed in the *Operating segments* section.
Revenue from sale of products, services, merchandise and materials is recognised based on the five-step revenue recognition model described in section 2.30 *Revenue* in a manner that reflects transfer of control to the customer. As a rule, revenue from sale of products, merchandise and materials is recognised by the Company at a specific point in time, in accordance with the Incoterms rules set forth in the agreement (usually upon release from the warehouse or upon delivery to the point indicated by the customer). In the case of deliveries effected in accordance with selected Incoterms (CIF, CIP, CFR, CPT), the Company identifies the transport service or the transport and insurance service as a separate performance obligation towards a customer after passing control of the good or product to the customer. Revenue from sale of services is recognised at a specific point in time when the performance of the service is completed.
When recognising revenue, the Company takes into account specific issues, such as: determination whether the Company is acting as the principal or an agent in the transaction, product return rights, recognition of discounts being part of variable consideration, recognition of discounts representing a material right, bill-and-hold arrangements, and recognition of revenue from take-or-pay contracts. For most of the contracts containing discounts that are part of variable consideration, the estimated amount of the discount is fully recognised in liabilities under bonuses, a component of trade and other payables.
As a rule, the customary payment terms for this revenue stream are 30 days.

The Company enters into comprehensive contracts with customers for sale of electricity (supplied by third parties) and electricity distribution services provided over its own network. The Company believes that it acts as the principal under such contracts, and identifies two separate performance obligations: for the sale of electricity, which is recognised under revenue from sale of merchandise and materials or sale of products, and for the distribution service, which is recognised under revenue from sale of products and services. In the case of electricity sale contracts, the payment terms average 14 days. In addition, the Company enters into contracts for the supply of heat in heating water and other utilities, which are recognised in revenue from sale of products and services or merchandise.

The Company also recognises revenue from the sale of certificates of origin of energy in the period in which they have been generated and when it is probable that the economic benefits will be obtained

Contract costs
Incremental costs of obtaining a contract
The Company recognises the costs of obtaining a contract with a customer as an asset in trade and other receivables if it expects to recover those costs and their value is material. As a practical expedient, the Company recognises incremental costs to obtain a contract as an expense when they are incurred if the amortisation period of the asset that the Company otherwise would have recognised is one year or less.

Costs to fulfil a contract
If the costs incurred in fulfilling a contract with a customer are not within the scope of a standard other than IFRS 15, the Group recognises an asset (in trade and other receivables) from the costs incurred to fulfil the contract only if those costs meet all of the following criteria:
- the costs relate directly to a contract or to an anticipated contract that the Company can specifically identify;
- the costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

Receivables and liabilities under contracts with customers are presented as follows:
- receivables – Note 17 *Trade and other receivables*,

(all amounts in PLN '000 unless indicated otherwise)

- liabilities – Note 28 *Trade and other payables*.

Note 2 Operating expenses

	for the period Jan 1 – Dec 31 2019	for the period Jan 1 - Dec 31 2018
Depreciation and amortisation	133,120	111,008
Raw materials and consumables used	1,067,488	1,107,046
Services	258,071	253,246
Taxes and charges	72,547	52,701
Salaries and wages	185,391	171,023
Social security and other employee benefits	46,781	42,611
Other expenses	27,841	38,117
Costs by nature of expense	**1,791,239**	**1,775,752**
Change in inventories of finished goods (+/-)	17,916	(25,669)
Work performed by the entity and capitalised (-)	(2,022)	(23,702)
Selling and distribution expenses (-)	(105,391)	(96,713)
Administrative expenses (-)	(193,340)	(169,523)
Cost of merchandise and materials sold	79,969	39,341
Cost of sales	**1,588,371**	**1,499,486**
including excise duty	1,291	4,152

Selling and distribution expenses included PLN 339 thousand of impairment losses on trade receivables.

The increase in *depreciation and amortisation* of PLN 22,112 thousand is attributable to the recognition of changes following the implementation of IFRS 16 *Leases* of PLN 11,535 thousand and the commissioning of new projects.
The decrease in *raw materials and consumables used* by PLN 39,558 thousand was mainly attributable to lower gas consumption, with higher volumes of electricity and phenol purchased.
The increase in *taxes and charges* of PLN 19,846 results mainly from the increase in prices of CO_2 emission rights.
The PLN 14,368 thousand increase in *salaries and wages* was attributable to an increase in employee benefits.
The decrease in *other expenses* of PLN 10,276 thousand was mainly attributable to lower property insurance costs and advertising costs.
The increase in *selling and distribution expenses* of PLN 8,678 thousand was mainly attributable to higher sales volumes and higher rates for road transport services.
The decrease in *work performed by the entity and capitalised* of PLN 21,680 thousand is due to the acquisition of COMPO EXPERT in 2018, with no such transactions executed in 2019.

(all amounts in PLN '000 unless indicated otherwise)

Depreciation and amortisation are presented in the following proportions in particular items of the statement of profit or loss and other comprehensive income:

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Cost of sales	114,395	100,052
Selling and distribution expenses	5,644	-
Administrative expenses	13,081	10,956
Total depreciation and amortisation	**133,120**	**111,008**

Note 2.1 Cost of sales

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Cost of products and services	1,506,566	1,459,218
Cost of merchandise and materials sold	79,969	39,341
Cost of property rights	1,836	927
Total cost of sales	**1,588,371**	**1,499,486**

Note 2.2 Employee benefit expenses

	for the period Jan 1 – Dec 31 2019	for the period Jan 1 - Dec 31 2018
Salaries and wages paid and due	182,549	172,169
Social security	33,270	31,315
Social benefits fund	5,979	5,730
Training	661	512
Change in defined benefit obligation	110	(535)
Change in long-term employee benefit obligation	101	(713)
Change in provision for accrued holiday entitlements	358	(4)
Change in provision for annual and incentive bonuses	2,734	(64)
Other	6,410	5,224
	232,172	**213,634**
Average employment	**2,214**	**2,202**

(all amounts in PLN '000 unless indicated otherwise)

Note 2.3 Reconciliation of lease costs

	for the period Jan 1 – Dec 31 2019
Depreciation/amortisation of right-of-use assets (-)	(11,535)
Interest expense on lease liabilities (-)	(2,166)
Costs associated with short-term leases exempted from the scope of application of IFRS 16 (-)	(6,505)
Costs associated with leases of low value assets exempted from the scope of application of IFRS 16 (-)	-
Costs associated with variable lease payments not accounted for in the measurement of lease liabilities (-)	(162)
Gains or losses on sale and sale-and-leaseback (+/-)	-
Other (+/-)	547
Total	**(19,821)**

Depreciation and amortisation costs, short-term lease costs, and costs related to variable lease payments are recognised mainly in *cost of products and services*. Interest expense is recognised in finance costs.

Note 3 Other income

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Reversed impairment losses on:		
Other receivables	67	5
	67	**5**
Other income:		
Income from lease of investment property	7,255	6,719
Received compensation	3,557	1,822
Grants	2,050	1,534
Other	776	875
	13,638	**10,950**
	13,705	**10,955**

The compensation received, of PLN 3,557 thousand, relates in particular to:

- failure of an ammonia synthesis reactor (PLN 1,987 thousand),
- failure of the WA-I condenser at the WKS unit (PLN 500 thousand).

(all amounts in PLN '000 unless indicated otherwise)

Note 4Other expenses

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Loss on disposal of assets:		
Loss on disposal of property, plant and equipment, intangible assets, and investment property	2,092	1,559
	2,092	**1,559**
Recognised impairment losses on:		
Property, plant and equipment	735	2,080
Investment property	81	9
Intangible assets	2	-
Other receivables	1,989	-
Other	-	164
	2,807	**2,253**
Other expenses:		
Investment property maintenance costs	5,136	4,343
Fines and compensations	341	-
Downtime costs	586	565
Failure recovery costs	11,407	10,400
Recognised provisions	1,606	3,423
Other expenses	440	700
	19,516	**19,431**
	24,415	**23,243**

Investment property maintenance costs include depreciation of investment property, which amounted to PLN 1,408 thousand in 2019 (2018: PLN 1,202 thousand).

The PLN 1,989 thousand *impairment losses on receivables* includes an amount of PLN 1,772 thousand comprising recourse claims against a contractor in a project carried out by the Company which arose following payment by the Company of the contractor's liabilities to a subcontractor (joint and several liability of the Company and the contractor under the Polish Civil Code). The paid amount was recognised as a receivable from the contractor and was subsequently recognised as impaired. .

The amount of PLN 11,407 thousand comprises in particular costs of remedying the consequences of the following technical failures:

- failure of the SULZER turbine set in the Fertilizers Segment (PLN 1,701 thousand),
- failure of the OP230 steam boiler in the Plastics Segment (PLN 1,496 thousand),
- failure of a first-stage cooler of the synthesis gas compressor in the Plastics Segment (PLN 837 thousand),
- failure of an acid absorption unit in the Fertilizers Segment (PLN 750 thousand),
- failure of a Line B granulator in the Energy Segment of (PLN 510 thousand),
- failure of a polymerisation unit in the Plastics Segment (PLN 386 thousand),
- failure of a distillation column in the Plastics Segment (PLN 377 thousand).

The balance includes technical failures where costs of failure removal do not exceed PLN 350 thousand.

(all amounts in PLN '000 unless indicated otherwise)

Note 5 Finance income

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Interest income:		
Interest on bank deposits	7	1,406
Interest on cash pooling	8,498	5,655
Interest on non-bank borrowings	9,930	9,060
Interest on trade receivables	228	172
Other interest income	1	4
	18,664	**16,297**
Profit from sale of financial investments:		
Profits from sale of financial investments	**363**	**-**
	363	**-**
Gains on measurement of financial assets and liabilities:		
Gains on measurement of financial assets at fair value through profit or loss	655	-
	655	**-**
Other finance income:		
Foreign exchange gains	10,787	6,016
Dividends received	87,267	159,223
Other	7,225	5,263
	105,279	**170,502**
	124,961	**186,799**

Foreign exchange gains of PLN 10,787 thousand (2018: foreign exchange gains of PLN 6,016 thousand) comprised:

- net realised foreign exchange gains of PLN 6,626 thousand (2018: net realised foreign exchange losses of PLN 1,216 thousand),
- net foreign exchange gains on realised transactions in currency derivatives of PLN 1,553 thousand (2018: net foreign exchange gains of PLN 293 thousand),
- net foreign exchange gains on measurement of receivables and liabilities denominated in foreign currencies as at the reporting date of PLN 2,309 thousand (2018: net foreign exchange gains of PLN 1,714 thousand),
- net foreign exchange gains on measurement of other items as at the reporting date of PLN 319 thousand (2018: net foreign exchange gains of PLN 2,793 thousand).

(all amounts in PLN '000 unless indicated otherwise)

Note 6 Finance costs

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Interest expense:		
Interest on bank borrowings	53,959	35,596
Interest on cash pooling	8,140	4,878
Interest on factoring, receivables discounting and leases	3,592	1,338
Other	1,665	1,800
	67,356	**43,612**
Loss on sale of financial investments		
Impairment loss on equity instruments	32,230	-
	32,230	**-**
Loss on measurement of financial assets and liabilities:		
Loss on measurement of financial assets at fair value through profit or loss	781	1,198
	781	**1,198**
Other finance costs:		
Other	8,173	6,445
	8,173	**6,445**
	108,540	**51,255**

The PLN 32,230 thousand impairment loss on shares relates to shares in Grupa Azoty SIARKOPOL. For details, see Note 14 Shares.

Interest capitalised as initial cost of property, plant and equipment and intangible assets in 2019 was PLN 1,196 thousand (2018: PLN 44 thousand).

Note 7 Income tax

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

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Current income tax:		
Current income tax expense	34,334	3,416
Adjustments to current income tax for previous years	-	(3,814)
	34,334	**(398)**
Deferred income tax:		
Deferred income tax associated with origination and reversal of temporary differences	13,065	12,639
	13,065	**12,241**
Income tax disclosed in the statement of profit or loss	**47,399**	**12,241**

(all amounts in PLN '000 unless indicated otherwise)

Note 7.2 Effective tax rate

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Profit before tax	**105,648**	**183,305**
Tax calculated at the applicable tax rate	**20,073**	**34,828**
Effect of tax-exempt income (+/-)	(12,285)	(26,088)
Effect of non tax-deductible expenses (+/-)	6,544	3,335
Tax effect of inclusion of property, plant and equipment into operations in Special Economic Zone (+/-)	2,165	1,729
Tax effect of tax losses deducted in the period (+/-)	-	327
Decrease in asset recognised on operations in Special Economic Zone deductible in future periods (+/-)	25,894	-
Other (+/-)	5,008	(1,890)
Income tax disclosed in the statement of profit or loss	**47,399**	**12,241**
Effective tax rate	**44.86%**	**6.67%**

The effective tax rate of 44.86% in 2019 is mainly due to the decrease in the tax asset recognised in previous periods on the activities conducted in the Special Economic Zone, as it is not certain that the tax asset would be offset against future income due to the loss incurred on the activities in 2019.

The effective tax rate of 6.67% in 2018 resulted mainly from significant finance income realised in the form of dividends and grants received.

Note 7.3 Income tax disclosed in other comprehensive income

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Tax on items that will not be reclassified to profit or loss (+/-)	**(2,303)**	**(724)**
Actuarial (losses)/gains from defined benefit plans	(2,303)	(724)
Tax on items that are or may be reclassified to profit or loss (+/-)	**941**	**(3,178)**
Measurement of hedging instruments through hedge accounting	941	(3,178)
Income tax disclosed in other comprehensive income	**(1,362)**	**(3,902)**

(all amounts in PLN '000 unless indicated otherwise)

Note 7.4 Deferred tax assets and liabilities

	Assets (-)		Liabilities (+)	
	Dec 31 2019	Dec 31 2018	Dec 31 2019	Dec 31 2018
Property, plant and equipment	(9,558)	(9,880)	44,542	46,291
Right-of-use assets	-	-	9,730	
Investment property	-	-	1,153	2,119
Intangible assets	(1,363)	(1,363)	7,354	7,479
Financial assets	(1,057)	(1,057)	105	105
Inventories and property rights	(2,103)	(1,840)	8,647	6,917
Trade and other receivables	(1,169)	(321)	45	-
Trade and other payables	(20,241)	(10,819)	350	336
Employee benefits	(20,105)	(16,867)	-	-
Provisions	(6,368)	(6,064)	102	451
Borrowings	(729)	(273)	157	91
Lease liabilities	(9,556)	-	-	-
Derivative financial instruments	-	-	195	-
Measurement of hedging instruments through hedge accounting	-	-	1,377	436
State aid deductible in future periods	-	(25,894)	-	-
Other	(162)	(196)	80	72
Deferred tax assets (-)/liabilities (+)	**(72,411)**	**(74,574)**	**73,837**	**64,297**
Offset	**72,411**	**64,297**	**(72,411)**	**(64,297)**
Deferred tax assets (-)/liabilities (+) recognised in the statement of financial position	**-**	**(10,277)**	**1,426**	**-**

In connection with a project involving construction of Polyamide Plant II, the Company obtained a permit to operate in the Krakowski Park Technologiczny Special Economic Zone (“SEZ”). Pursuant to the terms of the licence, the Company was obliged to incur a minimum expenditure of PLN 203,000 thousand, to increase employment by 34 staff, and to maintain the headcount at least until June 30th 2020. The conditions specified in the licence were satisfied in the course of 2017 and, in line with the current plans, the Company will be able to continue satisfying the condition concerning the staffing level until June 30th 2020.
Upon completion of the project, the Company’s eligible capital expenditure totalled PLN 222,603 thousand, which may allow it to realise tax savings on its operations in the zone of ca. PLN 107m (net of the discount).

In H1 2019, the Company changed the estimates concerning calculation of the income tax asset relating to its operations in the special economic zone (SEZ). The change resulted from the experience gathered in accounting for operations in the SEZ, taking into account margins in setting transfer prices used for tax accounting purposes, and also from updating market and financial plans and extending the period of the tax projection for operations in the SEZ from three to five years. These factors had a partially offsetting effect, therefore the amount of tax assets related to operations in the SEZ as at June 30th 2019 was reduced by PLN 4,426 thousand relative to December 31st 2018.
As at December 31st 2019, due to the losses incurred in the Special Economic Zone in recent periods and the resulting uncertainty as to the possibility of realizing tax benefits on this account, the Company decided to discontinue recognition of the deferred tax asset. Therefore, the asset was reduced by a further PLN 21,468 thousand.
Accordingly, the entire asset amount of PLN 25,894 thousand recognised as at December 31st 2018 was charged to profit or loss during 2019.

(all amounts in PLN '000 unless indicated otherwise)

Note 7.5 Change in temporary differences

	As at Jan 1 2019	Statement of profit or loss	Other comprehensive income	As at Dec 31 2019
Property, plant and equipment	36,411	(1,427)	-	34,984
Right-of-use assets	-	9,730	-	9,730
Investment property	2,119	(966)	-	1,153
Intangible assets	6,116	(125)	-	5,991
Financial assets	(952)	-	-	(952)
Inventories and property rights	4,940	1,604	-	6,544
Trade and other receivables	(321)	(803)	-	(1,124)
Trade and other payables	(10,483)	(9,408)		(19,891)
Employee benefits	(16,867)	(935)	(2,303)	(20,105)
Provisions	(5,613)	(653)	-	(6,266)
Borrowings	(182)	(390)	-	(572)
Lease liabilities	-	(9,556)	-	(9,556)
Derivative financial instruments	137	58	-	195
Measurement of hedging instruments through hedge accounting	436	-	941	1,377
State aid deductible in future periods	(25,894)	25,894	-	-
Other	(124)	42	-	(82)
Deferred tax liability (+)	**(10,277)**	13,065	(1,362)	1,426

Changes in temporary differences recognised in: (+/-)

(all amounts in PLN '000 unless indicated otherwise)

	As at Jan 1 2018	IFRS 9 adjustment	Statement of profit or loss	Other comprehensive income	As at Dec 31 2018
Property, plant and equipment	48,185	-	(11,774)	-	36,411
Perpetual usufruct of land					
Investment property	2,307	-	(188)	-	2,119
Intangible assets	5,843	-	273	-	6,116
Financial assets	105	(1,057)	-	-	(952)
Inventories and property rights	3,697	-	1,243	-	4,940
Trade and other receivables	(192)	-	(129)	-	(321)
Trade and other payables	(7,210)	-	(3,273)	-	(10,483)
Employee benefits	(16,735)	-	592	(724)	(16,867)
Provisions	(5,040)	-	(573)	-	(5,613)
Borrowings	(94)	-	(88)	-	(182)
Derivative financial instruments	-	-	137	-	137
Measurement of hedging instruments through hedge accounting	3,614	-	-	(3,178)	436
State aid deductible in future periods	(36,158)	-	10,264	-	(25,894)
Tax losses	(15,642)	-	15,642	-	-
Other	(637)	-	513	-	(124)
Deferred tax assets (-)	**(17,957)**	(1,057)	12,639	(3,902)	**(10,277)**

(all amounts in PLN '000 unless indicated otherwise)

Note 7.6 Unrecognised deferred tax assets and liabilities

As at December 31st 2019 and December 31st 2018, the Company did not recognise any deferred tax liability related to the difference between the tax base and the carrying amount of the Company's holding of Grupa Azoty PUŁAWY shares. As at December 31st 2019 and December 31st 2018, the unrecognised temporary differences were PLN 1,775,995 thousand.

In addition, as described in Note 7.4, given the limited time horizon of its tax budgets, the Company does not recognise deferred tax assets related to its operations in the Special Economic Zone. As at December 31st 2019, the amount of the unrecognised asset was ca. PLN 101m (December 31st 2018: ca. PLN 75m). Activities in the Special Economic Zone are expected to be conducted until 2026.

Note 8 Discontinued operations

There were no discontinued operations in 2018 or 2019.

Note 9 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 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Net profit	**58,249**	**171,064**
Number of shares at beginning of period	99,195,484	99,195,484
Number of shares at end of period	99,195,484	99,195,484
Weighted average number of shares in the period	**99,195,484**	**99,195,484**
Earnings per share:		
Basic (PLN)	0.59	1.72
Diluted (PLN)	0.59	1.72

Diluted earnings per share

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

Note 10 Property, plant and equipment

Carrying amount

	as at Dec 31 2019	as at Dec 31 2018
Land	572	572
Buildings and structures	471,589	439,219
Plant and equipment	1,037,254	1,019,909
Vehicles	876	4,426
Other property, plant and equipment	48,708	27,478
	1,558,999	**1,491,604**
Property, plant and equipment under construction	102,562	158,628
	1,661,561	**1,650,232**

(all amounts in PLN '000 unless indicated otherwise)

Net property, plant and equipment, by type

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

Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and	Property, plant and equipment	Total

					equipmen t	under construction	
Net carrying amount as at Jan 1 2018	**572**	**396,696**	**975,169**	**3,583**	**16,879**	**161,774**	**1,554,673**
Increase, including:	**-**	**64,852**	**126,118**	**1,618**	**16,196**	**203,379**	**412,163**
Purchase, production, commissioning	-	64,700	124,768	1,617	16,196	203,379	410,660
Reversal of impairment losses	-	152	1,350	1	-	-	1,503
Decrease, including: (-)	**-**	**(22,329)**	**(81,378)**	**(775)**	**(5,597)**	**(206,525)**	**(316,604)**
Depreciation and amortisation	-	(21,944)	(78,213)	(700)	(5,577)	-	(106,434)
Disposal or retirement	-	(152)	(1,338)	(75)	-	-	(1,565)
Commissioning	-	-	-	-	-	(206,525)	(206,525)
Recognition of impairment loss	-	(233)	(1,827)	-	(20)	-	(2,080)
Net carrying amount as at Dec 31 2018	**572**	**439,219**	**1,019,909**	**4,426**	**27,478**	**158,628**	**1,650,232**

Property, plant and equipment by type

	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipmen t	Property, plant and equipment under constructio n	Total
As at Dec 31st 2019							
Gross carrying amount	572	988,585	2,396,449	11,265	102,569	156,255	3,655,695
Accumulated depreciation (-)	-	(510,497)	(1,301,089)	(10,389)	(53,827)	-	(1,875,802)
Impairment (-)	-	(6,499)	(58,106)	-	(34)	(53,693)	(118,332)
Net carrying amount as at Dec 31 2019	**572**	**471,589**	**1,037,254**	**876**	**48,708**	**102,562**	**1,661,561**
As at Dec 31st 2018							
Gross carrying amount	**572**	**941,936**	**2,324,321**	**15,554**	**76,136**	**212,321**	**3,570,840**
Accumulated depreciation (-)	-	(496,069)	(1,246,102)	(11,128)	(48,605)	-	(1,801,904)
Impairment (-)	-	(6,648)	(58,310)	-	(53)	(53,693)	(118,704)
Net carrying amount as at Dec 31 2018	**572**	**439,219**	**1,019,909**	**4,426**	**27,478**	**158,628**	**1,650,232**

Impairment losses and their use

(all amounts in PLN '000 unless indicated otherwise)

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Impairment losses as at Jan 1 2019	**6,648**	**58,310**	**-**	**53**	**53,693**	**118,704**
Impairment loss recognised in the statement of profit or loss	509	222	-	4	-	735
Reversal and use of impairment losses recognised in the statement of profit or loss (-)	(658)	(426)	-	(23)	-	(1,107)
Impairment losses as at Dec 31 2019	**6,499**	**58,106**	**-**	**34**	**53,693**	**118,332**
Impairment losses as at Jan 1 2018	**6,567**	**57,833**	**1**	**33**	**53,693**	**118,127**
Impairment loss recognised in the statement of profit or loss	233	1,827	-	20	-	2,080
Reversal and use of impairment losses recognised in the statement of profit or loss (-)	(152)	(1,350)	(1)	-	-	(1,503)
Impairment losses as at Dec 31 2018	**6,648**	**58,310**	**-**	**53**	**53,693**	**118,704**

(all amounts in PLN '000 unless indicated otherwise)

As at December 31st 2019, the trigger referred to in paragraph 12d of IAS 36 *Impairment* occurred (the carrying amount of the Company's net assets was more than the market capitalisation). Therefore the Company tested
assets of cash generating units (Fertilizers CGU and Plastics CGU) for impairment. Other Segments' assets (Energy, Other) were not tested as the segments operate to support the tested CGUs. Other Segments' expenses (cost of energy utilities, general overheads) were charged to operating profit/loss of the tested CGUs, while the segments' assets were fully allocated to the tested CGUs based on:

- Energy – energy consumption,
- Other – share of CGU's assets in the tested CGUs' total assets.

The test did not identify any impairment.

Item	Description
CGU	*Fertilizers* *Plastics*
Recognition of impairment loss	None
Reversal of impairment loss	None
Nominal weighted average cost of capital (WACC) (%)	6.92
Key assumptions	Unlimited duration of the CGU. Prices of key raw materials were assumed based on market prices in the forecast period. The EBITDA margins for the Fertilizers CGU and the Plastics CGU were assumed at market levels close to those observed in the past, based on forecast price trends. Other assets and related costs were allocated to the core segments indirectly. The cost ratios were assumed to be the most rational allocation method for most corporate assets. The growth rate during the residual period was assumed at the level of the long-term inflation target of the National Bank of Poland.
Value in use	*Fertilizers* – PLN 1,096,391 thousand *Plastics* – PLN 962,668 thousand
Excess of value in use over carrying amount of assets	*Fertilizers* – PLN 188,526 thousand *Plastics* – PLN 26,488 thousand

Sensitivity analyses of the tests show no need to recognise impairment losses if EBITDA falls by no more than 3.07% for the Plastics segment and 17.53% for the Fertilizers segment, or if WACC increases to no more than 7.05% for the Plastics segment, and 7.82% for the Fertilizers segment.

In determining the carrying amount of a cash-generating unit, the right-of-use asset disclosed under IFRS 16 was also taken into account, while negative cash flows related to the right-of-use assets were not taken into account in determining the value in use of the CGU to service the recognised lease liabilities. Thus, the carrying amount and the value in use of the CGU was subsequently reduced by the carrying amount of the liabilities related to the right-of-use assets as at the reporting date.

As at December 31st 2019, there were no indications for reversal of the impairment loss on the assets of the Tarnoform cash-generating unit recognised as at December 31st 2013.
In tests, cash flows forecasts do not take into account the effect of the coronavirus (SARS-CoV-19) pandemic as it is not possible to make reliable estimates as at the test date. For more information, see Note 38 Information on the effects of the COVID-19 pandemic.

Property, plant and equipment under construction
As at December 31st 2019, outstanding expenditure related in particular to:

- construction of a humic acid pilot unit – PLN 18,200 thousand (December 31st 2018: PLN 781

thousand),
- increasing the capacity of the technical-grade nitric acid unit to 1,050 tonnes per day – PLN 7,354 thousand (December 31st 2018: PLN 50,312 thousand),
- construction of a cooling tower at the Lactam Department – PLN 6,813 thousand (December 31st 2018: PLN 15 thousand),
- collection of slag from CHP II boilers of PLN 5,800 thousand (December 31st 2018: PLN 70 thousand),
- construction of a new technical-grade nitric acid storage facility – PLN 5,506 thousand (December 31st 2018: PLN 4 thousand),
- upgrade of the server environment – PLN 5,622 thousand (December 31st 2018: nil).

The gross carrying amount of all fully depreciated or impaired items of property, plant and equipment as at December 31st 2019 was PLN 313,678 thousand (December 31st 2018: PLN 323,040 thousand), including retired property, plant and equipment of PLN 33,655 thousand (December 31st 2018: PLN 35,361 thousand) and impaired property, plant and equipment of PLN 174,204 thousand (December 31st 2018: PLN 174,469 thousand). As at December 31st 2019, the largest item in this category was machinery and equipment, its gross carrying amount at PLN 222,740 thousand (December 31st 2018: PLN 230,770 thousand).

Collateral
As at December 31st 2019 and December 31st 2018, no property, plant and equipment was pledged as collateral for the Company’s liabilities.

(all amounts in PLN '000 unless indicated otherwise)

Note 11 Right-of-use assets

Net carrying amount of right-of-use assets

	Perpetual usufruct of land	Land	Buildings and structures	Plant and equipment	Vehicles	Right-of-use assets under construction	Total
Net carrying amount as at Dec 31 2018	-	-	-	-	-	-	-
Effect of implementation of IFRS 16, including:	***26,828***	***39***	***1,849***	***814***	***11,371***	-	***40,901***
Value of assets disclosed as at Dec 31 2018 as finance leases in accordance with IAS 17	-	-	-	-	*3,488*	-	*3,488*
On-balance-sheet perpetual usufruct of land as at Dec 31 2018	*365*	-	-	-		-	*365*
Increases due to the implementation of IFRS 16	*26,463*	*39*	*1,849*	*814*	*7,883*	-	*37,048*
Net carrying amount as at Jan 1 2019	**26,828**	**39**	**1,849**	**814**	**11,371**	-	**40,901**
Increase, including:	-	-	-	-	***22,342***	***16***	***22,358***
Increases due to execution of new agreements	-	-	-	-	22,342	-	22,342
Other increase	-	-	-	-	-	16	16
Decrease, including: (-)	**(4,555)**	**(20)**	**(887)**	**(279)**	**(10,107)**	-	***(15,848)***
Depreciation and amortisation	(318)	(20)	(887)	(279)	(9,976)	-	(11,480)
Reclassification to investment property	(4,237)	-	-	-	-	-	(4,237)
Other decrease	-	-	-	-	(131)	-	(131)
Net carrying amount as at Dec 31 2019	**22,273**	**19**	**962**	**535**	**23,606**	**16**	**47,411**

The Company applies the following depreciation periods:

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

(all amounts in PLN '000 unless indicated otherwise)

Note 12 Intangible assets

Carrying amount

	as at Dec 31 2019	as at Dec 31 2018
Patents and licences	33,385	35,266
Software	5,492	5,199
Development costs	242	276
Other intangible assets	2,248	2,100
	41,367	**42,841**
Intangible assets under development	9,471	6,267
	50,838	**49,108**

As at the reporting date, intangible assets comprised mainly licences, including the SAP licence of PLN 23,112 thousand (December 31st 2018: PLN 25,727 thousand). The Company does not hold any intangible assets with indefinite useful lives.
Amortisation of intangible assets is generally allocated to administrative expenses. The Company does not carry any intangible assets with restricted legal title or intangible assets pledged as collateral.
The carrying amount of research work recognised as cost in 2019 was PLN 11,496 thousand (2018: 5,025 thousand).

(all amounts in PLN '000 unless indicated otherwise)

Intangible assets, net

	Patents and licences	Software	Development costs	Other intangible assets	Intangible assets under construction	Total
Net carrying amount as at Jan 1 2019	**35,266**	**5,199**	**276**	**2,100**	**6,267**	**49,108**
Increase, including:	***2,197***	***875***	***-***	***388***	***10,125***	***13,585***
Purchase, production, commissioning	2,197	875	-	388	6,664	10,124
Other increase	-	-	-	-	3,461	3,461
Decrease, including: (-)	***(4,078)***	***(582)***	***(34)***	***(240)***	***(6,921)***	***(11,855)***
Depreciation and amortisation	(4,078)	(580)	(34)	(240)	-	(4,932)
Commissioning	-	-	-	-	(3,460)	(3,460)
Recognition of impairment loss	-	(2)	-	-	(3,461)	(3,463)
Net carrying amount as at Dec 31 2019	**33,385**	**5,492**	**242**	**2,248**	**9,471**	**50,838**

In 2019, the presentation of unfinished development work was changed, and the work was reclassified as intangible assets under development.

	Patents and licences	Software	Development costs	Other intangible assets	Intangible assets under development	Total
Net carrying amount as at Jan 1 2018	**33,003**	**5,733**	**3,085**	**1,941**	**3,195**	**46,957**
Increase, including:	***6,028***	***9***	***-***	***387***	***9,109***	**15,533**
Purchase, production, commissioning	6,028	9	-	387	9,109	15,533
Decrease, including: (-)	**(3,765)**	**(543)**	**(2,809)**	**(228)**	**(6,037)**	**(13,382)**
Depreciation and amortisation	(3,765)	(543)	(34)	(228)	-	(4,570)
Commissioning	-	-	-	-	(6,037)	(6,037)
Other decrease	-	-	(2,775)	-	-	(2,775)
Net carrying amount as at Dec 31 2018	**35,266**	**5,199**	**276**	**2,100**	**6,267**	**49,108**

(all amounts in PLN '000 unless indicated otherwise)

Intangible assets

	Patents and licences	Software	Development costs	Other intangible assets	Intangible assets under development	Total
As at Dec 31st 2019						
Gross carrying amount	76,662	12,656	686	4,298	12,932	107,234
Accumulated amortisation (-)	(36,577)	(7,162)	(444)	(1,576)	-	(45,759)
Impairment (-)	(6,700)	(2)	-	(474)	(3,461)	(10,637)
Net carrying amount as at Dec 31 2019	**33,385**	**5,492**	**242**	**2,248**	**9,471**	**50,838**
As at Dec 31st 2018						
Gross carrying amount	74,468	11,791	4,147	3,910	6,267	100,583
Accumulated amortisation (-)	(32,502)	(6,592)	(410)	(1,336)	-	(40,840)
Impairment (-)	(6,700)	-	(3,461)	(474)	-	(10,635)
Net carrying amount as at Dec 31 2018	**35,266**	**5,199**	**276**	**2,100**	**6,267**	**49,108**

Impairment losses and their use

As at December 31st 2019, the amount of impairment losses was PLN 10,637 thousand (December 31st 2018: PLN 10,635 thousand) and included in particular patents and licences (PLN 6,700 thousand) and development costs (intangible assets under development) (PLN 3,461 thousand).

Expenditure on significant intangible assets under development

The largest item of expenditure on intangible assets under development is the cost of unfinished development work, including in particular research on polyphthalateamide production technology, of PLN 7,045 thousand (December 31st 2018: PLN 4,594 thousand).

(all amounts in PLN '000 unless indicated otherwise)

Note 13 Investment property

	as at Dec 31 2019	as at Dec 31 2018
Carrying amount at the beginning of the period	**15,885**	**16,449**
Increase, including:	***8,699***	***647***
Purchase, production, subsequent expenditure	86	647
Reversal of impairment losses	32	-
Reclassification from another asset category	8,581	-
Decrease, including: (-)	***(1,535)***	***(1,211)***
Depreciation (-)	(1,408)	(1,202)
Sale, liquidation	(32)	-
Recognition of impairment loss	(81)	-
Reclassification to another asset category	(14)	-
Other decrease	-	(9)
Carrying amount at the end of the period	**23,049**	**15,885**

In 2019, the amount of revenue from lease of investment property was PLN 7,255 thousand (2018: PLN 6,719 thousand). As the revenue is derived from the Company's non-core business, it is presented under other income.
As at December 31st 2019, the gross carrying amount of investment property was PLN 68,616 thousand (December 31st 2018: PLN 56,831 thousand).
As at December 31st 2019, fair value of investment property was PLN 27,787 thousand (December 31st 2018: PLN 22,702 thousand).

Note 14 Financial assets

Note 14.1 Shares

	as at Dec 31 2019	as at Dec 31 2018
Shares in subsidiaries	5,403,351	5,006,337
Shares in other entities	6,655	6,571
	5,410,006	**5,012,908**
including		
Long-term	5,410,006	5,012,908

(all amounts in PLN '000 unless indicated otherwise)

Shares in subsidiaries

Investee	Country	Shares as percentage of share capital		Carrying amount	
Dec 31 2019		Dec 31 2019	Dec 31 2018	Dec 31 2019	Dec 31 2018
Grupa Azoty ATT POLYMERS	Germany	100	100	16,057	16,057
COMPO EXPERT Holding	Germany	100	100	1,001,995	1,001,995
Grupa Azoty Compounding	Poland	100	100	66,494	36,000
Grupa Azoty FOLIE (in liquidation)	Poland	100	100	-	-
Grupa Azoty SIARKOPOL	Poland	99.40	99.37	333,558	356,091
Grupa Azoty PUŁAWY	Poland	95.98	95.98	2,496,673	2,496,673
Grupa Azoty KĘDZIERZYN	Poland	93.48	93.27	350,090	350,090
Grupa Azoty PKCH	Poland	63.27	63.27	26,638	26,638
Grupa Azoty POLICE	Poland	62,86*	66	860,475	569,250
Grupa Azoty KOLTAR	Poland	60	75.91	31,722	31,722
Grupa Azoty POLYOLEFINS	Poland	47	40.07	219,649	121,821
				5,403,351	**5,006,337**

* The capital increase was registered on January 10th 2020.

(all amounts in PLN '000 unless indicated otherwise)

Changes in shares

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
At beginning of period	**5,012,908**	**3,867,145**
IFRS 9 adjustment	**-**	***(5,563)***
At beginning of period, after adjustments	**5,012,908**	**3,861,582**
Increase, including:	***429,459***	***1,151,326***
Acquisition – cash contribution	417,901	1,151,326
Acquisition - contribution in kind	11,494	-
Reversal of impairment losses	64	-
Decrease, including: (-)	***(32,361)***	**-**
Disposal	(131)	-
Recognition of impairment loss	(32,230)	-
At end of period	**5,410,006**	**5,012,908**

In 2019, the Company acquired shares in the following subsidiaries:

- Following the issue of 49,175,768 Series C ordinary bearer shares with a par value of PLN 10.00 by the subsidiary Grupa Azoty POLICE, on December 23rd 2019 the new shares were allotted to entities that subscribed for the shares in the exercise of pre-emptive rights and to entities that placed additional subscription orders. In total, 49,175,768 Shares were subscribed for, of which the Company subscribed for 28,551,500 shares at the issue price of PLN 10.20. The carrying amount of the acquired shares is PLN 291,225 thousand. As a result of the issue, the Company's interest in the subsidiary fell from 66% to 62.86%. The capital increase was registered on January 10th 2020.
- On July 19th 2019, the Company acquired new shares in Grupa Azoty POLYOLEFINS with a par value of PLN 97,828 thousand. Following the issue, the Company's interest in the subsidiary increased from 40.07% to 47%.
- Following the share capital increase at Grupa Azoty SIARKOPOL, on May 20th 2019 the Company exercised its pre-emptive rights and subscribed for 179,153 Series C ordinary registered shares in Grupa Azoty SIARKOPOL, paying PLN 9,563 thousand.
  Additionally, by exercising the squeeze-out right, the Company acquired shares worth PLN 134 thousand. As a result of the transaction, the Company's interest in Grupa Azoty SIARKOPOL from 99.37% to 99.4%.
- Following the share capital increase at Grupa Azoty COMPOUNDING, the Company acquired 36,007,700 shares with a par value of PLN 100.00 per share. The shares were paid for with:
  - cash – PLN 19,000 thousand,
  - non-cash contribution with a nominal amount of PLN 17,008 thousand and the carrying amount of PLN 11,494 thousand.

The Company's ownership interest in Grupa Azoty COMPOUNDING has not changed and equals 100%.

On January 8th 2019, a PLN 11,443,300 thousand share capital increase at Grupa Azoty KOLTAR Sp. z o.o. was registered in the National Court Register. Consequently, the Company now holds a 60% equity interest in the company, while Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN hold a 20% interest each.

(all amounts in PLN '000 unless indicated otherwise)

Note 14.2 Impairment of investments

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
At beginning of period	**49,667**	**49,667**
Recognition of impairment losses at subsidiaries	32,230	-
Reversal of impairment losses in other entities	(64)	-
At end of period	**81,833**	**49,667**

As at December 31st 2019, asset impairment tests were carried out at Grupa Azoty POLICE, Grupa Azoty PUŁAWY, Grupa Azoty KĘDZIERZYN, Grupa Azoty SIARKOPOL, COMPO EXPERT and Grupa Azoty POLYOLEFINS.
The tests did not identify any need to recognise impairment losses on non-current assets, except at Grupa Azoty SIARKOPOL. In view of the test results, the Company reviewed the indications of impairment of shares in these entities and concluded that impairment losses on these shares are not necessary, except for shares in Grupa Azoty SIARKOPOL.

As a result of significant changes on the sulfur market, in particular a significant decline in prices of sulfur, Grupa Azoty SIARKOPOL tested its assets for impairment by determining their value in use. The value in use was determined for two cash-generating units, i.e. Minerals Extraction and Chemicals. In the case of the Minerals Extraction CGU, the useful life was assumed until 2019, while in the case of the Chemicals CGU an indefinite period of business was assumed. The adopted methodology was the same as the methodology applied in previous years. A discount rate of 6.92% was used to determine the present value. Following an asset impairment test, shares in Grupa Azoty SIARKOPOL were tested for impairment. The test indicated the need to recognise an additional impairment loss of PLN 32,230 thousand for the shares in the company as at December 31st 2019.

Cash flows forecasts do not take into account the effect of the coronavirus (SARS-CoV-19) pandemic as it is not possible to make reliable estimates as at the test date and as at the date of authorisation of these financial statements by the Management Board for issue. For more information, see Note 38 Information on the effects of the COVID-19 pandemic.

Note 14.3 Other financial assets

	as at Dec 31 2019	as at Dec 31 2018
Loans	352,438	332,964
Other	972	2
	353,410	**332,966**
including		
Long-term	292,001	285,626
Short-term	61,409	47,340
	353,410	**332,966**

Under the Intragroup Financing Agreement, as amended, concluded on April 28th 2015 with Grupa Azoty PUŁAWY, Grupa Azoty POLICE, and Grupa Azoty KĘDZIERZYN, with a total limit of PLN 3,000m, for the purposes of redistribution of funds under the centralised financing model, the Company advanced loans to Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN for the financing of their investment programmes and other objectives defined in the Group’s Strategy, bearing interest at the same variable interest rate of 1M WIBOR plus the Company’s margin.
The key terms and conditions of the loans under the Intragroup Financing Agreement (including the financing cost and significant covenants) were harmonised with the Corporate Financing Agreements executed by the Company.

(all amounts in PLN '000 unless indicated otherwise)

Maturities and currencies of loans
As at Dec 31 2019

Borrower	Currency	Rate of interest	Amount as at the reporting date	Up to 1 year	1–2 years	2–5 years	Over 5 years
Grupa Azoty KĘDZIERZYN	PLN	1M WIBOR + margin	292,495	48,493	63,147	168,489	12,366
Grupa Azoty POLICE	PLN	1M WIBOR + margin	59,943	11,943	12,000	36,000	-
			352,438	**60,436**	**75,147**	**204,489**	**12,366**

As at Dec 31 2018

Borrower	Currency	Rate of interest	Amount as at the reporting date	Up to 1 year	1–2 years	2–5 years	Over 5 years
Grupa Azoty KĘDZIERZYN	PLN	1M WIBOR + margin	267,093	41,467	46,606	148,388	30,632
Grupa Azoty POLICE	PLN	1M WIBOR + margin	65,871	5,871	12,000	36,000	12,000
			332,964	**47,338**	**58,606**	**184,388**	**42,632**

Effect of changes in credit risk during the reporting period on expected credit loss as at December 31st 2019

	Loans as at Jan 1 2019	Loans as at Dec 31 2019	Estimated credit loss as at Dec 31 2019	Loans net of the estimated loss as at Dec 31 2019
Estimated over a period of up to 12 months, including:	332,964	352,782	(344)	352,438
BBB/BB	332,964	352,782	(344)	352,438

Effect of changes in credit risk during the reporting period on expected loss as at Dec 31 2018

	Loans as at Jan 1 2018	Loans as at Dec 31 2018	Estimated credit loss as at Dec 31 2018	Loans net of the estimated loss as at Dec 31 2018
Estimated over a period of up to 12 months, including:	320,337	333,596	(632)	332,964
A	320,337	-	-	-
BBB/BB	-	333,596	(632)	332,964

(all amounts in PLN '000 unless indicated otherwise)

Note 15 Inventories

	as at Dec 31 2019	as at Dec 31 2018
Finished products	102,648	127,558
Semi-finished products, work in progress	26,361	19,989
Materials	122,013	98,559
Total inventories	**251,022**	**246,106**

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Write-downs of inventories recognised as expense in the period	17,430	17,865
Write-downs used/reversed in the period	(17,300)	(14,123)
	130	**3,742**

Amount of inventories recognised as expense in the period

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 – Dec 31 2018
Raw materials and consumables used	1,067,488	1,107,046
Change in inventories of finished goods (+/-)	17,916	(25,669)
	1,085,404	**1,081,377**

	as at Dec 31 2019	as at Dec 31 2018
Inventory write-downs	11,067	10,937

Note 16 Property rights

	as at Dec 31 2019	as at Dec 31 2018
CO_2 emission allowances	45,092	34,505
Energy certificates	421	1,183
Total property rights	**45,513**	**35,688**

Note 16.1 CO_2 emission allowances

CO_2 emission allowances held (number of units)

	as at Dec 31 2019	as at Dec 31 2018
Balance at the beginning of the period (units held)	**938,629**	**1,326,087**
Redeemed	(1,091,372)	(1,160,627)
Allocated	516,124	661,169
Purchased	244,602	112,000
Balance at the end of the period (units held)	**607,983**	**938,629**
Emissions in the reporting period	**1,011,948**	**1,091,373**

As at December 31st 2019, the Company had the entire amount of CO_2 emission allowances required to be redeemed in 2019, including allowances received free of charge, purchased, or planned to be purchased under forward contracts with delivery after the reporting date but before the date of settlement of the emissions).

(all amounts in PLN '000 unless indicated otherwise)

Note 17 Trade and other receivables

	as at Dec 31 2019	as at Dec 31 2018
Trade receivables – related parties	130,038	58,627
Trade receivables – other entities	61,829	83,290
Receivables from state budget, except for income tax	31,398	80,987
Prepayments for deliveries of property, plant and equipment – other entities	5,855	9,757
Prepayments for deliveries of materials, goods and services – other entities	673	10,327
Prepaid expenses – other entities	2,184	2,596
Other receivables – related parties	4,749	127
Other receivables – other entities	1,358	2,604
	238,084	**248,315**
including		
Long-term	5,855	9,757
Short-term	232,229	238,558
	238,084	**248,315**

The largest item in other receivables from related entities, of PLN 3,912 thousand, is receivables from settlement of an in-kind contribution of assets, the amount of PLN 539 thousand represents excise duty receivables due to reduced energy intensity, and the amount of PLN 443 thousand represents a receivable on a VAT correction.

	Gross carrying amount of trade receivables	Expected credit loss	Expected credit loss in %	Net receivables
	2019.12	**2019.12**	**2019.12**	**2019.12**
Not past due	186,165	(214)	0.11%	185,951
Past due up to 180 days	5,577	(91)	1.63%	5,486
Past due 181-360 days	782	(368)	47.06%	414
Past due more than 360 days	2,884	(2,868)	99.45%	16
	195,408	**(3,541)**	**1.81%**	**191,867**

	Gross carrying amount of trade receivables	Expected credit loss	Expected credit loss in %	Net receivables
	2018.12	**2018.12**	**2018.12**	**2018.12**
Not past due	137,064	(107)	0.08%	136,957
Past due up to 180 days	5,021	(68)	1.35%	4,953
Past due 181-360 days	362	(361)	99.72%	1
Past due more than 360 days	2,605	(2,599)	99.77%	6
	145,052	**(3,135)**	**2.16%**	**141,917**

(all amounts in PLN '000 unless indicated otherwise)

Impairment losses on trade receivables

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
At beginning of period	**3,135**	**2,831**
IFRS 9 adjustment	-	94
Recognised	666	535
Reversed	(238)	(310)
Used	(22)	(15)
At end of period	**3,541**	**3,135**
including		
Short-term	3,541	3,135

Impairment losses on receivables were recognised as a result of the analysis of expected credit losses. Changes to impairment losses on trade receivables (recognition, reversals) are recognised as selling expenses and other costs by kind. Changes to impairment losses on other receivables and receivables under leases are recognised in the statement of profit or loss as other income or expenses (principal) and finance income or costs (interest).

In 2019, a PLN 666 thousand impairment loss on trade receivables was recognised of which:

- PLN 384 thousand was charged to selling and distribution expenses (2018: PLN 337 thousand),
- PLN 115 thousand was charged to other expenses (2018: PLN 29 thousand),
- PLN 167 thousand was charged to finance costs (2018: PLN 2018 thousand).

The average collection period for trade receivables in the ordinary course of business is 36 days. Receivables of PLN 104,247 thousand (December 31st 2018: PLN 52,341 thousand) are pledged as security for the Company's liabilities under repurchase of recourse receivables; for details, see section 2.16.

As at December 31st 2019, receivables with a carrying amount of PLN 10,460 thousand were available for purchase or factoring (December 31st 2018: PLN 8,025 thousand).

Trade and other receivables by currency

	as at Dec 31 2019	as at Dec 31 2018
PLN	100,732	138,414
EUR translated into PLN	134,883	109,030
USD translated into PLN	2,332	734
Other	137	137
	238,084	**248,315**
including		
Long-term	5,855	9,757
Short-term	232,229	238,558
	238,084	**248,315**

(all amounts in PLN '000 unless indicated otherwise)

Note 17.1 Prepayments

	as at Dec 31 2019	as at Dec 31 2018
Insurance premiums	1,130	1,266
Subscriptions	199	138
Advertising	14	370
Other	841	822
	2,184	**2,596**
including		
Short-term	2,184	2,596
	2,184	**2,596**

Note 18 Cash

	as at Dec 31 2019	as at Dec 31 2018
Cash in hand	18	38
Bank balances in PLN	50,196	285,256
Bank balances in foreign currencies (translated to PLN)	28,898	8,314
Bank deposits – up to 3 months	1,824	585
Cash and cash equivalents under cash pooling	1,077,443	706,787
	1,158,379	**1,000,980**
Cash and cash equivalents in the statement of financial position	**1,158,379**	**1,000,980**
Cash and cash equivalents in the statement of cash flows	**1,158,379**	**1,000,980**

As at December 31st 2019 and December 31st 2018, the Company held no restricted cash.
As at December 31st 2019, the amount of funds in the VAT account (split payment) was PLN 9,607 thousand (December 31st 2018: PLN 884 thousand).

Together with other Grupa Azoty Group companies, the Company entered into cash pooling agreements with PKO BP in PLN (PLN CPR) and EUR (EUR CPR). The purpose of physical cash pooling is to optimise financial flows, allowing the Group to effectively manage its global liquidity limits in the złoty and the euro and flexibly allocate them across the Group, thus ensuring financial security of the Group companies while optimising the Group’s interest income and expenses. The Company acts as an agent coordinating the cash pooling services within the Group, which means that individual Group companies settle their accounts with the Company, and the Company – with PKO BP.
The Company presents the funds transferred to the Group companies participating in the PLN and EUR physical cash pooling arrangements under other cash and cash equivalents (positive balance), while the funds received by the Company from the other Group companies are presented under short-term borrowings (negative balance); see Note 22 and Note 33.

Any balance of surplus cash may be invested by the Company in bank deposits of up to three months.

(all amounts in PLN '000 unless indicated otherwise)

Effect of changes in credit risk during the reporting period on expected credit loss as at December 31st 2019

	Cash as at Jan 1 2019	Cash as at Dec 31 2019	Estimated credit loss as at Dec 31 2019	Cash net of credit loss as at Dec 31 2019
Estimated over a period of up to 12 months, including:	1,000,942	1,158,578	(217)	1,158,361
A	990,998	1,127,898	(198)	1,127,700
BBB/BB	9,371	30,279	(10)	30,269
B	573	401	(9)	392

Effect of changes in credit risk during the reporting period on expected loss as at Dec 31 2018

	Cash as at Jan 1 2018	Cash as at Dec 31 2018	Estimated credit loss as at Dec 31 2018	Cash net of credit loss as at Dec 31 2018
Estimated over a period of up to 12 months, including:	572,683	1,001,159	(217)	1,000,942
A	464,730	991,196	(198)	990,998
BBB/BB	105,098	9,376	(5)	9,371
B	2,855	587	(14)	573

Note 19 Other assets

No other assets were recognised as at December 31st 2019 or December 31st 2018.

Note 20 Assets held for sale

	as at Dec 31 2019	as at Dec 31 2018
Plant and equipment	95	95
	95	**95**

Note 21 Equity

Note 21.1 Share capital

Share capital

	as at Dec 31 2019	as at Dec 31 2018
Par value of Series AA shares	120,000	120,000
Par value of Series B share issue	75,582	75,582
Par value of Series C share issue	124,995	124,995
Par value of Series D share issue	175,400	175,400
	495,977	**495,977**

(all amounts in PLN '000 unless indicated otherwise)

Number of shares

	as at Dec 31 2019	as at Dec 31 2018
Number of shares at the beginning of the period	**99,195,484**	**99,195,484**
Number of shares at the end of the period	**99,195,484**	**99,195,484**
Par value per share (PLN/share)	5	5

All the issued shares have been fully paid for. Holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at the General Meeting. The shares carry no preference in terms of rights to the Company assets in the event of asset distribution.

Limitation of voting rights
As long as the State Treasury of Poland or its subsidiaries hold shares in the Company representing at least one-fifth of total voting rights, the other shareholders' voting rights shall be limited in such a manner that no shareholder may exercise more than one-fifth of total voting rights at the General Meeting existing on the day of the General Meeting.

Note 21.2 Share premium

	as at Dec 31 2019	as at Dec 31 2018
Issue of shares	2,445,409	2,445,409
Share issue costs (-)	(30,713)	(30,713)
Income tax (+/-)	3,574	3,574
	2,418,270	**2,418,270**

Note 21.3 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the value of hedging instruments, i.e. bank loans denominated in EUR, used as a cash flow hedge for revenue generated in that currency, pending subsequent recognition in the statement of profit or loss when the hedged cash flows occur.

Note 21.4 Dividends

In 2019, the Company did not pay any dividend. The entire net profit for 2018 was allocated to the Company's statutory reserve funds. In 2018, the Company paid dividend of PLN 123,995 thousand from the 2017 profit.

Note 22 Borrowings

	as at Dec 31 2019	as at Dec 31 2018
Bank borrowings	2,546,902	2,591,141
Loans	985,615	614,054
	3,532,517	**3,205,195**
including		
Long-term	2,413,532	2,311,248
Short-term	1,118,985	893,947
	3,532,517	**3,205,195**

As part of the centralised financing model, the Company has entered into a syndicated credit facility agreement with PKO BP S.A. ("PKO BP"), BGK, Santander Bank Polska S.A. ("Santander") and ING Bank Śląski S.A. ("ING"), with a total limit of up to PLN 3,000m, maturing in 2025, to finance its investment programmes and other objectives set out in the Grupa Azoty Group's long-term strategy. The Company is also party to long-term facility agreements totalling PLN 700m, including a

- PLN 550m facility from the EIB and a PLN 150m facility from the EBRD, concluded in 2015 for a period of 10 years, and
- a EUR 145m facility from the EIB and a PLN 500m facility from the EBRD, concluded in 2018 for a period of 10 years; the total amount of financing available to the Company is PLN 4,670m.

The Company, Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN and Grupa Azoty ATT POLYMERS are also parties to a PLN 240m multi-purpose credit facility agreement with PKO BP (which includes a PLN 39m sublimit for the Company). The Company and other selected subsidiaries are also parties to a PLN 310m overdraft facility agreement with PKO BP ("PLN KRB") (which includes a PLN 96m sublimit for the Company), and to a EUR 75m overdraft facility agreement ("EUR KRB") with PKO BP. The facilities are repayable by September 30th 2022. The PLN and EUR overdraft facilities are linked to the Grupa Azoty Group's cash pooling structure in these currencies.

The relevant covenants, terms and conditions and security under the agreements with the EIB and the EBRD, as well as the multi-purpose credit facility and overdraft facility agreements with PKO BP, are harmonised with the previously concluded syndicated facility agreement. In December 2019, amendment to the facility loan agreements were executed to ensure their harmonisation with the terms and conditions of the financing of the Police Polymers project implemented by Grupa Azoty POLYOLEFINS.

For further information on covenants, see Note 30.3.2.

As at December 31st 2019, the Company had access to credit limits under the agreements specified above of ca. PLN 2,940m.

For information on borrowings, see Note 33.

(all amounts in PLN '000 unless indicated otherwise)

Grupa Azoty S.A. agreements as at December 31st 2019

Credit facility/loan	Currency	Rate of interest	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
Syndicated Credit Facility	PLN	variable	-	710,883	(1,347)	(2,021)	(4,925)	719,176
Syndicated Credit Facility	EUR	variable	171,104	724,729	(661)	-	-	725,390
Syndicated Credit Facility	PLN	variable	-	548	548	-	-	-
Overdraft facility with PKO BP S.A.	EUR	variable	7,605	32,384	32,384	-	-	-
Term loan facility from EIB	EUR	fixed	99,891	425,138	77,263	76,555	229,756	41,564
Term credit facility with EBRD	PLN	variable	-	126,817	23,105	23,026	69,151	11,535
Term credit facility II from EIB	EUR	fixed	100,271	426,517	1,080	28,317	170,163	226,957
Term credit facility II from EBRD	PLN	variable	-	99,886	997	6,410	39,424	53,055
Liabilities under cash pooling arrangements	PLN	variable	-	721,586	721,586	-	-	-
Liabilities under cash pooling arrangements	EUR	variable	62,000	264,029	264,029	-	-	-
				3,532,517	**1,118,984**	**132,287**	**503,569**	**1,777,677**

Grupa Azoty S.A. agreement as at December 31st 2018

Credit facility/loan	Currency	Rate of interest	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
Syndicated Credit Facility	PLN	variable	-	708,689	(1,599)	(1,596)	(5,554)	717,438
Syndicated Credit Facility	EUR	variable	171,104	733,767	(528)	-	-	734,295
Overdraft facility with PKO BP S.A.	EUR	variable	41,918	180,248	180,248	-	-	-
Term loan facility from EIB	EUR	fixed	118,053	504,801	78,001	77,716	231,956	117,128
Term credit facility with EBRD	PLN	variable	-	149,840	23,114	23,014	69,110	34,602
Term credit facility II from EIB	EUR	fixed	50,155	215,105	592	(75)	71,469	143,119
Term credit facility II from EBRD	PLN	variable	-	98,689	63	(262)	32,656	66,232
Liabilities under cash pooling arrangements	PLN	variable	-	461,334	461,334	-	-	-
Liabilities under cash pooling arrangements	EUR	variable	35,517	152,722	152,722	-	-	-
				3,205,195	**893,947**	**98,797**	**399,637**	**1,812,814**

(all amounts in PLN '000 unless indicated otherwise)

Maturities and currencies of borrowings

As at Dec 31 2019

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

As at Dec 31 2018

Currency	Reference rate	Amount as at the reporting date		Up to 1 year	1–2 years	2–5 years	Over 5 years
		in foreign currency	in PLN				
PLN	variable	1,418,553	1,418,553	482,913	21,156	96,212	818,272
EUR	fixed	168,208	722,386	78,593	77,641	303,425	262,727
EUR	variable	248,539	1,064,256	332,441	-	-	731,815
			3,205,195	**893,947**	**98,797**	**399,637**	**1,812,814**

(all amounts in PLN '000 unless indicated otherwise)

Security for borrowings

The Group's financing agreements are secured with harmonised guarantees and sureties issued by selected subsidiaries, i.e. Grupa Azoty PUŁAWY, Grupa Azoty POLICE, and Grupa Azoty KĘDZIERZYN. Each of the subsidiaries issued sureties/guarantees covering up to one-third of 120% of the amount provided under each of the credit facility agreements, including:

- the PLN 3,000m syndicated revolving credit facility (total sureties of up to PLN 3,600m),
- 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 EIB (total guarantees of up to PLN 660m),
- the EUR 145m loan facility from the EIB (total guarantees of up to EUR 174m),
- the PLN 150m loan facility from the EBRD (total guarantees of up to PLN 180m),
- the PLN 500m loan facility from the EBRD (total guarantees of up to PLN 600m).

Note 23 Lease liabilities

	as at Dec 31 2019
As at Jan 1 2019	39,457
Increase (new leases)	22,358
Interest	2,166
Payments	(11,820)
	52,161
including	
Long-term	38,962
Short-term	13,199
	52,161

Lease liabilities include mainly perpetual usufruct rights to land of PLN 24,577 thousand. Other liabilities include leases of rail cars, telecommunications equipment, premises and passenger cars.

Lease liabilities as at December 31st 2018

	as at Dec 31 2018
Finance lease liabilities	2,409
	2,409
including	
Long-term	1,695
Short-term	714
	2,409

Schedule of finance lease liabilities as at December 31st 2018

	Minimum lease payments	Interest	Principal
Up to 1 year	764	50	714
From 1 to 3 years	1,729	45	1,684
From 3 to 5 years	11	-	11
	2,504	**95**	**2,409**

(all amounts in PLN '000 unless indicated otherwise)

Note 24 Other financial liabilities

	as at Dec 31 2019	as at Dec 31 2018
Liabilities under receivables discounting	104,247	52,341
Liabilities under reverse factoring agreements	155,125	47,267
Other	22,549	25,444
	281,921	**125,052**
including		
Long-term	19,042	21,930
Short-term	262,879	103,122
	281,921	**125,052**

The Company recognises liabilities under reverse factoring agreements as other financial liabilities due to the change in their economic nature upon receipt of cash from the financing institution.
‘Other financial liabilities’ as at December 31st 2019 and as at December 31st 2018 comprise the Company’s liabilities related to the financing of activities of the Polish National Foundation until 2026.

(all amounts in PLN '000 unless indicated otherwise)

Note 25 Change in liabilities arising from financing activities

Dec 31 2019

	Note	Dec 31 2018	Implementation of IFRS 16	Changes arising from cash flows from financing activities	Effects of movements in foreign exchange rates	Other changes	Dec 31 2019
Interest-bearing borrowings (long-term)	22	2,311,248	-	115,605	(13,321)	-	**2,413,532**
Lease liabilities (non-current)	23	1,695	32,687	4,580	-	-	**38,962**
Interest-bearing borrowings (short-term)	22	893,947	-	229,012	(3,974)	-	**1,118,985**
Lease liabilities (current)	23	714	4,361	8,124	-	-	**13,199**
Liabilities under receivables discounting	24	52,341	-	52,412	(506)	-	**104,247**
Liabilities under reverse factoring agreements	24	47,267	-	108,102	(244)	-	**155,125**
Other financial liabilities	24	25,444	-	(3,500)	-	605	**22,549**
Total liabilities arising from financing activities		**3,332,656**	**37,048**	**514,335**	**(18,045)**	**605**	**3,866,599**
Borrowings	22	**3,205,195**	**-**	**344,617**	**(17,295)**	**-**	**3,532,517**
Lease liabilities	23	**2,409**	**37,048**	**12,704**	**-**	**-**	**52,161**
Other financial liabilities	24	**125,052**	**-**	**157,014**	**(750)**	**605**	**281,921**

(all amounts in PLN '000 unless indicated otherwise)

Dec 31 2018

	Note	Jan 1 2018	Changes arising from cash flows from financing activities	Effects of movements in foreign exchange rates	Other changes	Dec 31 2018
Interest-bearing borrowings (long-term)	22	1,357,234	954,654	14,675	(15,315)	2,311,248
Lease liabilities (non-current)	-	1,114	581	-	-	1,695
Interest-bearing borrowings (short-term)	22	310,892	582,838	217	-	893,947
Lease liabilities (current)	-	427	287	-	-	714
Liabilities under receivables discounting	24	20,388	30,944	1,009	-	52,341
Liabilities under reverse factoring agreements	24	-	-	-	47,267	47,267
Other financial liabilities	24	28,246	(3,500)	-	698	25,444
Total liabilities arising from financing activities		**1,718,301**	**1,565,804**	**15,901**	**32,650**	**3,332,656**
Other financial liabilities	24	**50,175**	**28,312**	**1,009**	**47,965**	**127,461**
Borrowings	22	**1,668,126**	**1,537,492**	**14,892**	**(15,315)**	**3,205,195**

(all amounts in PLN '000 unless indicated otherwise)

Note 26 Employee benefit obligations

	as at Dec 31 2019	as at Dec 31 2018
Pension benefit obligations	37,973	23,969
Jubilee benefit obligations	21,764	21,056
Pensioner Social Fund benefit obligations	6,471	5,824
Other	2,550	3,951
	68,758	**54,800**
including		
Long-term	64,080	51,289
Short-term	4,678	3,511
	68,758	**54,800**

Changes in defined employee benefit obligations

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 – Dec 31 2018
At beginning of period	**33,744**	**29,443**
Current service cost (+)	1,450	806
Interest expense (+)	984	1,001
Remeasurement of net defined benefit obligation/asset, resulting from:	12,121	3,809
- changes in demographic estimates (+/-)	*7,232*	*2,418*
- changes in financial assumptions (+/-)	*4,889*	*1,391*
Benefits paid (-)	(1,305)	(1,315)
At end of period	**46,994**	**33,744**

Changes in other long-term employee benefit obligations

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 – Dec 31 2018
At beginning of period	**21,056**	**21,054**
Current service cost (+)	809	718
Interest expense (+)	607	716
Actuarial gains and losses recognised in profit or loss for the period (+/-)	1,645	821
Benefits paid (-)	(2,353)	(2,253)
At end of period	**21,764**	**21,056**

Actuarial assumptions

As at December 31st 2019, the following employee benefit growth forecasts were adopted.

- Increase in the base amount for length-of-service awards of 0.00% each year,
- Base for contribution to the Company Social Benefits Fund in 2020 was assumed to be in line with the applicable regulations, with increase of 4.8% in 2021 and 3.0% in 2022 and subsequent years,
- Minimum wage for 2020 was assumed to be in line with the applicable regulations, with increase of 6.0% in 2021, and 3.0% in 2022 and subsequent years,
- 1.5% increase in the average wage in 2020, 2.0% in 2021 and 2.0% in 2022 and subsequent years,
- Discount rate of 2.05%.

(all amounts in PLN '000 unless indicated otherwise)

Sensitivity analysis

Presented below is a sensitivity analysis of employee benefit obligations (relative to standard assumptions) for changes in: employee attrition rates, discount rate and pay growth rate.

As at December 31st 2019

	Provision for jubilee benefits	Provision for retirement severance payments	Provision for disability severance payments	Provision for death benefits	Provision for contribution to the Company Social Benefits Fund
Turnover ratios - 1%	(642)	(1,143)	(22)	(93)	(98)
Turnover ratios + 1%	843	1,499	26	117	125
Discount rate - 1%	(1,654)	(4,339)	(49)	(233)	(1,225)
Discount rate + 1%	1,459	3,694	43	203	954
Minimum wage growth rate - 1%	-	3,695	41	-	-
Minimum wage growth rate + 1%	-	(4,250)	(46)	-	-
Average wage/base amount growth rate for jubilee benefits - 1%	1,515	-	205	-	-
Average wage/base amount growth rate for jubilee benefits + 1%	(1,688)	-	(231)	-	-

Note 27 Provisions

	as at Dec 31 2019	as at Dec 31 2018
Provision for litigation	38	47
Provision for environmental liabilities	32,779	31,031
Other	1,053	1,196
	33,870	**32,274**
including		
Long-term	31,619	31,069
Short-term	2,251	1,205
	33,870	**32,274**

(all amounts in PLN '000 unless indicated otherwise)

Change in provisions

	Provision for litigation	Provision for environmental liabilities	Other provisions	Total
As at Jan 1 2019	**47**	**31,031**	**1,196**	**32,274**
Increase, including:	**-**	1,748	8	1,756
Recognition of provisions	*-*	*1,748*	*8*	*1,756*
Decrease, including: (-)	**(9)**	**-**	**(151)**	**(160)**
Use of provisions	*(9)*	*-*	*(96)*	*(105)*
Reversal of provisions	*-*	*-*	*(55)*	*(55)*
As at Dec 31 2019	**38**	**32,779**	**1,053**	**33,870**

	Provision for litigation	Provision for environmental liabilities	Other provisions	Total
As at Jan 1 2018	**56**	**27,760**	**729**	**28,545**
Increase, including:	**-**	**3,932**	**602**	**4,534**
Recognition of provisions	*-*	*3,932*	*602*	*4,534*
Decrease, including: (-)	**(9)**	**(661)**	**(135)**	**(805)**
Use of provisions	*(9)*	*-*	*(120)*	*(129)*
Reversal of provisions	*-*	*(661)*	*(15)*	*(676)*
As at Dec 31 2018	**47**	**31,031**	**1,196**	**32,274**

Provision for environmental liabilities

In 2019, the method of winding up the inactive Mercury Electrolysis Plant was updated. The decommissioning will involve demolition of the existing facilities as well as collection and management of the generated waste. The site restoration assumptions were updated with respect to land which will not required remediation. The provision was estimated at the amount of costs necessary to carry out the work. The estimate assumes that work will be carried out in 2021-2022, while design and preparatory work will be carried out in 2020.

As at December 31st 2019, the present value of the long-term provision was calculated using a real risk-free discount rate of 0.00% (December 31st 2018: 0.69%). The rate is represents the difference between the long-term risk-free interest rate and the long-term inflation target set by the National Bank of Poland.

(all amounts in PLN '000 unless indicated otherwise)

Note 28 Trade and other payables

	as at Dec 31 2019	as at Dec 31 2018
Trade payables - related parties	36,306	33,481
Trade payables - other entities	135,343	157,266
Liabilities to state budget, except for income tax	19,074	27,313
Salaries and wages payable	8,294	8,061
Liabilities under purchases of property, plant and equipment, intangible assets, investment properties - related parties	19,850	10,778
Liabilities under purchases of property, plant and equipment, intangible assets, investment properties - other entities	11,960	21,080
Prepayments for deliveries - other entities	1,448	1,364
Other liabilities - other entities	8,645	7,757
Accrued expenses	129,034	83,298
Liabilities under bonuses	8,390	2,114
Deferred income	131	428
	378,475	**352,940**
including		
Long-term	32	32
Short-term	378,443	352,908
	378,475	**352,940**

Aging of trade payables

	as at Dec 31 2019	as at Dec 31 2018
Not past due	177,525	186,957
Past due up to 180 days	1,682	5,085
Past due 181-360 days	14	12
Past due more than 360 days	818	807
	180,039	**192,861**

Currency structure of payables

	as at Dec 31 2019	as at Dec 31 2018
PLN	309,975	252,752
EUR translated into PLN	67,517	96,047
USD translated into PLN	464	51
Other	519	4,090
	378,475	**352,940**

(all amounts in PLN '000 unless indicated otherwise)

Note 28.1 Accrued expenses

	as at Dec 31 2019	as at Dec 31 2018
Liabilities – annual bonus	23,111	19,836
Obligations – accrued holiday entitlements	5,148	4,790
Provision for incentive/quarterly bonus	2,600	3,105
Other liabilities - employee expenses	2,145	2,244
Energy certificates	1,877	2,978
Emission allowances	88,513	45,379
Uninvoiced expenses	3,259	2,623
Other	2,381	2,343
	129,034	**83,298**
including		
Short-term	129,034	**83,298**
	129,034	**83,298**

Note 29 Grants

	as at Dec 31 2019	as at Dec 31 2018
Government grants	49,267	42,294
Other	200	-
	49,467	**42,294**
including		
Long-term	47,048	40,666
Short-term	2,419	1,628
	49,467	**42,294**

The Company received and settled grants related to free-of-charge CO_2 emission allowances amounting to PLN 44,034 thousand (in 2018: PLN 24,462 thousand).

Material grants which remained unsettled as at December 31st 2019 were:
- grant of PLN 18,432 thousand (December 31st 2018: PLN 12,114 thousand) for the construction of the Company's Research and Development Centre,
- grant of PLN 17,815 thousand (December 31st 2018: PLN 19,484 thousand) for receipt of CO_2 emission allowances for delivery of a project recognised in the National Investment Plan.

Note 30 Financial instruments

Note 30.1 Capital management

The Company's policy is to maintain a strong capital base, so as to maintain investor, creditor and market environment confidence and to sustain future development of the business. The Company monitors changes in the shareholding structure, return on capital, and debt to equity ratios.
The Company manages the capital in order to ensure the Company's ability to continue as a going concern and to maximise returns for shareholders through optimisation of the debt to equity ratio.
The Company's capital structure consists of liabilities, including borrowings presented in Note 22, other financial liabilities presented in Note 24, and equity presented in Note 21.

(all amounts in PLN '000 unless indicated otherwise)

Note 30.2 Categories of financial instruments

Debt instruments – financial assets at amortised cost
A financial asset is measured at amortised cost if both of the following conditions are met:
a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
The Company classifies the following as financial assets measured at amortised cost:
- trade and other receivables not to be sold,
- loans that meet the SPPI classification test, and, in line with the business model, are recognised as held to collect cash flows,
- cash and cash equivalents.

Interest income is calculated using the effective interest rate method and shown in the statement of profit or loss under Finance income.

Classification of financial instruments
Except for trade receivables covered by factoring, debt purchase or discounting agreements, the Company's other financial assets give rise to cash flows that are payments of principal and interest, and are held as part of a business model whose sole objective is to collect cash flows from assets, and are therefore classified as financial assets measured at amortised cost.
Under its factoring, debt purchase and discounting agreements, the Company sells trade receivables which, based on the business models, have been classified as part of the model whose objective is achieved by both collecting cash flows and selling financial assets. Accordingly, trade receivables covered by the factoring, debt purchase or discounting agreements are classified as financial assets measured at amortised cost. With respect to the above group of trade receivables, of PLN 10m, which as at December 31st 2019 were not transferred to factoring or discounting, it was determined that given the potential sale of the assets and the short period between initial recognition and maturity, their fair value is similar to their carrying amount.
The Company also took the view that the fair value measurement of shares in unrelated entities will differ from the historical cost of acquired shares. The Company applied the option to measure those shares at fair value and to recognise such measurement through other comprehensive income.

Financial assets

	as at Dec 31 2019	as at Dec 31 2018
At fair value through profit or loss	1,025	720
At amortised cost	1,699,303	1,470,569
At fair value through other comprehensive income	17,115	14,596
	1,717,443	**1,485,885**
Recognised in the statement of financial position as:		
Shares	6,655	6,571
Trade and other receivables	197,974	144,648
Cash and cash equivalents	1,158,379	1,000,980
Derivative financial instruments	1,025	720
Other financial assets	353,410	332,966
	1,717,443	**1,485,885**

(all amounts in PLN '000 unless indicated otherwise)

Financial liabilities

	as at Dec 31 2019	as at Dec 31 2018
At amortised cost	4,093,858	3,573,053
	4,093,858	**3,573,053**
Recognised in the statement of financial position as:		
Long-term borrowings	2,413,532	2,311,248
Short-term borrowings	1,118,985	893,947
Non-current ease liabilities	38,962	1,695
Current lease liabilities	13,199	714
Other non-current financial liabilities	19,042	21,930
Other current financial liabilities	262,879	103,122
Trade and other payables	227,259	240,397
	4,093,858	**3,573,053**

(all amounts in PLN '000 unless indicated otherwise)

Gains/(losses) (+/-) recognised in finance income or expense

for the period Jan 1 – Dec 31 2019	Gains/(losses) recognised in profit or loss	Gains/(losses) recognised in other comprehensive income	Interest income/expenses (calculated using the effective interest rate)	Interest income/expenses (other than those taken into account when determining the effective interest rate)
Financial assets				
At fair value through profit or loss	304	-	-	-
At amortised cost	(80)	-	-	-
Financial liabilities				
At amortised cost	-	-	-	-
	224	-	-	-

Gains/(losses) (+/-) recognised in finance income or expense

for the period Jan 1 – Dec 31 2018	Gains/(losses) recognised in profit or loss	Gains/(losses) recognised in other comprehensive income	Interest income/expenses (calculated using the effective interest rate)	Interest income/expenses (other than those taken into account when determining the effective interest rate)
Financial assets				
At fair value through profit or loss	(350)	-	-	-
At amortised cost	(801)	-	-	-
Financial liabilities	-	-	-	-
At amortised cost	(15)	-	-	-
	(1,166)	-	-	-

The table above does not include gains or losses on interest, or foreign exchange gains or losses, which are presented in Note 5 Finance income and Note 6 Finance costs.

Additional information:

- There were no financial assets presented in the statement of financial position as at December 31st 2019 and December 31st 2018 whose terms and conditions would be renegotiated,
- In 2019 and 2018, other than reclassifications under the contractual loan repayment schedules, there were no reclassifications of financial assets which would result from their maturities as at the reporting dates.
- No instruments containing both a liability and an equity component, or instruments containing embedded derivatives were issued in 2019 and 2018,
- In 2019 and 2018, the Company did not foreclose any security established for its benefit.

Impairment of financial assets

In accordance with IFRS 9, the Company calculates the expected loss resulting in the recognition of an impairment allowance upon initial recognition of financial assets. Calculations regarding the impairment of financial assets are made for financial assets measured at amortised cost and at fair value through other comprehensive income (excluding equity instruments, which the Company decided to classify at initial recognition as financial assets measured at fair value through other comprehensive income).
For the purpose of estimating expected credit losses, the Company uses both historical payment data and reliable data available as at the reporting date which may increase the accuracy of estimating expected credit losses in future periods.
The Company has identified the following classes of financial assets for which, in accordance with IFRS 9, it has estimated the impact of the expected credit losses on the financial statements:

- trade receivables,
- loans,
- deposits with banks,
- cash, including cash available under cash pooling arrangements.

Note 30.3 Financial risk management

The Company has exposure to the credit risk, liquidity risk and market risk (related mainly to the foreign exchange and interest rate risk). These risks arise in the ordinary course of the Company's business. The objective of the Company's financial risk management is to reduce the impact of market factors such as currency exchange rates and interest rates on the basic financial parameters (net profit for the period, cash flows) previously approved in the Company's budget by using natural hedging and derivatives.

Note 30.3.1 Credit risk

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

With respect to trade receivables, it is expected that historical payment data may reflect 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 Company assumes that the counterparty has failed to perform its obligation.
For financial assets included in the estimation of expected losses other than trade receivables, the Company 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 provided and the time value of money.
The Company has measured its shareholdings at fair value (equity investments). The measurement was carried out using the DCF method based on the assumptions of the Long-Term Growth Forecast

prepared by the Company for 2017–2022. The nature of the business in which revenue is based on costs is included in the Forecast based on the expected operating expenses taking into account expected inflation rises.

The circumstance that the Company particularly takes into account when analysing whether there has been a significant increase in credit risk associated with a given financial asset is the probability of a counterparty's insolvency as at the reporting date being significantly higher than the probability of insolvency as at the date of initial recognition. The Company identifies a significant increase in credit risk associated with a given financial asset based on the above circumstance and other available information that may affect the assessment of credit risk.

(all amounts in PLN '000 unless indicated otherwise)

Effect of changes in credit risk during the reporting period on expected loss

	Total	Financial assets measured at fair value through profit or loss	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income
	Dec 31 2019	Dec 31 2019	Dec 31 2019	Dec 31 2019
Estimated over a period of up to 12 months (loans, cash)	561	-	561	-
Estimated over the lifetime of instruments (receivables) - in line with the simplified approach	189	-	189	-
	Dec 31 2018	Dec 31 2018	Dec 31 2018	Dec 31 2018
Estimated over a period of up to 12 months (loans, cash)	848	-	848	-
Estimated over the lifetime of instruments (receivables) - in line with the simplified approach	94	-	86	8

Change in the gross carrying amount of the financial assets - loans and cash that contributed to changes in allowance for expected financial losses as at December 31st 2019

Rating	Estimated over a period of up to 12 months	Estimated over the lifetime of the instruments, including: - for instruments that have had a significant increase in credit risk*	Estimated over the lifetime of the instruments, including: - for instruments that have had a significant increase in credit risk*
A	1,127,898	-	-
BBB/BB	384,035	-	-
B	401	-	-

Change in the gross carrying amount of the financial assets - loans and cash that contributed to changes in allowance for expected financial losses as at December 31st 2018

Rating	Estimated over a period of up to 12 months	Estimated over the lifetime of the instruments, including: - for instruments that have had a significant increase in credit risk*	Estimated over the lifetime of the instruments, including: - for instruments that have had a significant increase in credit risk*
A	991,196	-	-
BBB/BB	342 83	-	-
B	587	-	-

*Impaired - in line with the simplified approach, **impaired

(all amounts in PLN '000 unless indicated otherwise)

Provision matrix for trade receivables

	Percentage of expected impairment As at Dec 31 2019	Percentage of expected impairment As at Dec 31 2018
Not past due	0.11%	0.08%
Past due up to 90 days	0.68%	1.05%
Past due 91–180 days	10.29%	10.94%
Past due 181-360 days	47.06%	99.72%
Past due more than 360 days	99.45%	99.77%

Detailed analyses and case-by-case estimates of losses on trade receivables from related parties identified expected impairment of trade receivables past due from 181 to 360 days as at December 31st 2019 was 47.06% (December 31st 2018: 99.72%).

Financial assets to which no impairment requirements apply

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 - Dec 31 2018
Maximum risk exposure amount, excluding collateral	7,150	3,489

The following table presents maximum exposure to credit risk

	as at Dec 31 2019	as at Dec 31 2018
At fair value through profit or loss	1,025	720
At amortised cost	1,595,056	1,418,228
At fair value through other comprehensive income	114,707	66,937
	1,710,788	**1,485,885**

Trade receivables by business segment

	as at Dec 31 2019	as at Dec 31 2018
Agro Fertilizers	27,203	24,084
Plastics	150,378	107,088
Energy	3,559	2,888
Other Activities	10,727	7,857
	191,867	**141,917**

As at December 31st 2019, trade receivables from non-related entities account for 32.2% of total trade receivables (December 31st 2018: 58.7%). Of these receivables, 90.9% (December 31st 2018: 96.2%) are covered by the trade credit insurance policies; the policies limit the credit risk to the deductible amount (from 5% to 8% of the amount of insured receivables).

The policies ensure that customers' financial condition is monitored on a ongoing basis and enable debt recovery when required. Upon a customer's actual or legal insolvency, the Group receives compensation equal to 92–95% of the amount of the insured receivables.

The Company applies a unified credit risk management policy and performs ongoing credit assessment, including customer monitoring. For these purposes, the Group reviews business intelligence reports, debtor registers, taking into account signals from the market concerning a possible deterioration of the counterparties' financial condition, credit history and, where appropriate, requires adequate collateral. If there is no positive history of trading between the Company and a customer, or where transactions are occasional and the credit limit cannot be insured, the customer is required to make a prepayment. Trade credit limit is granted primarily on the basis of the insurance company's decision, but also taking into account positive trading history with the customer and the customer's creditworthiness (assessed based on business intelligence reports), financial statements and payment history.

Credit risk exposure is defined as the total of unpaid receivables that may be lost if the counterparty fails to meet its obligations by a defined deadline. The receivables are monitored on an ongoing basis by the Company's internal financial staff (individually for each customer) and if a receivable is insured, the customer's financial standing is monitored by insurance companies' credit analysts. The concentration of credit risk is not significant given the Company's procedures and diversified customer portfolio.

Approximately 62.2% (December 31st 2018: 60.8%) of trade receivables are from customers based outside of Poland, while the remaining 37.8% (December 31st 2018: 39.2%) are from domestic accounts. The Company's revenue concentrates in two main segments reflecting the profile of its business. Receivables from the customers of the Plastics segment and the Agro Fertilizers segment account for the largest share of the Company's trade receivables – 78.4% (December 31st 2018: 75.5%) and 14.2% (December 31st 2018: 17%), respectively. In the Plastics segment, the largest amount of trade receivables is due from Grupa Azoty ATT POLYMERS, Grupa Azoty COMPOUNDING, and other foreign customers, to which sales are made on deferred payment terms within insured credit limits. On the other hand, Polish entities are the largest customer group in the Agro Fertilizers segment, with sales made on a deferred payment basis within insured credit limits to customers with proven credit record or where collateral has been provided; or on a prepayment basis to other customers.

Cash and cash equivalents are placed with financial institutions with high credit ratings and healthy solvency ratios. The Company's cash surplus in PLN and EUR is in the first place consolidated in the Parent's current accounts with negative balances under PLN and/or EUR overdraft facilities or available debt limits of the Group companies under physical cash pooling arrangements in both these currencies with PKO BP S.A.

For information on past due trade receivables, impaired receivables and changes in allowances for expected credit losses on receivables, see Note 17.

Note 30.3.2 Liquidity risk

Financial liquidity risk is the risk that the Company will not be able to repay its financial liabilities when they fall due. Mitigating measures include proper management of financial liquidity through correct assessment of the level of cash resources based on cash flow plans for various time horizons. The Company optimises the management of the Group's cash surplus using the cash pooling facility, revolving loans granted under the intra-group financing agreement of April 23rd 2015, as amended, and the dividend policies of the Group companies. Within the centralised financing model, the Company holds corporate financing agreements for a total amount of PLN 4,670m, further described in Note 22. The agreements ensure long-term financial liquidity, including financing for both the long-term strategy and current operating objectives. Additionally, the Company has available credit limits, described in greater detail in Note 22, within the PLN and EUR overdraft facilities linked to the physical cash pooling arrangement in these currencies and the multi-purpose loan with PKO BP, which the Company can manage to respond to the financing needs of the individual Group companies. The Group took out loans and credit facilities which included uniform and harmonised covenants. A future breach of these covenants may result in acceleration of the Company's borrowings. In 2019 and 2018, and in 2020 until the date of authorisation of these financial statements for issue, the Company did not default on any of its liabilities or covenants where such default would trigger acceleration of the liabilities. Interest payments on variable-rate loans, credit facilities other financial instruments were estimated based on the interest rates at the reporting date, but these amounts may change in the future.

(all amounts in PLN '000 unless indicated otherwise)

The table below presents the contractual cash flows of financial liabilities at the reporting date.

Dec 31 2019

		contractual flows			
	Carrying amount	Total	Up to 1 year	From 1 to 5 years	Over 5 years
At fair value through profit or loss	-	-	-	-	-
At amortised cost, including:	4,093,858	4,408,265	1,672,736	843,935	1,891,594
borrowings	3,532,517	3,780,700	1,167,532	809,555	1,803,613
lease liabilities	52,161	116,427	15,066	20,296	81,065
liabilities under factoring and discount of receivables	259,373	259,373	259,373	-	-
other financial liabilities	22,548	24,506	3,506	14,084	6,916
trade and other payables	227,259	227,259	227,259	-	-

Dec 31 2018

		contractual flows			
	Carrying amount	Total	Up to 1 year	From 1 to 5 years	Over 5 years
At fair value through profit or loss					
At amortised cost, including:	**3,573,053**	**3,839,645**	**1,281,226**	**676,875**	**1,881,544**
borrowings	3,205,195	3,469,122	936,943	661,135	1,871,044
lease liabilities	2,409	2,504	764	1,740	-
liabilities under factoring and discount of receivables	52,341	52,341	52,341	-	-
other financial liabilities	72,711	75,281	50,781	14,000	10,500
trade and other payables	240,397	240,397	240,397	-	-

(all amounts in PLN '000 unless indicated otherwise)

Note 30.3.3 Market risk

Interest rate risk

The Company is exposed to changes in interest rates mainly through its credit facilities/borrowings, factoring and reverse factoring transactions, sale and discounting of receivables and lease liabilities based on WIBOR + margin for PLN-denominated instruments and EURIBOR + margin for EUR-denominated instruments, as well as through cash and cash equivalents and financial assets where interest payments are determined based on these market rates.

The following table presents the risk profile (maximum exposure) of the Company to the interest rate risk, by instruments with fixed and variable interest rates:

	Present value Dec 31 2019	Present value Dec 31 2018
Instruments with fixed interest rates		
Financial liabilities (-)	(852,394)	(723,296)
	(852,394)	**(723,296)**
Instruments with variable interest rates		
Financial assets (+)	1,511,143	1,333,908
Financial liabilities (-)	(2,991,657)	(2,536,649)
	(1,480,514)	**(1,202,741)**

The Company does not hedge against the interest rate risk. However, in order to mitigate the effect of the interest rate risk, some of the bank loans contracted in 2015–2019 were taken out as instruments with fixed interest rates.

Other measures taken to mitigate the interest rate risk include ongoing monitoring of the situation on the money market. In 2019, most of the Company's free cash was covered by physical cash pooling arrangements, bearing interest at 1M WIBOR for cash in PLN and 1M EURIBOR for cash in EUR (when EURIBOR is negative), while the remaining cash surplus was held as short-term bank deposits bearing interest at the market rates effective as at deposit placement date.

The Company analysed the sensitivity of its variable-rate financial instruments to changes in market interest rates. The following table presents the impact of a 100 basis point ("bps") change in the interest rates on profit or loss and equity. The analysis assumes that all other variables, in particular exchange rates, remain constant.

Sensitivity analysis: (+/-)

	Statement of profit or loss		Other comprehensive income	
	increase 100bp	decrease 100bp	increase 100bp	Decrease 100bp
Dec 31 2019	(14,805)	14,805	-	-
December 31st 2018	(12,027)	12,027	-	-

Currency risk

The Company is exposed to the currency risk on foreign currency transactions including more than the two-thirds of income and half of expenses. Exchange rate fluctuations affect revenue as well as costs of raw materials. Appreciation of the Polish currency has a negative impact on the profitability of exports and of domestic sales denominated in foreign currencies, while depreciation of the Polish currency has a positive effect on profitability. Changes in export revenue as well as domestic revenue from sales of goods which are priced based on market quotations, caused by exchange rate fluctuations, are partly offset by changes in the cost of raw material imports and domestic purchases indexed to foreign currencies, which to a large extent reduces the Company's exposure to the exchange rate risk.
The Company reduces the risk resulting from its net currency exposure by using selected instruments and taking measures to hedge against the currency risk based on the current and planned net currency

(all amounts in PLN '000 unless indicated otherwise)

exposure. In the reporting period, the Company used natural hedging, foreign currency loans, factoring and discounting of foreign currency receivables as its primary hedging tools, supported by currency forwards for ca. 80% of the remaining currency exposure.

The Company prepared a sensitivity analysis of financial instruments denominated in foreign currencies (including derivatives) to exchange rate changes. The following table presents the impact of a 5% appreciation or depreciation of the Polish złoty as at the reporting date in relation to the other currencies on profit or loss and on equity on account of these instruments. The analysis assumes that all other variables, in particular interest rates, remain constant.
The increase in EUR-denominated liabilities under borrowings and factoring in 2019 resulted in an increase in the Company's balance-sheet exposure to currency risk. However, due to the long-term nature of these foreign-currency liabilities, they reduce the Company's planned currency exposure which will arise on the maturity dates of these liabilities.

Sensitivity analysis: (+/-)

	Statement of profit or loss		**Other comprehensive income**	
	5% increase in foreign currency exchange rates	5% decrease in foreign currency exchange rates	5% increase in foreign currency exchange rates	5% decrease in foreign currency exchange rates
Dec 31 2019	(58,693)	58,693	(42,562)	42,562
December 31st 2018	(59,477)	59,477	(36,131)	36,131

The following table presents the summary quantitative data about the Company's exposure to currency risk as at the reporting date, by classes of financial instruments and currencies:

Net exposure to currency risk

Dec 31 2019	**EUR**	**USD**	**CHF**	**GBP**
Trade and other receivables	30,533	614	-	-
Cash in foreign currencies	6,506	314	-	-
Trade and other payables (-)	(15,533)	(122)	(120)	(10)
Borrowings (-)	(440,872)	-	-	
Lease, factoring and discounting liabilities (-)	(43,763)	-	-	-
Currency futures and forward contracts (+/-)	(13,008)	-	-	-
Other financial liabilities (-)	-	-	-	-
Total in the relevant currency	**(476,137)**	**806**	**(120)**	**(10)**
Impact of a 5% appreciation of the currency on the statement of profit or loss (PLN thousand)	*(58,820)*	*153*	*(24)*	*(2)*
Impact of a 5% depreciation of the currency on the statement of profit or loss (PLN thousand)	*58,820*	*(153)*	*24*	*2*
Impact of a 5% appreciation of the currency on other comprehensive income (PLN ‘000)	*(42,562)*	-	-	-
Impact of a 5% depreciation of the currency on other comprehensive income (PLN ‘000)	*42,562*	-	-	-

Dec 31 2018	**EUR**	**USD**	**CHF**
Trade and other receivables	25,364	198	36
Cash in foreign currencies	1,867	76	-
Trade and other payables (-)	(26,578)	(6)	(1,072)
Borrowings (-)	(416,747)	-	-
Currency futures and forward contracts (+/-)	(12,172)	-	-
Lease, factoring and discounting liabilities (-)	(15,739)	-	-
Total in the relevant currency	**(444,005)**	**268**	**(1,036)**
Impact of a 5% appreciation of the currency on the statement of profit or loss (PLN thousand)	*(59,330)*	*50*	*(198)*
Impact of a 5% depreciation of the currency on the statement of profit or loss (PLN thousand)	*59,330*	*(50)*	*198*

Impact of a 5% appreciation of the currency on other comprehensive income (PLN thousand)	*(36,131)*	-	-
Impact of a 5% depreciation of the currency on other comprehensive income (PLN thousand)	*36,131*	-	-

(all amounts in PLN '000 unless indicated otherwise)

Price risk
Given that there are no adequate financial instruments hedging the price risk related to the Company's key raw materials and products, or no significant correlation between the price of such hedging instruments and contract prices of the raw materials and products has been confirmed, the Company does not intend to use such instruments to hedge price volatility.
The Company intends to mitigate the risk of price volatility using natural hedging, which involves linking the largest possible part of its procurement and sales volumes (in particular of phenol, benzene, caprolactam and polyamide, used in its production chain) resulting from framework contracts with changes in ICIS prices for a given raw material.

Note 30.4 Changes in terms or classification of financial assets

Both in the current and previous reporting periods, there was no change in contractual cash flows under financial assets.

Note 30.5 Fair value of financial instruments

Detailed information on the fair value of financial instruments whose fair value can be estimated is presented below:
- cash and cash equivalents, short-term bank deposits and short-term bank borrowings, factoring and reverse factoring transactions, and sale and discount of receivables. Carrying amounts of these instruments approximate their fair values because of their short maturities.
- Trade and other receivables, trade payables. Carrying amounts of these instruments approximate their fair values due to their short-term nature.
- Long-term variable-rate borrowings. Carrying amounts of these instruments approximate their fair values due to the variable nature of their interest rates.
- Long-term fixed-rate borrowings. Carrying amount of these instruments is PLN 850,648 thousand, and their fair value is ca. PLN 859,499 thousand (Level 2 in the fair value hierarchy).
- Foreign currency derivatives. The carrying amounts of these instruments are equal to their fair values.

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

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

(all amounts in PLN '000 unless indicated otherwise)

The table below presents Grupa Azoty's financial instruments, carried at fair value, by levels in the fair value hierarchy, as at December 31st 2018:

Hierarchy level	**Level 2**	**Level 3**
Financial assets at fair value, including:	720	14,596
measured at fair value through other comprehensive income, including:	-	14,596
shares	-	6,571
trade receivables	-	8,025
currency futures and forward contracts	720	-

The fair value hierarchy presented in the tables above is as follows:
Level 1 – price quoted in an active market for the same asset or liability,
Level 2 – values based on inputs other than quoted Level 1 prices that are either directly or indirectly observable or determined on the basis of market data,
Level 3 – values based on input data that are not based on observable market data.
In 2019 and 2018, no financial instruments were transferred between Level II and Level III of the classification of financial instruments measured at fair value.

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

In 2019, receivables from ATT Polymers were reclassified from assets measured at fair value through other comprehensive income to receivables measured at amortised cost. The fair value of shares (equity investments) was measured using the discounted cash flow method.

Note 30.6 Derivatives

Foreign currency derivatives
As at December 31st 2019, the notional amount of open currency derivatives (forwards) was EUR 15m (which included instruments maturing from January to March 2019 (EUR 1m in each of the months), from April to May 2019 (EUR 2m in each of the months), in June 2019 (EUR 0.5m), and from July to November 2019 (EUR 1.5m in each of the months). As at December 31st 2018, the notional amount of open currency derivatives (forwards) was EUR 18m.

Such contracts are only entered into with reliable banks under master agreements. All the contracts reflect actual cash flows in foreign currencies. Currency forwards and derivative contracts are executed to match the Company's net currency exposure and their purpose is to limit the effect of exchange rate fluctuations on profit or loss.

(all amounts in PLN '000 unless indicated otherwise)

	Notional value	Financial assets	Financial liabilities	Notional value	Financial assets	Financial liabilities
	Dec 31 2019			*Dec 31 2018*		
Currency futures and forward contracts	63,878	1,025	-	77,400	720	--
Total derivatives, including:	**63,878**	**1,025**	**-**	**77,400**	**720**	**-**
Short-term	63,878	1,025	-	77,400	720	--

Note 30.7 Hedge accounting

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

1) EUR 99,891 thousand as at December 31st 2019 (December 31st 2018: EUR 118,053 thousand), repayable from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each.
2) EUR 100,000 thousand as at December 31st 2019 (December 31st 2018: EUR 50,000 thousand), repayable from December 2021 to September 2028 in 15 equal half-yearly instalments of EUR 6,666 thousand each.

As at December 31st 2019, the carrying amount of both these credit facilities was PLN 850,648 thousand (December 31st 2018: PLN 722,087 thousand); In 2019, the hedging reserve included PLN 7,250 thousand (2018: PLN 2,297 thousand) on account of the effective hedge. In 2018, the Company did not reclassify any amounts related to hedge accounting from other comprehensive income to the statement of profit or loss, while in 2019 the Company reclassified PLN 781 thousand from other comprehensive income to the statement of profit or loss in connection with the settlement of a hedging relationship with respect to payment of currency loan instalments against proceeds from sales in the euro.

Note 31 The Company as a lessor

Operating lease agreements with the Company as lessor

	as at Dec 31 2019	as at Dec 31 2018
Payment due within 1 year	4,066	4,080
Payment due in 1 to 5 years	3,795	3,232
Payment due in more than 5 years	3,275	3,934
	11,136	**11,246**

(all amounts in PLN '000 unless indicated otherwise)

Note 32 Contingent liabilities, contingent assets, sureties and guarantees

Contingent assets

In connection with the Act on Compensation Scheme for energy-intensive sectors and subsectors of July 19th 2019 (Dz. U. of 2019, item 1532), entities in these sectors may be eligible for public aid for passing on the costs of emission allowances to the prices of electricity used to produce products in energy-intensive sectors or subsectors. For an entity to be eligible, its application for refund of indirect costs must obtain a positive assessment by an accredited greenhouse gas emissions reviewer and a positive decision by the President of the Energy Regulatory Office by September 30th 2020. Refunds are expected to be paid by November 6th 2020.
There is a certain limit of refunds that Poland can grant the Fund, so the estimated amount of compensation may be reduced if the aggregate amount of refunds requested by Polish applicants exceeds the limit.
Therefore, the Company disclosed contingent assets of PLN 11,910 thousand, whose amount may be reduced upon the final settlement of the refunds. The amount of compensatory refund was calculated in accordance with the guidelines set out in the Act and based on the forward price of emission allowances of PLN 68.97/t, which is determined by the President of the Energy Regulatory Office.

Contingent liabilities and guarantees/sureties

	as at Dec 31 2019	as at Dec 31 2018
Sureties	7,665	7,740
	7,665	7,740

The surety provided by the Company is to secure a grant advanced to Grupa Azoty ATT Polymers GmbH by Investitionsbank des Landes Brandenburg (ILB) to finance 20% of capital expenditure on the construction of a logistics centre in Guben, Germany.
The new logistics centre together with office facilities provides storage, packaging and distribution services for the Grupa Azoty Group's products.

(all amounts in PLN '000 unless indicated otherwise)

Note 33 Related-party transactions

Trade transactions with subsidiaries
Trade transactions

In the 12 months ended December 31st 2019 and as at that day

	Revenue	Receivables	Purchases	Liabilities
Related parties Grupa Azoty	751,487	133,470	333,157	42,526
Related parties Grupa Azoty POLICE	144	94	46	20
Related parties Grupa Azoty PUŁAWY	17,073	754	466	595
Related parties Grupa Azoty PKCh	3,303	469	68,406	12,953
Related parties Grupa Azoty COMPO EXPERT	-	-	5	-
	772,007	**134,787**	**402,080**	**56,094**

In the 12 months ended December 31st 2018 and as at that day

	Revenue	Receivables	Purchases	Liabilities
Related parties Grupa Azoty	715,312	57,025	321,749	33,798
Related parties Grupa Azoty POLICE	105	49	29	2
Related parties Grupa Azoty PUŁAWY	21,455	1,221	1,003	-
Related parties Grupa Azoty PKCh	3,091	459	76,589	10,589
	739,963	**58,754**	**399,370**	**44,389**

(all amounts in PLN '000 unless indicated otherwise)

Other transactions
In the 12 months ended Dec 31 2019

	Other income	Other expenses	Finance income	Finance costs
In the 12 months ended Dec 31 2019				
Related parties Grupa Azoty	1,745	300	108,199	12,123
Related parties Grupa Azoty POLICE	-	-	138	1,922
Related parties Grupa Azoty PUŁAWY		-	1,355	599
Related parties Grupa Azoty PKCh	1,543	6,541	-	701
Related parties Compo Expert	-	-	1,203	-
	3,288	**6,841**	**110,895**	**15,345**

In the 12 months ended December 31st 2018

	Other income	Other expenses	Finance income	Finance costs
In the 12 months ended December 31st 2018				
Related parties Grupa Azoty	498	481	176,284	7,647
Related parties Grupa Azoty KĘDZIERZYN				
Related parties Grupa Azoty POLICE	-	-	1	1,650
Related parties Grupa Azoty PUŁAWY	-	-	1,042	369
Related parties Grupa Azoty PKCh	1,506	6,386	2	589
Related parties Compo Expert	-	-	157	-
	2,004	**6,867**	**177,486**	**10,255**

(all amounts in PLN '000 unless indicated otherwise)

Trade transactions with jointly-controlled entities
Trade transactions

In the 12 months ended December 31st 2019 and as at December 31st 2018, the value of transactions with parties related through Grupa Azoty PUŁAWY was PLN 3,497 thousand under purchases and PLN 350 thousand in liabilities.

In the 12 months ended December 31st 2018 and as at December 31st 2018, the value of transactions with parties related through Grupa Azoty PUŁAWY was PLN 3,829 thousand under purchases and PLN 192 thousand in liabilities.

Loans to related parties

In 2019, the Company granted loans for a total amount of PLN 66,160 thousand; all loans were granted to Grupa Azoty KĘDZIERZYN (2018: PLN 83,975 thousand, including PLN 43,975 thousand to Grupa Azoty KĘDZIERZYN and PLN 40,000 thousand to Grupa Azoty POLICE).

Borrowings from related parties

No borrowings from related parties were recognised in 2018 or 2019.

Cash pooling

As at December 31st 2019, the Company presented cash provided to other Grupa Azoty Group companies participating in the cash pooling mechanism as cash equivalents of PLN 1,077,443 thousand (December 31st 2018: PLN 706,787 thousand), whereas cash received by the Company from other Group companies is presented as short-term borrowings of PLN 985,615 thousand as at December 31st 2019 (December 31st 2018: PLN 614,054 thousand).

Terms of related-party transactions

In 2019 and 2018, the Company did not execute any related-party transactions otherwise than on arm’s length terms.

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

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 – Dec 31 2018
Short-term benefits	8,475	4,714
Termination benefits	-	894
	8,475	**5,608**

Remuneration policy for members of the Management Board
The total remuneration of the Management Board members comprises:
- a fixed component in the form of a monthly base pay (fixed remuneration)
- a variable component representing additional remuneration payable for the Company’s financial year (variable remuneration)

The amount of the monthly base pay was determined as a fixed amount depending on the position held.
The base pay is reduced by the amount payable for the days on which no work was performed by a Management Board member (except for the 24 (paid) business days of leave during the term of the contract to which each Management Board member is entitled).
The Supervisory Board may give a Management Board member the right to tied accommodation in the location of the Company’s registered office.

(all amounts in PLN '000 unless indicated otherwise)

Bonuses for members of the Management Board

The variable remuneration (additional remuneration payable for the Company's financial year) depends on the progress of implementation of management objectives and may not exceed 100% of the base pay in the previous financial year for which the variable remuneration is calculated. The amount of variable remuneration payable to the Management Board members for a given financial year is determined by way of a separate resolution of the Supervisory Board.

Variable remuneration is paid after:

- approval of the Directors' Report on the Company's operations and of the financial statements for the previous financial year,
- the General Meeting has granted a Management Board member discharge in respect of performance of their duties,
- a Management Board member has submitted a report on performance of the management objectives,
- the Supervisory Board has approved performance of the management objectives by the Management Board member in a given year,
- the Supervisory Board has adopted a resolution on performance of the management objectives and the amount of variable remuneration due.

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

	for the period Jan 1 - Dec 31 2019	for the period Jan 1 – Dec 31 2018
Short-term benefits	1,998	2,048

Loans

In 2019 and 2018, the Company did not grant any loans to members of the Management Board or the Supervisory Board.

Transactions with owners

As at December 31st 2019, the Company had the following credit facilities granted by the European Bank for Reconstruction and Development:

- PLN 150,000 thousand (December 31st 2018: PLN 126,923 thousand) – entire amount drawn under the agreement of May 28th 2015, and after repayment of two instalments for a total amount of PLN 23,077 thousand,
- PLN 100,000 thousand (December 31st 2018: PLN 100,000 thousand) – under the agreement of July 26th 2018, only PLN 500,000 thousand was drawn under the facility.

Material transactions with parties related through the State Treasury
As at December 31st 2019

Company	Amount	Transaction
PGNiG S.A.	167,882	purchase of natural gas
PKN Orlen S.A.	81,374	purchase of raw materials
Polska Grupa Górnicza S.A.	46,033	purchase of fine coal
PKP Cargo S.A.	24,344	purchase of transport services
Tauron Energia S.A.	24,661	purchase of electricity and fine coal
PGE S.A.	36,494	purchase of electricity
Enea S.A.	7,536	purchase of electricity
PKO BP S.A.	12,315	payment of interest and commissions
BGK	11,179	payment of interest and commissions
PZU S.A.	13,576	property and personal insurance
Polish National Foundation	3,500	financing of the foundation's statutory activities
	428,894	

(all amounts in PLN '000 unless indicated otherwise)

As at December 31st 2018

Company	Amount	Transaction
PGNiG S.A.	217,544	purchase of natural gas
PKN Orlen S.A.	81,622	purchase of raw materials
Polska Grupa Górnicza S.A.	47,828	purchase of fine coal
PKP Cargo S.A.	23,031	purchase of transport services
Tauron Energia S.A.	14,804	purchase of electricity and fine coal
PGE S.A.	14,122	purchase of electricity
Jastrzębska Spółka Węglowa S.A.	11,588	purchase of fine coal
Enea S.A.	8,366	purchase of electricity
PKO BP S.A.	7,735	payment of interest and commissions
BGK	7,524	payment of interest and commissions
PZU S.A.	12,501	property and personal insurance
Polish National Foundation	3,500	financing of the foundation's statutory activities
	450,165	

Note 34 Investment commitments

In the period ended December 31st 2019, the Company signed contracts for the continuation of ongoing projects and new investment projects. The projects involve mainly the provision of construction, mechanical, electrical, and engineering design services. The key ones include:

- upgrade of the refining ammonia line (stage 3) – as at December 31st 2019, the total amount of the Company's commitments under the contracts was PLN 6,871 thousand (December 31st 2018: nil),
- increasing the capacity of the technical-grade nitric acid unit – as at December 31st 2019, the total amount of the Company's commitments under the contracts was PLN 16,038 thousand (December 31st 2018: PLN 6,873 thousand),
- bringing the oleum storage facilities into compliance with the applicable regulations – as at December 31st 2019, the total amount of the Company's commitments under the contracts was PLN 6,713 thousand (December 31st 2018: PLN 10,688 thousand),
- construction of a new cooling tower for the Lactam Department – as at December 31st 2019, the total amount of the Company's commitments under the contracts was PLN 5,870 thousand (December 31st 2018: PLN 0),
- construction of a turbogenerator set using steam from WKS and KDC, and of a 4 MPa steam line from WKS to KDC – as at December 31st 2019, the total amount of the Company's commitments under the contracts was PLN 3,876 thousand (December 31st 2018: PLN 0),
- collection of slag from the ECII CHP plant boilers – as at December 31 2019, the total amount of the Company's commitments under the contracts was PLN 3,472 thousand (December 31st 2018: PLN 0),
- extension of phenol storage and distribution facilities - stage 2 – as at December 31st 2019, the total amount of the Company's commitments under the contracts was PLN 3,420 thousand (December 31st 2018: PLN 0),
- construction of a new technical-grade nitric acid storage unit - stages 2 and 3 – as at December 31st 2019, the total amount of the Company's commitments under the contracts was PLN 3,149 thousand (December 31st 2018: PLN 0).

As at December 31st 2019, the total amount of the Company's commitments under the contracts was PLN 61,578 thousand (December 31st 2018: PLN 61,032 thousand).

(all amounts in PLN '000 unless indicated otherwise)

Note 35 Notes to the statement of cash flows

	for the period Jan 1 – Dec 31 2019	for the period Jan 1 – Dec 31 2018 restated*
Difference arising from the statement of financial position – trade and other receivables	10,231	(16,909)
Change due to prepayments for property, plant and equipment, intangible assets, right-to-use assets and investment property	(3,903)	(6,858)
Change due to disposal of property, plant and equipment, intangible assets, right-of-use assets, investment properties	(245)	-
Change due to prepayments and accrued income	(412)	(389)
Change in trade and other receivables in the statement of cash flows	**5,671**	**(24,156)**
Difference arising from the statement of financial position – trade and other payables	25,534	72,065
Change due to dividend	-	
Change due to purchase of property, plant and equipment, intangible assets, right-of-use assets, investment properties	49	1,965
Change due to prepayments and accrued income	(45,438)	(15,448)
Change due to reverse factoring	369,565	47,267
Change due to non-cash items	605	(6,382)
Change in trade and other payables in the statement of cash flows	**350,315**	**99,467**
Difference arising from statement of financial position - provisions, employee benefit obligations and grants	22,727	22,845
Change due to prepayments and accrued income	45,850	15,411
Change due to grants	(7,225)	(12,154)
Change due to other non-cash items	(12,121)	(3,382)
Change in provisions, accruals and grants in the statement of cash flows	**49,231**	**22,720**

* as described in section 2.2.

In the cash flows from operating activities for 2019, other adjustments of PLN 3,500 thousand include a decrease in financial liabilities of PLN 3,500 thousand on account of payment made by the Company towards to the Polish National Foundation. In 2018, this item included a decrease in financial liabilities of PLN 3,500 thousand on account of payment towards the statutory activities carried out by the Polish National Foundation.

Note 36 Regulatory financial information by type of activity, in accordance with Art. 44 of the Energy Law

To satisfy the requirements under Art. 44.2 of the Energy Law, Azoty S.A. prepares regulatory financial information comprising a statement of profit or loss and a statement of financial position by type of activity. Pursuant to Art 6.2 of the Act Amending the Energy Law and Certain Other Acts (Dz.U. of 2015, item 1618), Azoty S.A. complies with the provisions set out in Art. 44 as amended by this Act, i.e. prepares the regulatory financial information for activities comprising electricity distribution and gas fuel trading.

Activity types

The Company conducts the following activities requiring separate presentation under Art. 44 of the Energy Law:

- Electricity distribution – based on licence No. PEE/65/711/U/OT-7/98/MK, issued on December 1st 1998 and valid until December 15th 2025,
- Gas fuel trading – based on licence No. OPG/273/711/W/DRG/2014/KL, issued for the period from September 20th 2014 to September 20th 2024,
- Other activities.

Under other activities, the Company presents in these statements its principal business activities, i.e. in particular:

- manufacture of basic chemicals,
- manufacture of fertilizers and nitrogen compounds,
- manufacture of plastics and plastic products.

Basis of preparation

Accounting policies

The regulatory financial information was prepared based on the accounting policies described in section 2 of Notes to the separate financial statements, as well as on the principles of allocation of income, expenses, assets and liabilities presented below.
Only the part of income, expenses, assets and liabilities relating to the Company's external sales are subject to allocation (using appropriate allocation rates) to revenue, expenses, assets and liabilities of the activity requiring separate reporting pursuant to the provisions of Art. 44 of the Energy Law. The balance of income, expenses, assets and liabilities connected with the energy activity that pertains to intra-Group transfers for the purposes of the Company's principal business is presented as a component of other activities.

Allocation rules for statement of profit or loss by type of activity

The Company maintains accounting records in a way enabling separate calculation of expenses and income as well as profits and losses relating to the activities that require such separation pursuant to the provisions of Art. 44 of the Energy Law.

Revenue from external sales related to particular types of activities and other income (which can be identified and assigned directly to the energy activity) were separated directly. Other income, which cannot be identified and allocated directly to the energy activity, was allocated according to the structure of Cost Centres, and then allocated to particular activity types using appropriate keys.

Finance income is not allocated to any type of activity and is presented as an unallocated item.

Cost of sales as well as selling and distribution expenses related to particular types of activity were separated directly.

Administrative expenses, including general and administrative expenses associated with the management of the Company, were allocated proportionally to the cost of sales for the relevant type of activity. General production overheads (related to the production, including maintenance and functioning of general departments, not associated with the direct production) were allocated directly.

Other expenses (which can be identified and allocated directly to the energy activity) related to particular types of activity and 'other expenses – other' were distributed among Cost Centres and then allocated to specific types of activity, using relevant keys, based on the ratio of contracted capacities used for the regulated tariff-based activity to total capacity.

Finance costs are not allocated to any reportable activity type and are presented as an unallocated item.

Income tax is not allocated to any type of activity and is presented as an unallocated item.

Allocation rules for statement of financial position by type of activity

Property, plant and equipment were distributed among particular types of activity in accordance with the structure of Cost Centres, and the key used to divide them into property, plant and equipment used to generate electricity and those used to generate heat was the division of generation costs between these energy carriers. For electricity distribution, the key used to divide items into internal and external portions was the ratio of contracted capacities used for regulated tariff-based activity to total capacity.

Intangible assets were distributed among individual types of activity in accordance with the structure of Cost Centres using the allocation keys applicable to property, plant and equipment.

Trade receivables were allocated directly, in accordance with the distribution of customers among types of activity. Under receivables, property insurance was also separated in accordance with the structure of Cost Centres and allocated to the electricity distribution activity.

Other receivables were allocated to other activities or presented as an unallocated item.

Other current assets were allocated to other activities or presented as unallocated items.

Borrowings were allocated to other activities where a borrowing directly related to any of the Company's business segments, or presented as unallocated items.

Employee benefit obligations were distributed in accordance with the structure of Cost Centres, using allocation keys. In the case of electricity distribution, the obligations related to this activity are allocated directly to the Cost Centres.

Provisions, grants and other financial liabilities were allocated to other activities or presented as unallocated items.

Trade payables were distributed among particular types of activity in accordance with the structure of Cost Centres, the allocation key being the distribution of costs between energy carriers. In the case of electricity distribution, trade payables were distributed according to the quantities transmitted and capacities allocated to the activity. In the case of gas fuel trading, trade payables were allocated by suppliers, with the allocation key being the ratio of the volume of gas sold to the aggregate volume of gas consumed for internal purposes and sold. Other liabilities were allocated to other activities or presented as unallocated items.

Perpetual usufruct of land, investment property, inventories, non-current assets held for sale and other liabilities are considered as related to the Company's other activities.

Shares, other financial assets, current tax assets, cash and cash equivalents, derivative instruments, and current tax liabilities are not allocated to any type of activity and are presented as unallocated items.

(all amounts in PLN '000 unless indicated otherwise)

Statement of profit or loss by type of activity for the year ended December 31st 2019

	Distribution of electricity	Gas fuel trading	Other activities	Unallocated items	Total
Revenue	6,165	11	1,980,863	-	1,987,039
Cost of sales	(5,190)	(9)	(1,583,172)	-	(1,588,371)
Gross profit	**975**	**2**	**397,691**	**-**	**398,668**
Selling and distribution expenses	(91)	-	(105,300)	-	(105,391)
Administrative expenses	(727)	(1)	(192,612)	-	(193,340)
Other income	-	-	13,705	-	13,705
Other expenses	-	-	(24,415)	-	(24,415)
Operating profit	**157**	**1**	**89,069**	**-**	**89,227**
Finance income	-	-	-	124,961	124,961
Finance costs	-	-	-	(108,540)	(108,540)
Net finance income	**-**	**-**	**-**	**16,421**	**16,421**
Profit before tax	**157**	**1**	**89,069**	**16,421**	**105,648**
Income tax	-	-	-	(47,399)	(47,399)
Net profit	**157**	**1**	**89,069**	**(30,978)**	**58,249**

(all amounts in PLN '000 unless indicated otherwise)

Statement of profit or loss by type of activity for the year ended December 31st 2018

	Distribution of electricity	Gas fuel trading	Other activities	Unallocated items	Total
Revenue	5,761	10,775	1,809,235	-	1,825,771
Cost of sales	(4,728)	(10,433)	(1,484,325)	-	(1,499,486)
Gross profit	**1,033**	**342**	**324,910**	**-**	**326,285**
Selling and distribution expenses	(46)	-	(96,667)	-	(96,713)
Administrative expenses	(624)	(3)	(168,896)	-	(169,523)
Other income	-	-	10,955	-	10,955
Other expenses	-	-	(23,243)	-	(23,243)
Operating profit	**363**	**339**	**47,059**	**-**	**47,761**
Finance income	-	-	-	186,799	186,799
Finance costs	-	-	-	(51,255)	(51,255)
Net finance costs	**-**	**-**	**-**	**135,544**	**135,544**
Profit before tax	**363**	**339**	**47,059**	**135,544**	**183,305**
Income tax	-	-	-	(12,241)	(12,241)
Net profit	**363**	**339**	**47,059**	**123,303**	**171,064**

(all amounts in PLN '000 unless indicated otherwise)

Statement of financial position by type of activity as at December 31st 2019

	Distribution of electricity	Gas fuel trading	Other activities	Unallocated items	Total
Assets					
Non-current assets					
Property, plant and equipment	2,878	-	1,544,499	114,184	1,661,561
Right-of-use assets	-	-	43,127	4,284	47,411
Intangible assets	9	-	8,397	42,432	50,838
Investment property	-	-	23,049	-	23,049
Shares	-	-	-	5,410,006	5,410,006
Other financial assets	-	-	-	292,001	292,001
Other receivables	-	-	5,004	851	5,855
Total non-current assets	**2,887**	**-**	**1,624,076**	**5,863,758**	**7,490,721**
Current assets					
Inventories	-	-	251,022	-	251,022
Property rights	-	-	45,513	-	45,513
Derivative financial instruments	-	-	-	1,025	1,025
Other financial assets	-	-	-	61,409	61,409
Trade and other receivables	360	-	221,520	10,349	232,229
Cash and cash equivalents	-	-	-	1,158,379	1,158,379
Assets held for sale	-	-	95	-	95
Total current assets	**360**	**-**	**518,150**	**1,231,162**	**1,749,672**
Total assets	**3,247**	**-**	**2,142,226**	**7,094,920**	**9,240,393**

(all amounts in PLN '000 unless indicated otherwise)

Statement of financial position by type of activity as at December 31st 2019 (continued)

	Distribution of electricity	Gas fuel trading	Other activities	Unallocated items	Total
Equity and liabilities					
Total equity	**-**	**-**	**-**	**4,840,630**	**4,840,630**
Liabilities					
Borrowings	-	-	2,673	2,410,859	2,413,532
Lease liabilities	-	-	37,188	1,774	38,962
Other financial liabilities	-	-	-	19,042	19,042
Employee benefit obligations	381	-	48,277	15,422	64,080
Other obligations	-	-	32	-	32
Provisions	-	-	31,226	393	31,619
Grants	-	-	28,528	18,520	47,048
Deferred tax liabilities	-	-	-	1,426	1,426
Total non-current liabilities	**381**	**-**	**147,924**	**2,467,436**	**2,615,741**
Borrowings	-	-	865	1,118,120	1,118,985
Lease liabilities	-	-	12,103	1,096	13,199
Other financial liabilities	-	-	104,247	158,632	262,879
Employee benefit obligations	2	-	3,546	1,130	4,678
Current tax liabilities	-	-	-	1,168	1,168
Trade and other payables	676	2	331,608	46,157	378,443
Provisions	-	-	2,077	174	2,251
Grants	-	-	2,219	200	2,419
Total current liabilities	**678**	**2**	**456,665**	**1,326,677**	**1,784,022**
Total liabilities	**1,059**	**2**	**604,589**	**3,794,113**	**4,399,763**
Total equity and liabilities	**1,059**	**2**	**604,589**	**8,634,743**	**9,240,393**

(all amounts in PLN '000 unless indicated otherwise)

Statement of financial position by type of activity as at December 31st 2018

	Distribution of electricity	Gas fuel trading	Other activities	Unallocated items	Total
Assets					
Non-current assets					
Property, plant and equipment	2,381	-	1,573,448	74,403	1,650,232
Perpetual usufruct of land	-	-	365	-	365
Intangible assets	58	-	8,756	40,294	49,108
Investment property	-	-	15,885	-	15,885
Shares	-	-	-	5,012,908	5,012,908
Other financial assets	-	-	-	285,626	285,626
Other receivables	-	-	5,874	3,883	9,757
Deferred tax assets	-	-	-	10,277	10,277
Total non-current assets	**2,439**	**-**	**1,604,328**	**5,427,391**	**7,034,158**
Current assets					
Inventories	-	-	246,106	-	246,106
Property rights	-	-	35,688	-	35,688
Derivative financial instruments	-	-	-	720	720
Other financial assets	-	-	-	47,340	47,340
Trade and other receivables	689	4	211,031	26,834	238,558
Cash and cash equivalents	-	-	-	1,000,980	1,000,980
Assets held for sale	-	-	95	-	95
Total current assets	**689**	**4**	**492,920**	**1,075,874**	**1,569,487**
Total assets	**3,128**	**4**	**2,097,248**	**6,503,265**	**8,603,645**

(all amounts in PLN '000 unless indicated otherwise)

Statement of financial position by type of activity as at December 31st 2018 (continued)

	Distribution of electricity	Gas fuel trading	Other activities	Unallocated items	Total
Equity and liabilities					
Total equity	**-**	**-**	**-**	**4,788,188**	**4,788,188**
Liabilities					
Borrowings	-	-	-	2,311,248	2,311,248
Other financial liabilities	-	-	272	23,353	23,625
Employee benefit obligations	277	-	38,233	12,779	51,289
Trade and other payables	-	-	32	-	32
Provisions	-	-	30,667	402	31,069
Grants	-	-	28,737	11,929	40,666
Total non-current liabilities	**277**	**-**	**97,941**	**2,359,711**	**2,457,929**
Borrowings	-	-	64	893,883	893,947
Other financial liabilities	-	-	52,443	51,393	103,836
Employee benefit obligations	19	-	2,956	536	3,511
Current tax liabilities	-	-	-	493	493
Trade and other payables	397	3	294,720	57,788	352,908
Provisions	-	-	888	317	1,205
Grants	-	-	1,219	409	1,628
Total current liabilities	**416**	**3**	**352,290**	**1,004,819**	**1,357,528**
Total liabilities	**693**	**3**	**450,231**	**3,364,530**	**3,815,457**
Total equity and liabilities	**693**	**3**	**450,231**	**8,152,718**	**8,603,645**

Note 37 Events after the reporting date

Registration of secondary issue of Grupa Azoty POLICE shares
On January 10th 2020, the registry court registered the increase in Grupa Azoty POLICE's share capital following a secondary public issue of Grupa Azoty POLICE shares in Q4 2019 carried out to raise funds for the 'Polimery Police' strategic project. Following the issue, the Company acquired 28,551,500 shares at the issue price of PLN 10.20 per share for a total amount of PLN 291,225,300. The shares were allotted on December 23rd 2019. As at the reporting date, the Company disclosed the payment as an increase in the carrying amount of the its equity holding in Grupa Azoty POLICE under non-current financial assets.

Share capital increase at Grupa Azoty POLYOLEFINS
On February 18th 2020, the Extraordinary General Meeting of Grupa Azoty POLYOLEFINS resolved to increase the company's share capital by PLN 131,944,310.00 through the issue of 13,194,431 new Series F registered shares with a par value of PLN 10 per share at the issue price of PLN 47.90.

The new shares will be acquired in a private placement by Grupa Azoty POLICE and the Company, which will acquire 6,993,048 shares and 6,201,383 shares, respectively. The purpose of the issue is to raise funds required to finance Grupa Azoty POLICE's equity contribution to the 'Police Polymers' project. Subscription for new shares is intended to be carried out in April 2020.

Except as described above, after the reporting date there were no other material events whose disclosure in the financial statements would be required.

Note 38 Information on the effects of the COVID-19 pandemic

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

- detailed instructions and guidelines on monitoring the health of the Company employees and the health of trading partners' employees who come in physical contact with the Company employees,
- instructions to reduce the number of meetings as well as domestic and foreign business travel, and to use teleconferencing and video-conferencing facilities to the largest extent possible,
- instructions to enable remote work to the extent it does not disrupt the work of individual organisational units,
- instructions to provide the Company's employees with additional personal protection and hygiene supplies.

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

As at the date of authorisation of these financial statements for issue, Grupa Azoty S.A. did not observe any significant decline in sales or any disruption in the supply chain of raw materials, feedstocks, materials and services, or any increase in staff on sick leave with an adverse effect on continuity of production, or in any support areas.

At the same time, a number of material risk areas related to the COVID-19 pandemic have been identified, potentially with a material bearing on the Company’s future financial performance. The risks include:

1. Disruptions in the supply chains of raw materials and in the sale of products due to transport disruptions (especially in areas with high epidemic risk) caused by problems faced by transport companies, reduction in the number and types of available means of transport, higher delivery costs due to increased transport rates, especially in exports, temporary border closure or other related constraints. There are problems with the availability of means of transport to carry export goods.
2. Potential temporary disruptions in timely execution of investment projects and repair works at the Company or other Group entities due to difficulties faced by or limited availability of contractors, possible delays in deliveries of materials and equipment, and public administration bodies’ decision-making in administrative processes.
3. Disruptions in the continuity of production processes in the event of reduced staff availability.
4. Potential risk of deterioration in the financial liquidity of some of our trading partners as a result of payment gridlocks.
5. Exchange rate volatility.

Possible risks of sales disruption in the individual segments as at the date of these financial statements:

Agro Fertilizers

No significant drop in demand on the fertilizer market has been observed. However, export sales may be affected by negative consequences. Lower sales to foreign customers may be offset by lower imports and higher domestic sales. Grupa Azoty Group’s export market share in the fertilizer segment is 35%.

Plastics

Customers from different industries have started to reduce their orders. The largest declines are expected in the automotive industry. The temporary shutdown of most automotive plants in Europe announced by the leading car manufacturers will result in a drop in orders throughout the entire supply chain.

Chemicals

There have been the first instances of limited ability to supply oxo alcohols and plasticisers to countries with widespread epidemic due to both production constraints on the part of trading partners and transport constraints. At present, approximately a quarter of our oxo alcohol and plasticizer output is exported to countries where the COVID-19 pandemic is particularly widespread.
In addition, the Group received first notifications from some of its melamine customers about temporary production cuts. These developments will not have a significant effect on sales in Q1 2020, but there is a risk of lower demand in the coming months.

The slowdown in transport companies’ operations translates into lower purchases of fuels and fuel additives that reduce exhaust emissions (NOXy®). NOXy® distributors are starting to report problems with contract performance (especially export contracts).

A negative impact of the situation on the pigment market in Europe has been identified. Italy is the first country to introduce laws on complete closure of those industrial segments which are not related to civil security, therefore the sale of titanium white on the Italian market has been stopped. There are reasonable grounds to expect similar restrictions in other European countries. No unequivocal projections can be made in this respect as, on the one hand, demand is expected to decline and, on the other, it may just as well pick up due to constraints in supply from the Chinese market.

Concurrently, in addition to the stricter procedures introduced to ensure physical security of employees and trading partners so as to minimise the risk of infection, intensive measures have been undertaken to support our financial condition. These measures include in particular:

- Close monitoring of sales, trading partners’ position and collection of receivables.
- Implementing crisis management rules, in particular with regard to carrying out repair works and

investment projects, in order to limit their scope to activities which are mandatory due to technical or legal reasons.
- Cooperation with public administration bodies in developing appropriate regulations to mitigate the adverse consequences of the COVID-19 pandemic for the economy.

It should be noted that given the Group's strong financial performance in 2019, its financial condition is stable. The Group also has additional sources of liquidity, namely cash held, whose amount as at December 31st 2019 was PLN 945m (including cash held as bank deposits), undrawn credit facilities, whose amount as at December 31st 2019 was PLN 3,089m, and available reverse factoring limit of PLN 62m. As at March 31st 2020, the amount of cash held was PLN 974m, the amount of available credit limits was PLN 2,386m, and the available limit of the reverse factoring facility was PLN 507m.

In the current market conditions, the Company benefits from low prices of commodities, in particular natural gas, and the weakening of PLN against EUR and USD due to significant export sales as well as the ongoing fertilizer application season.

In the opinion of the Company's Management Board, the implemented preventive measures minimise the risk of business disruption. However, it cannot be rule out that continued spread of the COVID-19 pandemic and its consequences may have a material adverse effect on Grupa Azoty S.A.'s operations. Given the large number of unknowns, this effect cannot be reliably estimated as at the date of authorisation of this report for issue.

Signatures of members of the Management Board

Signed with qualified digital signature
....
Wojciech Wardacki, PhD

President of the Management Board

Signed with qualified digital signature
....
Witold Szczypiński
Vice President of the Management Board,
Director General

Signed with qualified digital signature
....
Paweł Łapiński
Vice President of the Management Board

Signed with qualified digital signature
....
Grzegorz Kądzielawski, PhD
Vice President of the Management Board

Signed with qualified digital signature
....
Mariusz Grab
Vice President of the Management Board

Signed with qualified digital signature
....
Tomasz Hryniewicz
Vice President of the Management Board

Signed with qualified digital signature
....
Artur Kopeć
Member of the Management Board

Person responsible for maintaining accounting records

Signed with qualified digital signature
....
Piotr Kołodziej
Head of the Corporate
Finance Department

Tarnów, April 7th 2020