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

Grupa Azoty Spółka Akcyjna

# Contents

(all amounts in PLN '000 unless indicated otherwise)

# Consolidated 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 restated* |
|---|---|---|---|
| *Profit/loss* | | | |
| Revenue | 1 | 11,307,915 | 9,998,967 |
| Cost of sales | 2 | (8,833,939) | (8,406,271) |
| **Gross profit** | | **2,473,976** | **1,592,696** |
| Selling and distribution expenses | 2 | (902,195) | (658,602) |
| Administrative expenses | 2 | (886,734) | (812,368) |
| Other income | 3 | 65,518 | 49,604 |
| Other expenses | 4 | (137,741) | (90,186) |
| **Operating profit** | | **612,824** | **81,144** |
| Finance income | 5 | 29,407 | 55,057 |
| Finance costs | 6 | (96,265) | (108,740) |
| **Net finance income/(costs)** | | **(66,858)** | **(53,683)** |
| Share of profit of equity-accounted investees | | 12,493 | 13,092 |
| **Profit before tax** | | **558,459** | **40,553** |
| Income tax | 7 | (150,786) | (32,793) |
| **Net profit** | | **407,673** | **7,760** |
| *Other comprehensive income* | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial losses from defined benefit plans | | (29,908) | (19,428) |
| Tax on items that will not be reclassified to profit or loss | 7.3 | 4,995 | 3,633 |
| | | **(24,913)** | **(15,795)** |
| **Items that are or may be reclassified to profit or loss** | | | |
| Cash flow hedges – effective portion of fair-value change | | 4,952 | (16,724) |
| Translation reserve | | (11,043) | 4,786 |
| Income tax relating to items that are or will be reclassified to profit or loss | 7.3 | (941) | 3,178 |
| | | **(7,032)** | **(8,760)** |
| **Total other comprehensive income** | | **(31,945)** | **(24,555)** |
| **Comprehensive income for the year** | | **375,728** | **(16,795)** |

* See section 2.1. b.

The consolidated statement of profit or loss and other comprehensive income should be analysed together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

# Consolidated statement of profit or loss and other comprehensive income (continued)

| | Note | for the period Jan 1 – Dec 31 2019 | for the period Jan 1 – Dec 31 2018 restated* |
|---|---|---|---|
| **Net profit attributable to:** | | | |
| Owners of the parent | | 372,856 | 9,869 |
| Non-controlling interests | 21.4 | 34,817 | (2,109) |
| **Comprehensive income for the year attributable to:** | | | |
| Owners of the parent | | 342,337 | (13,739) |
| Non-controlling interests | 21.4 | 33,391 | (3,056) |
| **Earnings per share:** | 9 | | |
| Basic (PLN) | | 3.76 | 0.10 |
| Diluted (PLN) | | 3.76 | 0.10 |

* See section 2.1. b.

The consolidated statement of profit or loss and other comprehensive income should be analysed together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

# Consolidated 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 | 8,142,751 | 7,757,071 |
| Perpetual usufruct of land | | - | 470,178 |
| Right-of-use assets | 11 | 852,075 | - |
| Investment property | 12 | 62,014 | 43,799 |
| Intangible assets | 13 | 985,071 | 1,048,461 |
| Goodwill | 13.1 | 308,589 | 311,280 |
| Shares | 14.1 | 9,198 | 9,113 |
| Equity-accounted investees | 14.1 | 88,909 | 89,496 |
| Other financial assets | 14.2 | 2,406 | 2,377 |
| Other receivables | 17 | 156,867 | 185,397 |
| Deferred tax assets | 7.4 | 97,074 | 75,579 |
| Other non-current assets | 19 | 483 | 363 |
| **Total non-current assets** | | **10,705,437** | **9,993,114** |
| **Current assets** | | | |
| Inventories | 15 | 1,669,809 | 1,505,024 |
| Property rights | 16 | 474,133 | 261,767 |
| Derivative financial instruments | 30.5 | 5,918 | 2,017 |
| Other financial assets | 14.2 | 174,724 | 15,061 |
| Current tax assets | | 26,973 | 67,217 |
| Trade and other receivables | 17 | 1,615,486 | 1,551,652 |
| Cash and cash equivalents | 18 | 770,087 | 846,532 |
| Other non-current assets | 19 | 15,456 | 14,578 |
| Assets held for sale | 20 | 20,668 | 9,050 |
| **Total current assets** | | **4,773,254** | **4,272,898** |
| **Total assets** | | **15,478,691** | **14,266,012** |

* See section 2.1. b.

The consolidated statement of financial position should be analysed
together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

# Consolidated 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 |
| Translation reserve | | (8,252) | 2,789 |
| Retained earnings, including: | | 4,124,507 | 3,783,874 |
| *Net profit for the year* | | *372,856* | *9,869* |
| **Equity attributable to owners of the parent** | | **7,036,374** | **6,702,771** |
| **Non-controlling interests** | 21.4 | **657,573** | **625,188** |
| **Total equity** | | **7,693,947** | **7,327,959** |
| **Liabilities** | | | |
| Borrowings | 22 | 2,546,003 | 2,488,353 |
| Lease liabilities | 23 | 367,482 | 16,806 |
| Other financial liabilities | 24 | 18,357 | 21,930 |
| Employee benefit obligations | 26 | 469,351 | 394,677 |
| Trade and other payables | 27 | 27,252 | 12,446 |
| Provisions | 28 | 204,850 | 143,772 |
| Grants | 29 | 193,963 | 136,002 |
| Deferred tax liabilities | 7.4 | 461,124 | 448,600 |
| **Total non-current liabilities** | | **4,288,382** | **3,662,586** |
| Borrowings | 22 | 205,908 | 362,620 |
| Lease liabilities | 23 | 59,530 | 8,866 |
| Derivative financial instruments | 30.5 | 15 | 188 |
| Other financial liabilities | 24 | 554,305 | 189,272 |
| Employee benefit obligations | 26 | 53,270 | 45,630 |
| Current tax liabilities | | 44,672 | 18,178 |
| Trade and other payables | 27 | 2,516,567 | 2,598,289 |
| Provisions | 28 | 37,113 | 44,425 |
| Grants | 29 | 13,480 | 7,999 |
| Liabilities directly associated with assets available for sale | 20 | 11,502 | - |
| **Total current liabilities** | | **3,496,362** | **3,275,467** |
| **Total liabilities** | | **7,784,744** | **6,938,053** |
| **Total equity and liabilities** | | **15,478,691** | **14,266,012** |

* See section 2.1. b.

The consolidated statement of financial position should be analysed
together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

# Consolidated statement of changes in equity for the year ended December 31st 2019

| | Share capital | Share premium | Hedging reserve | Exchange differences on translating foreign operations | Retained earnings | Equity attributable to owners of the parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at January 1st 2019** | 495,977 | 2,418,270 | 1,861 | 2,789 | 3,783,874 | 6,702,771 | 625,188 | 7,327,959 |
| ***Profit or loss and other comprehensive income*** | | | | | | | | |
| Net profit/(loss) | - | - | - | - | 372,856 | 372,856 | 34,817 | 407,673 |
| Other comprehensive income | - | - | 4,011 | (11,041) | (23,489) | (30,519) | (1,426) | (31,945) |
| **Comprehensive income for the year** | - | - | 4,011 | (11,041) | 349,367 | 342,337 | 33,391 | 375,728 |
| ***Transactions with owners, recognised directly in equity*** | | | | | | | | |
| Dividends | - | - | - | - | - | - | (2,695) | (2,695) |
| **Total transactions with owners** | - | - | - | - | - | - | (2,695) | (2,695) |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | | |
| Changes in the Group | - | - | - | - | (10,183) | (10,183) | 3,103 | (7,080) |
| **Total transactions with owners** | - | - | - | - | (10,183) | (10,183) | 408 | (9,775) |
| Other | - | - | - | - | 1,449 | 1,449 | (1,414) | 35 |
| **Balance as at December 31st 2019** | 495,977 | 2,418,270 | 5,872 | (8,252) | 4,124,507 | 7,036,374 | 657,573 | 7,693,947 |

The consolidated statement of changes in equity should be analysed
together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

## for the year ended December 31st 2018

| | Share capital | Share premium | Hedging reserve | Exchange differences on translating foreign operations | Retained earnings | Equity attributable to owners of the parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at January 1st 2018** | 495,977 | 2,418,270 | 15,407 | (233) | 3,918,613 | 6,848,034 | 587,248 | 7,435,282 |
| ***Profit or loss and other comprehensive income*** | | | | | | | | |
| Net profit/(loss) | - | - | - | - | 9,869 | 9,869 | (2,109) | 7,760 |
| Other comprehensive income | - | - | (13,546) | 4,624 | (14,686) | (23,608) | (947) | (24,555) |
| **Comprehensive income for the year** | | | (13,546) | 4,624 | (4,817) | (13,739) | (3,056) | (16,795) |
| ***Transactions with owners, recognised directly in equity*** | | | | | | | | |
| Dividends | - | - | - | - | (123,995) | (123,995) | (20,350) | (144,345) |
| **Total transactions with owners** | - | - | - | - | (123,995) | (123,995) | (20,350) | (144,345) |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | | |
| Changes in the Group | - | - | - | (1,602) | (5,771) | (7,373) | 61,543 | 54,170 |
| **Total transactions with owners** | | | | (1,602) | (5,771) | (7,373) | 61,543 | 54,170 |
| Other | - | - | - | - | (156) | (156) | (197) | (353) |
| **As at December 31st 2018, restated*** | 495,977 | 2,418,270 | 1,861 | 2,789 | 3,783,874 | 6,702,771 | 625,188 | 7,327,959 |

* See section 2.1. b.

The consolidated statement of changes in equity should be analysed
together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

# Consolidated 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/(loss) before tax** | | **558,459** | **40,553** |
| *Adjustments for:* | | **924,872** | 764,288 |
| Depreciation and amortisation | | **811,286** | 683,298 |
| Recognition/(reversal) of impairment losses | | **50,624** | (30) |
| Loss on investing activities | | **3,872** | 73,412 |
| Gain on disposal of financial assets | | **(878)** | (9,486) |
| Share of profit of equity-accounted investees | | **(12,493)** | (13,092) |
| Interest, foreign exchange gains or losses | | **77,124** | 29,977 |
| Dividends | | **(165)** | (291) |
| Net change in fair value of financial assets at fair value through profit or loss | | **(4,498)** | 500 |
| | | **1,483,331** | **804,841** |
| Increase in trade and other receivables | 34 | (146,517) | (163,292) |
| Increase in inventories | 34 | (386,203) | (237,232) |
| Increase in trade and other payables | 34 | 782,477 | 538,470 |
| Increase in provisions, accruals and government grants | 34 | 386,641 | 150,247 |
| Other adjustments | 34 | (3,541) | 26,144 |
| ***Cash generated from operating activities*** | | ***2,116,188*** | ***1,119,178*** |
| Income tax paid | | **(82,754)** | (36,648) |
| **Net cash from operating activities** | | **2,033,434** | **1,082,530** |

* See section 2.1. b and c

The consolidated statement of cash flows should be analysed
together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

# Consolidated 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 | | 10,566 | 6,430 |
| Purchase of property, plant and equipment, intangible assets and investment property | | (1,049,703) | (1,097,209) |
| Dividend received | | 17 | 13,108 |
| Acquisition of subsidiary, net of cash acquired | | | (951,064) |
| Purchase of other financial assets | | (415,462) | - |
| Proceeds from sale of other financial assets | | 246,030 | 249,789 |
| Interest received | | 26,014 | 19,643 |
| Grants | | 753 | 4,901 |
| Loans | | - | (3,252) |
| Repayments of loans | | 109 | 112 |
| Other investing cash proceeds | | - | 709 |
| Other disbursements | | (4,813) | (4,627) |
| **Net cash from investing activities** | | **(1,186,489)** | **(1,761,460)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (2,695) | (144,345) |
| Proceeds from borrowings | | 217,030 | 1,234,348 |
| Repayment of borrowings | | (286,477) | (602,753) |
| Interest paid | | (107,629) | (76,094) |
| Payment of finance lease liabilities | | (56,645) | (10,087) |
| Other cash provided by financing activities | | 12,024 | 59,260 |
| Payment of reverse factoring liabilities | | (695,547) | - |
| Other cash used in financing activities | | - | (26,879) |
| **Net cash from financing activities** | | **(919,939)** | **433,450** |
| **Total net cash flows** | | **(72,994)** | **(245,480)** |
| | | | |
| **Cash and cash equivalents at beginning of period** | | **846,532** | **1,085,885** |
| Effect of exchange rate fluctuations on cash held | | (3,451) | 6,127 |
| **Cash and cash equivalents at end of period** | **18** | **770,087** | **846,532** |

* See section 2.1. b and c

The consolidated statement of cash flows should be analysed
together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

# Notes to the consolidated financial statements

# 1. General information

## 1.1. Organisation of the Group

As at December 31st 2019, the Grupa Azoty Group (the „Group") comprised: Grupa Azoty S.A. (the "Parent"), direct subsidiaries:

- COMPO EXPERT Holding GmbH ("COMPO EXPERT", formerly Goat TopCo GmbH) – wholly-owned,
- Grupa Azoty ATT Polymers GmbH – wholly-owned,
- Grupa Azoty Compounding Sp. z o.o. ("Grupa Azoty COMPOUNDING") – wholly-owned,
- Grupa Azoty Folie Sp. z o.o. w likwidacji (in liquidation) – wholly-owned,
- Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKOPOL) – a 99.40% interest,
- Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY) – a 95.98% interest,
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty KĘDZIERZYN) – a 93.48% interest,
- Grupa Azoty Zakłady Chemiczne Police S.A. („Grupa Azoty POLICE") – a 66.0% interest; after the reporting date, the Parent's share in the share capital of Grupa Azoty POLICE decreased to 62.86%, as described in detail in Note 1.2.2.
- Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. (Grupa Azoty PKCh) – a 63.27% interest, with Grupa Azoty KĘDZIERZYN holding a 36.73% interest,
- Grupa Azoty Koltar Sp. z o.o. (Grupa Azoty KOLTAR) – a 60% interest, with Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN holding a 20% interest,

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

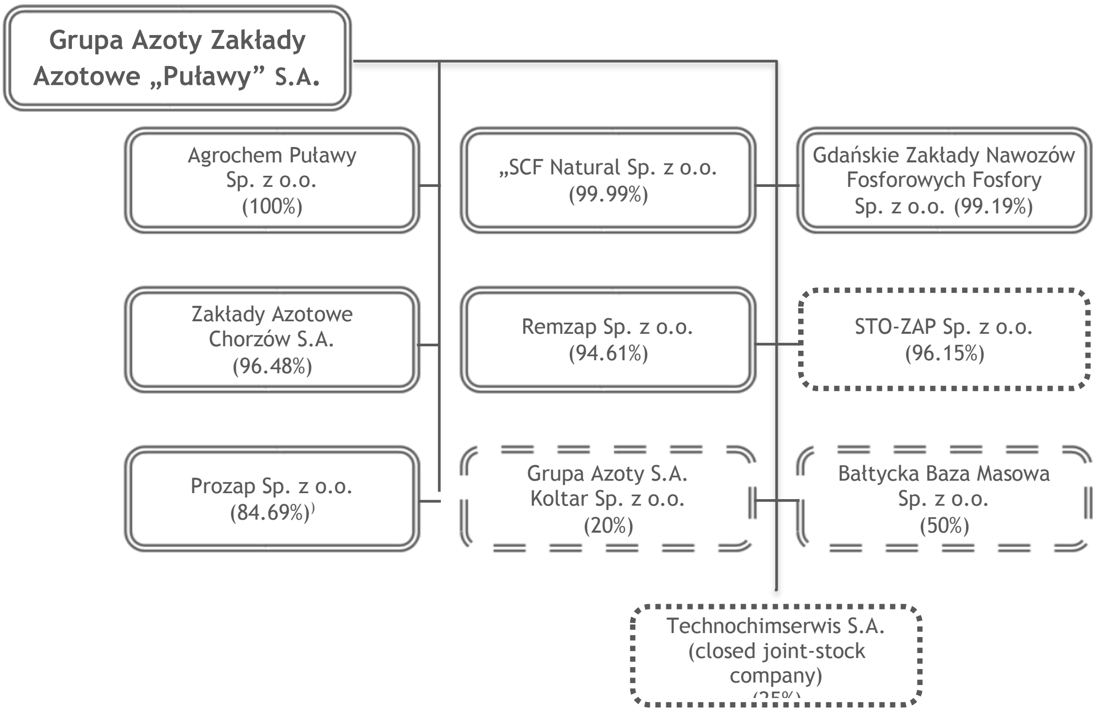
The Parent was entered in the Register of Businesses in the National Court Register (entry No. KRS 0000075450) on December 28th 2001, pursuant to a ruling of the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register, dated December 28th 2001. The Parent's REGON number for public statistics purposes is 850002268.
Since April 22nd 2013, the Parent has been trading under its new name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).

The Group's business includes in particular:

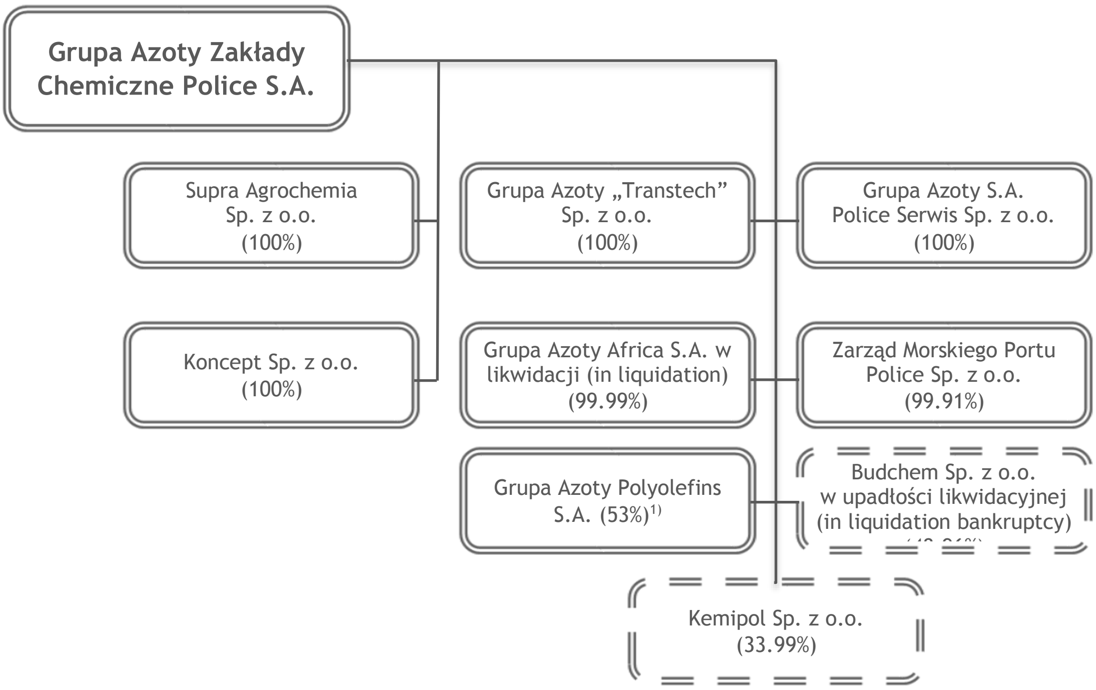
- processing of nitrogen products,
- manufacture and sale of fertilizers,
- manufacture and sale of plastics,
- manufacture and sale of OXO alcohols,
- manufacture and sale of titanium white,
- manufacture and sale of melamine,
- production of sulfur and processing of sulfur-based products.

The Parent and the Group companies were incorporated for unlimited period.
These consolidated financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU IFRS") were authorised for issue by the Parent's Management Board on April 7th 2020.

### *Structure of Grupa Azoty PUŁAWY as at December 31th 2019*




### *Structure of Grupa Azoty POLICE as at December 31st 2019*




1) The Parent holds 47% of shares in Grupa Azoty Polyolefins S.A. (the company operated as PDH Polska S.A. until October 8th 2019).

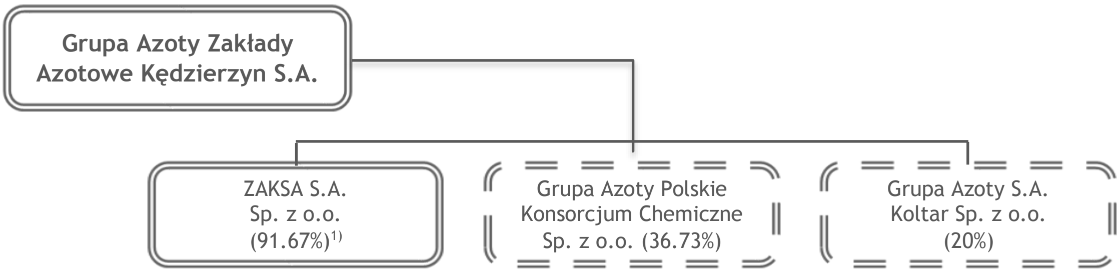
Legend:

Fully-consolidated entities

Equity-accounted entities

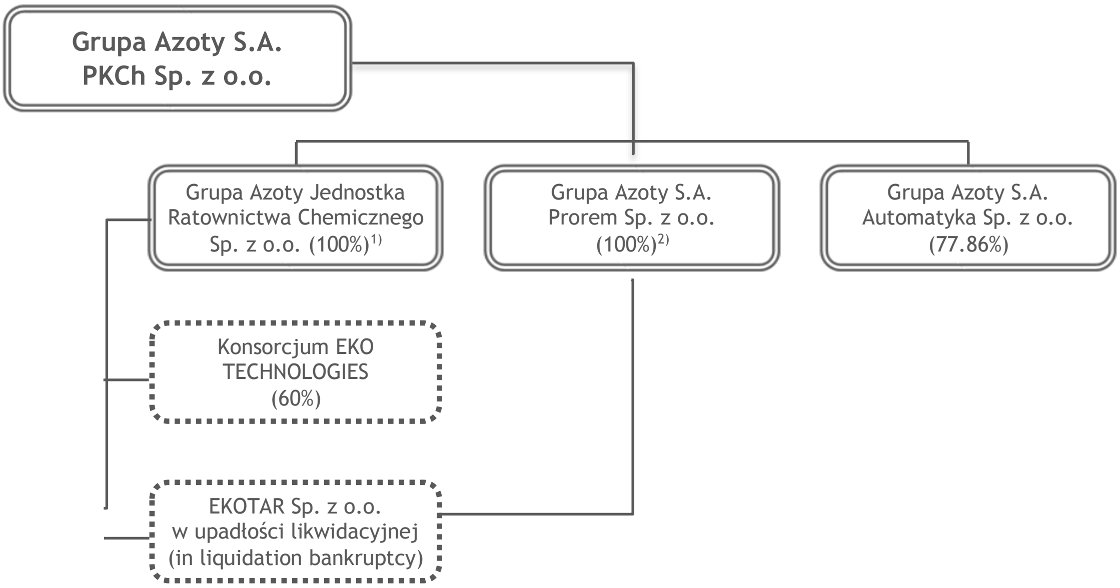
Non-consolidated entities

### *Structure of Grupa Azoty KĘDZIERZYN as at December 31st 2019*




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

### *Structure of Grupa Azoty PKCh Sp. z o.o. as at December 31st 2019*




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

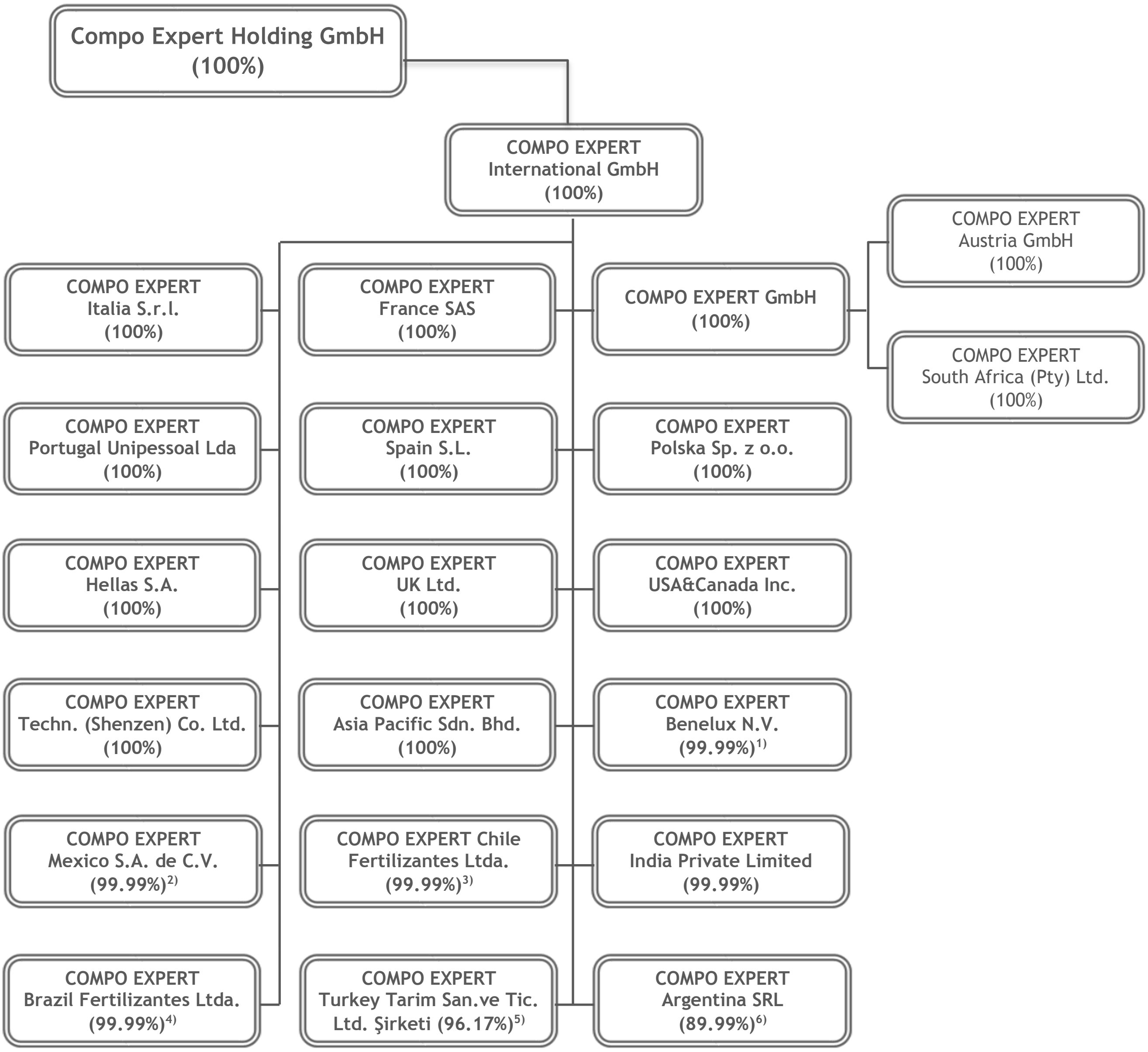
Legend:

Fully-consolidated entities

Equity-accounted entities

Non-consolidated entities

***Structure of the COMPO EXPERT Group as at December 31st 2019***




[1)] COMPO EXPERT Benelux N.V. – COMPO EXPERT GmbH holds 0.0103% of the shares.
[2)] COMPO EXPERT Mexico S.A. de C.V. – COMPO EXPERT GmbH holds 0.000311% of the shares.
[3)] COMPO EXPERT Chile Fertilizantes Ltda. – COMPO EXPERT GmbH holds 0.01% of the shares.
[4)] COMPO EXPERT Brazil Fertilizantes Ltda. – COMPO EXPERT GmbH holds 0.000003% of the shares.
[5)] COMPO EXPERT Turkey Tarim San.ve Tic. Ltd. Şirketi – COMPO EXPERT GmbH holds 3.83% of the shares.
[6)] COMPO EXPERT Argentina SRL – COMPO EXPERT GmbH holds 10.000024% of the shares.

Legend:

Fully-consolidated entities

Equity-accounted entities

Non-consolidated entities

## 1.2. Changes in the Group's structure

### 1.2.1. Accounting for the acquisition of COMPO EXPERT Holding GmbH

On November 26th 2018, the Parent acquired 100% of the shares (representing 100% of the voting rights) in Goat TopCo GmbH of Münster, Germany, from Goat Netherlands B. V.. of Amsterdam, the Netherlands, a member of the Chinese XIO Group.
Thus, the Grupa Azoty Group took control of the Goat TopCo Group, a number of entities in Europe and on other continents, whose key operating subsidiaries are located in Germany and Spain.
On July 29th 2019, Goat ToCo GmbH was taken over by its wholly-owned subsidiary Goat HoldCo GmbH which had previously changed its name to COMPO EXPERT Holding GmbH ("COMPO EXPERT"). The merger was registered on August 6th 2019 with effect as of January 1st 2019. As a result, COMPO EXPERT is the legal successor of Goat TopCo GmbH and operates as the holding company for the entire COMPO EXPERT Group.
The amount paid by Grupa Azoty for the Goat TopCo shares was EUR 226,637 thousand (PLN 973,966 thousand). On November 26th 2018, the transaction closing date, Grupa Azoty paid the full price for and acquired the ownership title to the shares.
The acquisition was accounted for in accordance with IFRS 3 *Business Combinations*. As at December 31st 2018, the provisional accounting for the acquisition of assets, liabilities and contingent liabilities assumed in the acquisition of was applied to account for the acquisition. The acquisition was accounted for based on the carrying amounts sourced from the COMPO EXPERT consolidation package as at November 30th 2018, which were adopted as the best available estimate of fair value as at the acquisition date.

Final accounting for the acquisition of COMPO EXPERT was made in the Grupa Azoty Group's interim consolidated financial statements as at June 30th 2019 based on fair value measurements made by an independent expert. Details of the accounting for the acquisition:

*Amounts in PLN '000 unless indicated otherwise*

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

Goodwill disclosed above will not be amortised and impairment losses, if any, will not be deemed tax-deductible cost.
Key adjustments related to the identification and measurement of the fair value of the acquired assets, liabilities and contingent liabilities of COMPO EXPERT as at the date of acquisition of control, i.e. November 26th 2018.

The following items were measured in the process:

**Property, plant and equipment**

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

**Intangible assets**

- The fair value of trademarks, including the COMPO EXPERT trademark and the trademarks of 21 other key products, The fair value of the trademarks was measured at PLN 300m,
- Compo Expert's relations with customers, including those purchasing Compo Expert products directly and through distributors, were measured using the Multi-Period Excess Earnings Method (MEEM) at PLN 344m. Relations with customers are amortised using the straight-line method over a period of 15 years.

- The fair value of technologies was measured at PLN 57m.
- The fair value of other intangible assets was measured at PLN 8m.

**Inventories**

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

**Trade and other receivables**

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

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

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

*Amounts in PLN '000 unless indicated otherwise*

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

As a result of the fair value measurement of net assets and the final accounting for the acquisition, the net profit/(loss) for the period November 26th–December 31st 2018 was adjusted for PLN 110 thousand. The restatement of comparative period data is presented in section 2.1b of these financial statements.

### 1.2.2. Other changes

Changes in the Group's structure

**Registration of merger between Grupa Azoty PUŁAWY and Elektrownia Puławy Sp. z o.o.**
On January 2nd 2019, a merger between Grupa Azoty PUŁAWY and Elektrownia Puławy Sp. z o.o. was registered in the National Court Register.
The merger was effected pursuant to a simplified procedure under Art. 492.1.1 of the Commercial Companies Code (merger by acquisition), i.e. by way of transfer of all the assets of Elektrownia Puławy Sp. z o.o. to Grupa Azoty PUŁAWY.

**Registration of share capital increase at Grupa Azoty KOLTAR**
On January 8th 2019, an increase of Grupa Azoty KOLTAR's share capital to PLN 54,600 thousand was entered in the National Court Register.
Consequently, Grupa Azoty S.A. now holds a 60% equity interest in the company, while Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN hold a 20% interest each.

**Change in percentage of voting rights held in PROZAP Sp. z o.o.**
On February 26th 2019, the Management Board of PROZAP Sp. z o.o. cancelled one share held by a natural person. As a result, the percentage of total voting rights at the General Meeting of PROZAP Sp. z o.o. held by Grupa Azoty PUŁAWY increased from 86.15% to 86.20%.

**Share capital increase at Grupa Azoty POLICE**

On March 4th 2019, the Management Board of Grupa Azoty POLICE resolved to increase the company's share capital through a rights issue and to amend the Articles of Association.
Proceeds from the share issue will be used to support the implementation of the Grupa Azoty Group's strategy for the coming years, in particular to diversify revenue streams and increase profitability, and to step up the efforts to expand the non-fertilizer business lines. The key task undertaken in the pursuit of these strategic goals is the implementation of the Polimery Police project ("Polimery Police Project") by Grupa Azoty Polyolefins S.A. ("Grupa Azoty POLYOLEFINS"; until October 8th 2019 the company operated under the name PDH Polska S.A.).
On April 26th 2019, an Extraordinary General Meeting of Grupa Azoty POLICE passed a resolution to increase the company's share capital through a secondary public offering ("SPO") for an amount not higher than PLN 1,100m, addressed to the existing shareholders (rights issue).
On May 29th 2019, in connection with the planned issue of Grupa Azoty POLICE shares, the Parent's Management Board resolved to take up shares, in a private placement, through the exercise of pre-emptive rights and placement of additional subscription orders for the issue price determined by the Grupa Azoty POLICE Management Board, or to take up shares not taken up by investors in the rights issue, for the issue price specified by the Grupa Azoty POLICE Management Board in the invitation addressed to the Parent to subscribe for such shares, with the proviso that immediately after the issue the Company should retain at least 50% plus one vote at the General Meeting of Grupa Azoty POLICE.
Given the risks (the risk of refusal to register allotment certificates in the Central Securities Depository of Poland, failure to register allotment certificates and inability to introduce the shares to trading on the Warsaw Stock Exchange ("WSE"), which would prevent investors from trading in their allotment certificates or shares, and the use of an incorrect procedure concerning the powers of the National Agriculture Support Centre under the Act on Shaping the Agricultural System would invalidate the entire share issue due to the interpretative doubts concerning the provisions of the amended Act on Shaping the Agricultural System) identified in the regulatory environment, on June 5th 2019 the Management Board of Grupa Azoty POLICE decided to suspend the performance of the Extraordinary General Meeting's resolution. On August 26th 2019, the Management Board of Grupa Azoty POLICE decided to resume the SPO and passed a resolution to increase the company's share capital through a rights issue and to amend the Articles of Association, and repealed the previous resolution of March 4th 2019.
On September 23rd 2019, the General Meeting of Grupa Azoty POLICE passed resolutions to increase the company's share capital by way of a rights issue, to carry out a public offering of new shares, to set November 7th 2019 as the cum-rights date, to convert the new shares into book-entry form, and to seek admission and introduction of the pre-emptive rights, allotment certificates and new shares to trading on the regulated market, and to amend to the company's Articles of Association.
In connection with the resolution passed by the Extraordinary General Meeting of Grupa Azoty POLICE on September 23rd 2019, on October 10th 2019 the Parent's Management Board passed a resolution to request the General Meeting to:

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

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

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

On November 5th 2019, the Central Securities Depository of Poland issued a statement to the effect

that it had executed an agreement with Grupa Azoty POLICE on registration in the depository of 75 million pre-emptive rights to Series C ordinary bearer shares with a par value of PLN 10.00 per share.
On November 7th 2019, the Management Board of the Warsaw Stock Exchange passed a resolution to admit and introduce to trading on the WSE Main Market the pre-emptive rights to Series C ordinary bearer shares in Grupa Azoty POLICE. On November 12th 2019, the WSE Management Board decided to introduce the pre-emptive rights to Series C ordinary bearer shares to trading on the main market, provided that the Central Securities Depository of Poland registers those pre-emptive rights on or before November 12th 2019 and that the pre-emptive rights will be traded from November 12th to November 14th 2019 (inclusive) in the continuous trading system.
On November 8th 2019, the Extraordinary General Meeting of the Parent passed a resolution to approve the acquisition by the company of shares in the increased share capital of Grupa Azoty POLICE.
On December 5th 2019, Grupa Azoty POLICE signed an investment agreement with the State Treasury, represented by the Prime Minister. Under the agreement, the State Treasury acquired 5,513,722 new Series C shares for a total amount of PLN 56,239,964.40. Grupa Azoty POLICE made a commitment to the State Treasury that it will allocate all the funds to the implementation by Grupa Azoty POLYOLEFINS of an investment project to construct propylene and polypropylene production units together with auxiliary infrastructure.
On December 9th 2019, the Parent instructed an investment firm to subscribe on its behalf for 28,551,500 shares under the Planned Issue at the issue price of PLN 10.20 per share, i.e. for a total amount of PLN 291,225,300.00, in the exercise of the pre-emptive rights held by the Parent.
Following the successful issue of 49,175,768 Series C ordinary bearer shares issued pursuant to Resolution No. 4 of the Extraordinary General Meeting of September 23rd 2019, on December 23rd 2019 the Management Board of Grupa Azoty POLICE passed a resolution to allot 49,175,768 new shares which were duly subscribed and paid for.
On January 10th 2020, the District Court for Szczecin-Centrum of Szczecin, 13th Commercial Division of the National Court Register, registered an increase in the share capital and amendments to the Articles of Association of Grupa Azoty POLICE.
After the registration of the increase, the share capital of Grupa Azoty POLICE amounts to PLN 1,241,757,680 and is divided into 124,175,768 shares with a par value of PLN 10.00 per share, including:

- 60,000,000 Series A shares,
- 15,000,000 Series B shares,
- 49 175 768 Series C shares.

The total number of voting rights attached to all the shares in issue is 124,175,768.
As a result of its participation in the public offering of new shares in Grupa Azoty POLICE, the Parent acquired 28,551,500 shares and holds in aggregate 78,051,500 shares in Grupa Azoty POLICE, representing 62.86% of its share capital.

**Purchase of shares in Grupa Azoty Polyolefins S.A.**
On March 27th 2019, the Parent's Management Board passed a resolution to subscribe for 9,782,808 new shares in Grupa Azoty POLYOLEFINS at the issue price of PLN 10.00 per share, i.e. for a total amount of PLN 97,828,080.00.
On March 28th 2019, the Management Board of Grupa Azoty POLICE passed a resolution to subscribe for 6,551,092 new shares in Grupa Azoty POLYOLEFINS at the issue price of PLN 10.00, i.e. for a total amount of PLN 65,510,920.
On April 8th 2019, the Supervisory Board of Grupa Azoty POLICE passed a resolution to approve the purchase by Grupa Azoty POLICE of 6,551,092 shares in Grupa Azoty POLYOLEFINS.
On April 25th 2019, the Parent's Supervisory Board passed a resolution to approve the purchase of 9,782,808 shares in Grupa Azoty POLYOLEFINS by the Parent.
On April 26th 2019, the General Meeting of Grupa Azoty POLYOLEFINS passed a resolution to increase the company's share capital by PLN 163,339 thousand through an issue of 16,333,900 new shares with a par value of PLN 10 per share.
The new shares were taken up by way of a private placement by:

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

Payments towards the share capital on account of purchase of new shares in Grupa Azoty POLYOLEFINS were made in full by July 19th 2019.
On August 7th 2019, the District Court for Szczecin-Centrum of Szczecin, 13th Commercial Division of the National Court Register, registered an increase in the company's share capital.

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

**Share capital increase at Grupa Azoty SIARKOPOL**

On April 15th 2019, the Extraordinary General Meeting of Grupa Azoty SIARKOPOL passed a resolution to increase the company's share capital and to amend the Articles of Association to reflect the increase.

The company's share capital was to be increased by an amount not lower than PLN 1,791,530 and not higher than PLN 1,802,810, to an amount not lower than PLN 60,620,090 and not higher than PLN 60,631,370, through the issue of not fewer than 179,153 and not more than 180,281 new Series C registered shares with a par value of PLN 10 per share. The shares were to be taken up in exchange for cash contributions paid before the registration of the share capital increase. The price of the New Shares was PLN 53.38 per share. The New Shares will carry the right to dividend as of January 1st 2019, on a par with the other company shares, that is for the entire 2019. The record date for the pre-emptive rights in respect of the New Shares, within the meaning of Art. 432.2 of the Commercial Companies Code, was set for April 15th 2019.

April 29th 2019 was set as the cum-rights date. The closing date for exercising the pre-emptive rights was May 20th 2019 – It was the last day on which subscription orders placed in the exercise of the pre-emptive rights were accepted.

On May 20th 2019, in the exercise of its pre-emptive rights the Parent subscribed for 179,153 Series C ordinary registered shares in Grupa Azoty SIARKOPOL, paying PLN 9,563,187.14 for the shares. A request for registering the PLN 1,791,530 share capital increase was filed with the Registry Court on July 17th 2019. The increase was registered on August 28th 2019

The share capital was increased by PLN 1,791,530 to PLN 60,620,090. All the new shares were taken up by the Parent. As a result, Grupa Azoty S.A. held 6,025,212 shares in Grupa Azoty SIARKOPOL, representing 99.39% of its share capital.

On June 19th 2019, in connection with a repurchase request, the Annual General Meeting of Grupa Azoty SIARKOPOL resolved to repurchase 200 Series A registered shares with a par value of PLN 10 per share.

The repurchase price for the shares was determined as equal to the value of net assets attributable to the shares, as disclosed in the financial statements for 2018, less the amount allocated for distribution to shareholders, that is PLN 52.91 per repurchased share and a total price of PLN 10,582.00. The Parent was the shareholder obliged to repurchase the shares. The purchase of the shares was conditional on the National Centre for Agricultural Support, acting for the State Treasury, not exercising its pre-emptive right to the shares within the statutory time limit. As a result of the share repurchase on November 27th 2019, the Parent became the holder of 6,025,412 shares in Grupa Azoty SIARKOPOL, representing 99.40% of its share capital.

**Change of COMPO EXPERT Group companies' names**

By way of General Meeting resolutions of June 13th 2019,

- Goat HoldCo GmbH was renamed as COMPO EXPERT Holding GmbH,
- Goat BidCo GmbH was renamed as COMPO EXPERT International GmbH.

On July 10th 2019, the changes were entered in the German Commercial Register (HRB).

**Changes of corporate governance rules at the COMPO EXPERT Group**

The COMPO EXPERT Group companies came under the corporate governance rules applicable at the Grupa Azoty Group following amendment of the articles of association of COMPO EXPERT Holding GmbH, COMPO EXPERT International GmbH, and COMPO EXPERT GmbH. The amendments to the articles of association are related to the establishment of supervisory boards at the companies, change of their financial years (introduction of the financial year corresponding to the calendar year in line with the rules applicable at the Grupa Azoty Group), and introduction of corporate governance rules compliant with the Act on State Property Management of December 16th 2016.

The amendments are effective as of July 9th 2019.

On July 10th 2019, the changes were entered in the German Commercial Register (HRB).

**Merger of COMPO EXPERT Group companies**

The merger of Goat TopCo GmbH and COMPO EXPERT Holding GmbH as the acquirer was completed.

On July 29th 2019, the Deed of Merger between COMPO EXPERT Holding GmbH (formerly Goat HoldCo GmbH) and Goat TopCo GmbH was signed, with COMPO EXPERT Holding GmbH as the acquirer. The acquiree (Goat TopCo GmbH) transferred all its assets, rights and obligations through dissolution without liquidation to the acquirer by way of a merger. The merger was carried out based on balance

sheets prepared as at December 31st 2018 and became official upon its registration in the commercial register on August 6th 2019, with effect as of January 1st 2019.
Upon registration of the merger, Goat TopCo GmbH was deleted from the register.

**Winding-up of Infrapark Police S.A. w likwidacji (in liquidation)**
On July 18th 2019, following completion of all liquidation proceedings, the Liquidators of Infrapark Police S.A. w likwidacji (in liquidation) filed an application with the District Court to remove the company from the Business Register. On November 18th 2019, the District Court for Szczecin, decided to remove the company from the National Court Register. The decision became final on December 4th 2019. The effective date of removal from the register is January 9th 2020.

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

**Merger of Koncept Sp. z o.o. and Prozap Sp. z o.o.**
On August 30th 2019, the management boards of Koncept Sp. z o.o. and Prozap Sp. z o.o. agreed and signed a plan to merge the companies.
The merger plan, disclosed to the public on the websites of both companies as of August 30th 2019, envisages that:

- the merger will be effected pursuant to Art. 492.1.1 of the Commercial Companies Code (merger by acquisition), i.e. by transferring all the assets of Koncept Sp. z o.o. (the acquiree) to Prozap Sp. z o.o. (the acquirer),
- at the same time, the acquirer's share capital will be increased by PLN 65.5 thousand by creating new shares which will be issued by the acquirer to the shareholders of the acquiree, in accordance with the exchange ratio defined in the merger plan,
- the merger will require a resolution of the General Meeting of each of the merging companies, approving the merger plan and proposed amendments to the Articles of Association of Prozap Sp. z o.o.,
- Prozap Sp. z o.o. will assume all rights and obligations of Koncept Sp. z o.o.,
- the merger will be effected on the date of registration of the merger in the National Court Register entry maintained for the acquirer,
- Koncept Sp. z o.o. will be dissolved, without conducting liquidation proceedings, on the date of its deletion from the business register of the National Court Register.

On October 7th 2019, Koncept Sp. z o.o. received a decision of the court to include the merger plan in the company's registration files. At the same time, at the request of Prozap Sp. z o.o., the District Court issued a decision to include the merger plan in the company's registration files and appoint an auditor to examine the correctness and reliability of the merger plan.
On December 19th 2019, an Extraordinary General Meeting of Koncept Sp. z o.o., and on December 20th 2019 – an Extraordinary General Meeting of Prozap Sp. z o.o. passed resolutions to merge the companies. The merger was entered with the National Court Register on January 29th 2020.
Following the merger, Grupa Azoty POLICE received, in exchange for 1,023 shares in Koncept Sp. z o.o., 131 shares in Prozap Sp. z o.o.
Following the merger, Grupa Azoty PUŁAWY and Grupa Azoty POLICE hold, respectively, 78.46% and 7.35% of shares in Prozap Sp. z o.o.

**Cancellation of shares in Remzap Sp. z o.o.**
On September 30th 2019, 15 shares in REMZAP Sp. z o.o. were cancelled following the death of its shareholders.
As a result, the percentage of total voting rights at the General Meeting of PROZAP Sp. z o.o. held by Grupa Azoty PUŁAWY increased from 96.33% to 96.39%.
On October 31st 2019, 117 shares in REMZAP Sp. z o.o. held by former employees of the company were cancelled. As a result, the percentage of total voting rights at the company's General Meeting increased to 96.83% (from 96.39%).

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

**Share capital increase at Grupa Azoty COMPOUNDING**
On October 28th 2019, the Extraordinary General Meeting of Grupa Azoty COMPOUNDING passed a

resolution to increase the share capital from PLN 36,000,000 to PLN 72,007,700, i.e. by PLN 36,007,700, through the creation of 360,077 new shares with a par value of PLN 100 per share, which will be acquired by the sole shareholder - the Parent:

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

The share capital increase was registered on December 9th 2019.

**Grupa Azoty Folie Sp. z o.o. put into liquidation**
On December 31st 2019, an Extraordinary General Meeting of Grupa Azoty Folie Sp. z o.o. passed a resolution to dissolve the company and put it into liquidation.

***Events after the reporting period***

**Planned issue of Grupa Azoty POLYOLEFINS shares**

On January 24th 2020, an Extraordinary General Meeting of Grupa Azoty POLICE, and on February 17th 2020 – an Extraordinary General Meeting of the Parent approved the purchase by the companies of shares, for the issue price specified by the General Meeting of Grupa Azoty POLYOLEFINS, by way of a private placement, within the meaning of Art. 431.2.1 of the Commercial Companies Code, in a number ensuring that the companies' current percentage shareholdings in Grupa Azoty POLYOLEFINS are maintained.
It was assumed that the amounts to be spent to acquire Grupa Azoty POLYOLEFINS shares as part of the new share issue will not exceed PLN 334,968 thousand in the case of Grupa Azoty POLICE and PLN 297,047 thousand in the case of the Parent.
On February 18th 2020, an Extraordinary General Meeting of Grupa Azoty POLYOLEFINS passed a resolution to increase the share capital by PLN 131,944,310.00 through the issue of 13,194,431 new Series F registered shares with a par value of PLN 10.00 per share. The issue price of each Series F share is PLN 47.90.
The new shares will be taken up by way of a private placement by:

- Grupa Azoty POLICE – 6,993,048 shares,
- the Parent – 6,201,383 shares.

On March 18th 2020, the Parent's Management Board passed a resolution to acquire 6,201,383 shares in Grupa Azoty POLYOLEFINS as part of the issue of Series F shares, for the issue price of PLN 47.90 per share (total amount of PLN 297,046,245.70). In order to implement the resolution, the Management Board will request the Supervisory Board to grant consent for the above actions. It is currently assumed that the new shares will be purchased in the second quarter 2020.

## 1.3. Management and Supervisory Boards of the Parent

**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.

After December 31st 2019 and until the date of these consolidated financial statements, there were no changes in the composition of the Management Board, the Supervisory Board and the committees of the Supervisory Board.

# 2. Significant accounting policies

## 2.1. Changes in applied accounting policies

The accounting policies applied to prepare these financial statements are consistent with those applied to draw up the Group'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, as well as the changes described in Notes 2.1. b and c.

### a) Implementation of IFRS 16 *Leases*

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

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

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

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

**Effect on the Group's accounting – the Group as a lessee**

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

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

- for perpetual usufruct rights to land – based on the yield on 30-year treasury bonds plus an appropriate margin;

(all amounts in PLN '000 unless indicated otherwise)

- 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)** | 420,469 |
| Future minimum lease payments under perpetual usufruct rights to land as at Dec 31 2018, not included above | 528,702 |
| 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 | 17,913 |
| **Total all future lease payments as at Dec 31 2018** | **967,084** |
| Exemptions from recognition requirements under IFRS 16 – short-term leases (-) | (19,098) |
| Exemption from recognition requirements under IFRS 16 – low-value leases (-) | (405) |
| Change due to change in charges for perpetual usufruct rights to land | 21,345 |
| Other (-/+) | 1,501 |
| **Future lease payments under operating leases recognised in accordance with IFRS 16 as at Jan 1 2019** | **970,427** |
| Discount | (544,258) |
| **Additional lease liabilities recognised as at Jan 1 2019** | **426,169** |
| Finance lease liabilities under IAS 17 as at Dec 31 2018 | 25,672 |
| **Lease liabilities as at Jan 1 2019, including** | **451,841** |
| *Liabilities on assets held for sale* | *11,887* |

The effect of the implementation of IFRS 16 on the Group's equity and liabilities is presented below:

| | Dec 31 2018 | Presentation change | Dec 31 2018 restated |
|---|---|---|---|
| **Liabilities** | | | |
| Lease liabilities | - | 16 806 | 16,806 |
| Other financial liabilities | 38,736 | (16 806) | 21,930 |
| Other non-current liabilities | 3,518,040 | - | 3,518,040 |
| **Total non-current liabilities** | **3,556,776** | **-** | **3,556,776** |
| Lease liabilities | - | 8 866 | 8,866 |
| Other financial liabilities | 198,138 | (8 866) | 189,272 |
| Other current liabilities | 3 077,329 | - | 3,077,329 |
| **Total current liabilities** | **3,275,467** | **-** | **3,275,467** |
| **Total liabilities** | **6,832,243** | **-** | **6,832,243** |
| **Total equity and liabilities** | **14,160,469** | **-** | **14,160,469** |

(all amounts in PLN '000 unless indicated otherwise)

The effect of the implementation of IFRS 16 on the Group's assets, equity and liabilties is presented below:

| | Dec 31 2018* | Impact of change | Jan 1 2019 |
|---|---|---|---|
| **Non-current assets, including:** | | | |
| Property, plant and equipment | 7,665,639 | (18,614) | 7,647,025 |
| Perpetual usufruct of land | 470,178 | (470,178) | - |
| Right-of-use assets | - | 903,235 | 903,235 |
| Other financial assets | 1,750,624 | - | 1,750,624 |
| **Total non-current assets** | **9,886,441** | **414,443** | **10,300,884** |
| Assets held for sale | 9,050 | 11,726 | 20,776 |
| Other current assets | **4,264,978** | **-** | **4,264,978** |
| **Total current assets** | **4,274,028** | **11,726** | **4,285,754** |
| **Total assets** | **14,160,469** | **426,169** | **14,586,638** |

| | | | |
|---|---|---|---|
| **Liabilities** | | | |
| Lease liabilities | 16,806 | 371,306 | 388,112 |
| Other financial liabilities | 21,930 | - | 21,930 |
| Other non-current liabilities | 3,518,040 | - | 3,518,040 |
| **Total non-current liabilities** | **3,556,776** | **371,306** | **3,928,082** |
| Lease liabilities | 8,866 | 42,976 | 51,842 |
| Other financial liabilities | 189,272 | - | 189,272 |
| Liabilities directly associated with assets available for sale | - | 11,887 | 11,887 |
| Other current liabilities | 3,077,329 | - | 3,077,329 |
| **Total current liabilities** | 3,275,467 | 54,863 | 3,330,330 |
| **Total liabilities** | **6,832,243** | **426,169** | **7,258,412** |
| **Total equity and liabilities** | **14,160,469** | **426,169** | **14,586,638** |

*Data prior to restatement due to the final account for the acquisition of COMPO EXPERT in accordance with the financial statements for 2018.

For more information on the effect of IFRS 16 on the consolidated financial statements for 2019, see Notes 2.3 and 11 in the Notes to the consolidated financial statements.

**b) Corrections of errors or comparative data presentation**

In the reporting period, no errors requiring adjustments to prior financial years were identified, and no changes were made to the presentation of items of the consolidated financial statements, except for the presentation changes described in items 2.1 a) and b).

As described in section 1.2.1 of these financial statements, in the reporting period the Group finally accounted for the acquisition of COMPO EXPERT's assets and liabilities. As a result of the fair value measurement of assets performed by independent expert appraisers, there were changes to the values determined in preliminary accounting for the acquisition as at 26th 2018 as well as to the result for the period November 26th–December 31st 2018.

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

**Adjustment 1** – recognition of the effect of final accounting for the acquisition of COMPO EXPERT.

**Adjustment 2** – conversion of new values which are the effect of final accounting for the acquisition of COMPO EXPERT.

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

(all amounts in PLN '000 unless indicated otherwise)

## Consolidated statement of profit or loss and other comprehensive income

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

(all amounts in PLN '000 unless indicated otherwise)

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

(all amounts in PLN '000 unless indicated otherwise)

## Consolidated statement of financial position

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

(all amounts in PLN '000 unless indicated otherwise)

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

(all amounts in PLN '000 unless indicated otherwise)

**Consolidated statement of cash flows**

| | for the period Jan 1 – Dec 31 2018 published | Correction 3 | for the period Jan 1 – Dec 31 2018 restated |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit before tax** | **40,400** | **153** | **40,553** |
| *Adjustments for:* | *764,441* | *(153)* | *764,288* |
| Depreciation and amortisation | 683,451 | (153) | 683,298 |
| Recognition/(reversal) of impairment losses | (30) | - | (30) |
| Loss on investing activities | 73,412 | - | 73,412 |
| Gain on disposal of financial assets | (9,486) | - | (9,486) |
| Share of profit of equity-accounted investees | (13,092) | - | (13,092) |
| Interest, foreign exchange gains or losses | 29,977 | - | 29,977 |
| Dividends | (291) | - | (291) |
| Fair value loss on financial assets at fair value | 500 | - | 500 |
| | **804,841** | **-** | **804,841** |
| Increase in trade and other receivables | (163,292) | - | (163,292) |
| Increase in inventories | (237,232) | - | (237,232) |
| Increase in trade and other payables | 405,637 | - | 405,637 |
| Increase in provisions, accruals and government grants | 150,247 | - | 150,247 |
| Other adjustments | 158,977 | - | 158,977 |
| ***Cash generated from operating activities*** | ***1,119,178*** | - | ***1,119,178*** |
| Income tax paid | (36,648) | - | (36,648) |
| **Net cash from operating activities** | **1,082,530** | **-** | **1,082,530** |
| **Net cash from investing activities** | **(1,761,460)** | **-** | **(1,761,460)** |
| **Net cash from financing activities** | **433,450** | **-** | **433,450** |
| **Total net cash flows** | **(245,480)** | **-** | **(245,480)** |
| **Cash and cash equivalents at beginning of period** | **1,085,885** | **-** | **1,085,885** |
| Effect of exchange rate fluctuations on cash held | 6,127 | **-** | 6,127 |
| **Cash and cash equivalents at end of period** | **846,532** | **-** | **846,532** |

**c) Change in presentation of reverse factoring in the statement of cash flows**

| | for the period Jan 1 – Dec 31 2018 restated | Presentation changes | for the period Jan 1 – Dec 31 2018 restated |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit before tax** | **40,553** | **-** | **40,553** |
| *Adjustments for:* | *764,288* | - | *764,228* |
| Depreciation and amortisation | 683,298 | - | 683,298 |
| Recognition/(reversal) of impairment losses | (30) | - | (30) |
| Loss on investing activities | 73,412 | - | 73,412 |
| Gain on disposal of financial assets | (9,486) | - | (9,486) |

(all amounts in PLN '000 unless indicated otherwise)

| | | | |
|---|---|---|---|
| Share of profit of equity-accounted investees | (13,092) | - | (13,092) |
| Interest, foreign exchange gains or losses | 29,977 | - | 29,977 |
| Dividends | (291) | - | (291) |
| Fair value loss on financial assets at fair value | 500 | - | 500 |
| | **804,841** | **-** | **804,841** |
| Increase in trade and other receivables | (163,292) | - | (163,292) |
| Increase in inventories | (237,232) | - | (237,232) |
| Increase in trade and other payables | 405,637 | 132,833 | 538,470 |
| Increase in provisions, accruals and government grants | 150,247 | - | 150,247 |
| Other adjustments | 158,977 | (132,833) | 26,144 |
| ***Cash generated from operating activities*** | ***1,119,178*** | - | ***1,119,178*** |
| Income tax paid | (36,648) | - | (36,648) |
| **Net cash from operating activities** | **1,082,530** | **-** | **1,082,530** |
| **Net cash from investing activities** | **(1,761,460)** | **-** | **(1,761,460)** |
| **Net cash from financing activities** | **433,450** | **-** | **433,450** |
| **Total net cash flows** | **(245,480)** | **-** | **(245,480)** |
| **Cash and cash equivalents at beginning of period** | **1,085,885** | **-** | **1,085,885** |
| Effect of exchange rate fluctuations on cash held | 6,127 | - | 6,127 |
| **Cash and cash equivalents at end of period** | **846,532** | **-** | **846,532** |

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.

### d) Other changes in International Financial Reporting Standards

The amendments to the IFRSs presented below have been applied in these financial statements as of their effective dates, however, they had no material effect on the disclosed financial information or they did not apply to the executed transactions:

- 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;

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

The standards and interpretations which have been issued but are not yet effective as they have not been endorsed by the EU or have been endorsed but the 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: *Reform of interest rate benchmarks* (published on September 26th 2019) – effective for annual periods beginning on or after January 1st 2020;
- Amendments to IAS 1 *Presentation of Financial Statements: Breakdown of current and non-current liabilities* (issued 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.

  Effective dates are the dates specified in the standards announced by the International Financial Reporting 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 the standards by the European Union.

## 2.2. Basis of accounting

These consolidated 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.

## 2.3. Functional currency and presentation currency

These consolidated financial statements are presented in the Polish złoty, rounded off to the nearest thousand. The Polish zloty is the functional currency of the Group companies, except the COMPO EXPERT Group companies for which the functional currency is presented in section 2.7 of these financial statements.

## 2.4. 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 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 useful lives of property, plant and equipment, perpetual 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 recoverable amounts of goodwill and intangible assets with indefinite useful lives are presented in Note 13.1,
- estimates concerning the impairment of intangible assets related to the exploration for and evaluation of mineral deposits are presented in Note 13,
- 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 Note 26,
- estimates of recognised provisions for liabilities are presented in Note 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 of tax settlements 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 Group recognises and measures current and deferred tax assets and liabilities in accordance with the requirements of IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments* based on a tax base determined in accordance with the relevant tax regulations, taking into account tax loss offsetting and the use of tax credits, if the relevant circumstances exist, using the applicable tax rates, and taking into account the assessment of uncertainties related to the tax settlements of individual companies of the Group.

The Group companies are aware of the obligations to report MDR tax schedules under the Tax Law of August 29th 1997.

With the exception of COMPO EXPERT Holding GmbH, COMPO EXPERT International GmbH and COMPO EXPERT GmbH of Münster, Germany, which constitute a tax group for the purposes of income tax settlements in Germany, the Group does not have any corporate tax groups within the meaning of the corporate income tax law.

The Group companies treat all tax settlements with special care and diligence, in particular with respect to classification of expenses as tax-deductible and with respect to deduction of VAT.

If the Group companies conclude that it is probable that a taxation authority will accept an uncertain tax treatment, the Group companies determine 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 their 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 Group companies assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information.
If the Group companies conclude it is not probable that the taxation authority will accept an uncertain tax treatment, they reflect the effect of uncertainty in the period when such determination is made. The Group companies recognise an income tax liability using either of the following methods, depending on which method they expect to better predict the resolution of the uncertainty:

- they determine the most likely amount – the single most likely amount in a range of possible outcomes; or
- they recognise the expected value – the sum of the probability-weighted amounts in a range of possible outcomes.

## 2.5. Going concern assumption

The consolidated full-year financial statements were prepared under the assumption that the Group 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 Group’s situation, see Note 36 *Information on the effects of the COVID-19 pandemic*. Having considered the circumstances described in the notes, the Parent's Management Board concludes that these maters do not indicate existence of any threat to the Parent or any of its material subsidiaries continuing as a going concern.

## 2.6. Basis of consolidation

### 2.6.1. Subsidiaries

Subsidiaries are entities controlled by the Parent or subsidiaries of the Parent. The Parent controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the subsidiary. The degree of control is assessed based on existing and potential voting rights that are exercisable or convertible as at the reporting date.
Subsidiaries are consolidated starting from the date when the Parent obtains control and cease to be consolidated when that control is lost.

### 2.6.2. Associates and joint ventures

An associate is an entity over whose financial and operating policy the Parent has significant influence but not control.
Joint ventures are arrangements under which two or more parties undertake a jointly controlled economic activity.
These consolidated financial statements disclose the Group’s share in equity-accounted associates’ aggregate profits or losses and other comprehensive income from the moment of obtaining significant influence to its loss or reclassification of an associate to assets held for sale.
Where the Group’s share in the loss of an associate exceeds the carrying amount of the investment, it is assumed that the share in aggregate profit or loss and other comprehensive income of associates is zero, and the Group recognises other losses up to the amount of contracted liabilities, if any.

### 2.6.3. Consolidation procedures

The following consolidation procedures are applied in preparing consolidated financial statements:

- elimination, as at the acquisition date, of the carrying amount of the Parent’s investment in each subsidiary and of that portion of equity of each subsidiary which represents the Parent’s interest,

- identification of non-controlling interests in the equity of subsidiaries and the profit or loss of individual subsidiaries attributable to non-controlling interests, as such profit or loss is disclosed in the consolidated financial statements for a given reporting period,
- elimination of intra-Group settlements,
- elimination of any unrealised profits on intra-Group transactions,
- elimination of unrealised losses on intra-Group transactions, but only in the absence of impairment indicators,
- elimination of income from and expenses relating to intra-Group transactions.
- elimination of the effects of other intra-Group transactions which do not affect third parties.

### 2.6.4. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which the Group obtains control of the acquiree. The Group recognises goodwill as at the acquisition date as the fair value of the payment made

- plus the recognised value of the non-controlling interest in the acquiree;
- if the business combination is achieved in stages – plus the fair value of the equity interest in the acquiree held by the Group prior to the acquisition;
- less the recognised net amount (fair value) of the identifiable assets acquired and the liabilities and contingent liabilities assumed.

Where the difference is negative, gain on a bargain purchase is recognised in the statement of profit or loss as at the acquisition date, under other income.
The fair value of the transferred payment does not include amounts related to the settlement of previously existing relationships. As a rule, such amounts are recognised in the statement of profit or loss for the current period.
Acquisition costs (other than costs of issuing debt or equity instruments) which the Group incurs in connection with a business combination are accounted for as costs of the period in which the costs are incurred, and are disclosed under administrative expenses.
Contingent consideration is recognised at fair value as at the acquisition date. If contingent consideration is classified as equity, it is not subject to remeasurement and its settlement is recognised in equity. Otherwise, subsequent changes in the fair value of contingent consideration are recognised in profit or loss for the period.

### 2.6.5. Acquisition of non-controlling interests

Acquisition of non-controlling interests is disclosed as a transaction with owners. Accordingly, no goodwill is recognised for such transaction. Adjustments to non-controlling interests are made pro-rata to the carrying amount of acquired net assets of the subsidiary.

### 2.6.6. Loss of control

Upon loss of control, the Group derecognises the subsidiary's assets and liabilities, the non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising from loss of control is recognised in the statement of profit or loss for the current period. If the Group retains any interest in the subsidiary, such interest is measured at fair value at the date of losing control of the subsidiary. Subsequently such retained interest is accounted for as an equity-accounted investee or other financial asset, depending on the level of influence retained.

## 2.7. 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 remeasurement of financial instruments measured at fair value, and qualifying cash flow hedges, which are recognised as other comprehensive income.

(all amounts in PLN '000 unless indicated otherwise)

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 |
| GBP | 4.9971 | 4.7895 |

Assets and liabilities of foreign operations, including goodwill and adjustments made upon consolidation to bring the carrying amounts to fair value as at the acquisition date, are translated at the mid rate quoted by the National Bank of Poland at the end of the reporting period. Income and expenses of foreign operations are translated at the average exchange rate quoted by the National Bank of Poland in the reporting period.
Any translation differences are recognised as other comprehensive income and presented as exchange differences on translating foreign operations. However, if the Group does not hold all the shares in a foreign operation, the proportional part of exchange differences on translating the operation is recognised under non-controlling interests. When significant influence on or control or joint control of a foreign operation is lost, accumulated translation differences are recognised in gain or loss on the sale of that operation. If the Group only partially disinvests from a foreign operation but retains control of the entity, the relevant portion of accumulated value is recognised as non-controlling interest.

The functional currencies of companies of the COMPO EXPERT Group, acquired in November 2018, are presented in the table below. The exchange rates are in relation to the euro.

| Country of currency | Currency | Average exchange rate | Dec 31 2019 |
|---|---|---|---|
| Argentina | *ARS* | 53.7721 | 67.2749 |
| Brazil | *BRL* | 4.4121 | 4.5041 |
| Chile | *CLP* | 786.0401 | 832.3500 |
| United Kingdom | *GBP* | 0.8771 | 0.8505 |
| Mexico | *MXN* | 21.5520 | 21.2202 |
| South Africa | *ZAR* | 16.1620 | 15.7453 |
| Turkey | *TRY* | 6.3549 | 6.6688 |
| China | *CNY* | 7.7314 | 7.8130 |
| India | *INR* | 78.7220 | 79.8526 |
| Malaysia | *MYR* | 4.6354 | 4.5808 |
| United States of America | *USD* | 1.1196 | 1.1178 |

Financial data of the COMPO EXPERT Group companies have been translated into the euro at the exchange rates given in the table above, applied for IFRS reporting purposes in Germany, and then translated into PLN using the applicable exchange rates quoted by the National Bank of Poland.

# 3. Notes to the consolidated financial statements

## Business segment reporting

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

The Group identifies the following operating segments:
- Agro Fertilizers
- Plastics
- Chemicals,
- 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 Group's operating segments has been combined with another segment to create reportable segments.
The Group 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 Group's financing (including finance costs and finance income) and income tax are monitored at the level of the Group 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 Group identifies the following geographical areas:
- Poland
- Germany
- Other EU countries
- Asia
- South America
- Other countries

### Operating segments

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

Operations of the Company's reportable segments:
- Agro Fertilizers segment comprises the manufacturing and marketing of the following products:
    - Speciality (fertilizing/fertilizer) products (liquid fertilizers for foliar feeding and fertigation, biostimulants, SRF and CRF fertilizers for precise fertilization, dedicated NPK fertilizers),
    - Compound fertilizers (NPK: Polifoski® and Amofoski®; NP: DAP; PK),
    - Nitrogen fertilizers with sulfur (solid: ammonium sulfate, ammonium sulfonitrite, urea-ammonium sulfate, calcium nitrate with sulfur; liquid: liquid: UAN- urea-ammonium nitrate solution, urea solution and ammonium sulfate solution,
    - Nitrogen fertilizers,
    - ammonia,
    - Technical-grade and concentrated nitric acid,
    - Industrial gases;
- Plastics segment comprises the manufacturing and marketing of the following products:
    - Caprolactam (an intermediate product used to manufacture polyamide 6 (PA6),
    - Natural engineering plastics (PA 6, POM – polyacetal),
    - Modified plastics (PA 6, PA66, POM, PPC – polypropylene, PPH, PBT– polybutylene terephthalate),
    - Plastic products (PA pipes, PE pipes, polyamide casings);
- Chemicals segment comprises the manufacturing and marketing of the following products:

  - Melamine,
  - OXO products (OXO alcohols, plasticizers),
  - Sulfur,
  - Titanium white,
  - Iron sulfate,
  - Solutions based on urea and ammonia;
- Energy segment includes the production of energy carriers (electricity, heat, water, process and instrument air, nitrogen) for the purposes of chemical units and, to a lesser extent, for resale (mainly of electricity) to external customers. As part of its operations, the segment also purchases and distributes natural gas for process needs;
- Other Activities segment comprises the remaining activities:
  - Research and Development Centre
  - Laboratory services,
  - Catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts),
  - property rental, and
  - other activities not allocated to any of the segments specified above.

None of those activities met the quantitative criteria to be identified as a reportable segment in 2019 and 2018.
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.

The internal management reports of each segment are reviewed by the Management Board on a monthly basis.

In 2019, for its internal purposes, the Group prepared and used management information focusing on the following management segments:
- Nitrogen fertilizers
- Compound fertilizers
- Plastics
- OXO products
- Melamine
- Pigments
- Chemicals
- Minerals extraction
- Energy
- Other

This structure reflects business areas managed from the perspective of the Group's principal companies. The areas were identified based on the key core business areas which make it possible – through diversification of the product portfolio − to mitigate market and economic cycle risks, thus maximising profits and cash flows. The division was made based on the following parameters:
- Target market (B2B or B2C segments), including with respect to industries and, ultimately, customers,
- Nature of the product and its final use (consumption or further processing),
- Nature of the manufacturing process and production lines, including extension of the value chain.

For the purposes of reportable segments, the Group has aggregated the operating segments based on the following business and formal rationale.

**Business rationale (sales- and production-related)**

- Agro Fertilizers: aggregation of nitrogen fertilizers and compound fertilizers as well as the mineral extraction area (phosphate rock). Rationale:
  - Common sales policy (pricing, marketing) dedicated to the markets for products based on nitrogen (N), sulfur (S), phosphorus (P), potassium chloride (K) and their mixtures,
  - Management of Group-wide manufacturing process taking into account the use of key intermediate products (ammonia/urea),
- Plastics: end-to-end use of the Benzene/Phenol – Caprolactam – Polyamide value chain of individual Group companies,
- Chemicals: aggregation of the melamine, chemicals, pigments, OXO, minerals extraction (sulfur) areas as intermediate products used in a broad range of applications in the chemical sector for their further processing into finished products,
- Energy: similar nature of the manufacturing process, the product and its use at individual Group companies.

**Formal rationale (IFRS 8 guidelines)**

- Chemicals: aggregation of the chemical operations: melamine, chemicals, pigments, OXO, mineral extraction (sulfur), partly because none of the segments separately meets the quantitative thresholds set out in IFRS 8,
- Energy: as a support segment with significant quantitative parameters.

**Other rationale:**

- Other Activities, supporting the core business and/or focusing on non-core business areas.

(all amounts in PLN '000 unless indicated otherwise)

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

| *Continuing operations* | Agro Fertilizers | Plastics | Chemicals | Energy | Other | Total |
|---|---|---|---|---|---|---|
| External revenue | 6,715,745 | 1,456,487 | 2,638,885 | 273,660 | 223,138 | 11,307,915 |
| Intersegment revenue | 2,085,199 | 355,886 | 855,830 | 2,711,057 | 914,744 | 6,922,716 |
| Total revenue | **8,800,944** | **1,812,373** | **3,494,715** | **2,984,717** | **1,137,882** | **18,230,631** |
| Operating expenses, including: (-) | **(8,161,592)** | **(1,809,394)** | **(3,373,951)** | **(2,997,607)** | **(1,203,040)** | **(17,545,584)** |
| *selling and distribution expenses (-)* | *(669,462)* | *(65,183)* | *(166,149)* | *(372)* | *(1,029)* | *(902,195)* |
| *administrative expenses (-)* | *(395,960)* | *(145,182)* | *(189,294)* | *(19,648)* | *(136,650)* | *(886,734)* |
| Other income | 14,100 | - | 5,166 | 19,142 | 27,110 | 65,518 |
| Other expenses (-) | (13,383) | (3,612) | (32,639) | (17,259) | (70,848) | (137,741) |
| **Segment's EBIT** | **640,069** | **(633)** | **93,291** | **(11,007)** | **(108,896)** | **612,824** |
| Finance income | - | - | - | - | - | 29,407 |
| Finance costs (-) | - | - | - | - | - | (96,265) |
| Share of profit of equity-accounted investees | - | - | - | - | - | 12,493 |
| **Profit before tax** | **-** | **-** | **-** | **-** | **-** | **558,459** |
| Income tax | - | - | - | - | - | (150,786) |
| **Net profit/(loss)** | **-** | **-** | **-** | **-** | **-** | **407,673** |
| EBIT* | 640,069 | (633) | 93,291 | (11,007) | (108,896) | 612,824 |
| Depreciation and amortisation | 324,621 | 66,947 | 114,471 | 113,270 | 108,341 | 727,650 |
| Unallocated depreciation and amortisation | - | - | - | - | - | 83,636 |
| **EBITDA**** | **964,690** | **66,314** | **207,762** | **102,263** | **(555)** | **1,424,110** |

* EBIT is calculated as operating profit/(loss) as disclosed in the statement of profit or loss, adjusted for gain on a bargain purchase.
** EBITDA is calculated as operating profit/(loss) before depreciation and amortisation, adjusted for gain on a bargain purchase.

(all amounts in PLN '000 unless indicated otherwise)

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

| *Continuing operations* | Agro Fertilizers | Plastics | Chemicals | Energy | Other | Total |
|---|---|---|---|---|---|---|
| External revenue | 4,904,051 | 1,561,648 | 3,113,955 | 252,977 | 166,336 | 9,998,967 |
| Intersegment revenue | 2,592,555 | 375,785 | 989,220 | 3,006,121 | 976,322 | 7,940,003 |
| Total revenue | **7,496,606** | **1,937,433** | **4,103,175** | **3,259,098** | **1,142,658** | **17,938,970** |
| Operating expenses, including: (-) | (7,618,203) | (1,803,608) | (3,920,531) | (3,280,972) | (1,193,930) | (17,817,244) |
| *selling and distribution expenses (-)* | *(407,791)* | *(62,514)* | *(187,893)* | *(291)* | *(113)* | *(658,602)* |
| *administrative expenses (-)* | *(343,413)* | *(126,543)* | *(192,078)* | *(17,387)* | *(132,947)* | *(812,368)* |
| Other income | 7,186 | 3,718 | 3,182 | 11,836 | 23,682 | 49,604 |
| Other expenses (-) | (19,226) | (3,651) | (17,364) | (8,874) | (41,071) | (90,186) |
| **Segment's EBIT** | **(133,637)** | **133,892** | **168,462** | **(18,912)** | **(68,661)** | **81,144** |
| Finance income | - | - | - | - | - | 55,057 |
| Finance costs (-) | - | - | - | - | - | (108,740) |
| Share of profit of equity-accounted investees | - | - | - | - | - | 13,092 |
| **Profit before tax** | **-** | **-** | **-** | **-** | **-** | **40,553** |
| Income tax | - | - | - | - | - | (32,793) |
| **Net profit** | **-** | **-** | **-** | **-** | **-** | **7,760** |
| EBIT** | (133,637) | 133,892 | 168,462 | (18,912) | (68,661) | 81,144 |
| Depreciation and amortisation | 215,908 | 58,369 | 113,765 | 112,913 | 93,322 | 594,277 |
| Unallocated depreciation and amortisation | - | - | - | - | - | 89,021 |
| **EBITDA*** ** | **82,271** | **192,261** | **282,227** | **94,001** | **24,661** | **764,442** |

** See section 2.1. b

** EBIT is calculated as operating profit/(loss) as disclosed in the statement of profit or loss, adjusted for gain on a bargain purchase.
*** EBITDA is calculated as operating profit/(loss) before depreciation and amortisation, adjusted for gain on a bargain purchase.

Revenues from intersegment transactions are eliminated. Segments' operating profit excludes finance income of PLN 29,407 thousand (2018: PLN 55,057 thousand) and finance costs of PLN (96,265) thousand (2018: PLN (108,740) thousand).

(all amounts in PLN '000 unless indicated otherwise)

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

| | Agro Fertilizers | Plastics | Chemicals | Energy | Other | Total |
|---|---|---|---|---|---|---|
| Segment's assets | 6,477,774 | 1,414,573 | 1,524,812 | 1,855,654 | 1,945,846 | 13,218,659 |
| Unallocated assets | - | - | - | - | - | 2,171,123 |
| Investments in associates | - | - | - | - | - | 88,909 |
| **Total assets** | **6,477,774** | **1,414,573** | **1,524,812** | **1,855,654** | **1,945,846** | **15,478,691** |
| Segment's liabilities | 2,589,279 | 332,759 | 333,591 | 793,075 | 758,895 | 4,807,599 |
| Unallocated liabilities | - | - | - | - | - | 2,977,145 |
| **Total liabilities** | **2,589,279** | **332,759** | **333,591** | **793,075** | **758,895** | **7,784,744** |

The increase in the segment's assets is attributable to an increase in the Group's capital expenditure on POLYOLEFINS and the implementation of IFRS 16.

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

| | Agro Fertilizers | Plastics | Chemicals | Energy | Other | Total |
|---|---|---|---|---|---|---|
| Segment's assets | 5,874,469 | 1,286,042 | 1,620,134 | 1,873,204 | 1,344,933 | 11,998,782 |
| Unallocated assets | - | - | - | - | - | 2,177,734 |
| Investments in associates | - | - | - | - | - | 89,496 |
| **Total assets** | **5,874,469** | **1,286,042** | **1,620,134** | **1,873,204** | **1,344,933** | **14,266,012** |
| Segment's liabilities | 2,212,290 | 239,834 | 258,229 | 806,055 | 388,871 | 3,905,279 |
| Unallocated liabilities | - | - | - | - | - | 3,032,774 |
| **Total liabilities** | **2,212,290** | **239,834** | **258,229** | **806,055** | **388,871** | **6,938,053** |

** See section 2.1. b

Segment assets do not include, among others:
- deferred tax assets of PLN 97,074 thousand (2018: PLN 75,579 thousand),
- shares of PLN 9,198 thousand (2018: PLN 9,113 thousand),
- measurement of currency derivatives of PLN 5,918 thousand (2018: PLN 2,017 thousand),
- current tax assets of PLN 26,973 thousand (2018: PLN 67,217 thousand),
- cash and cash equivalents of PLN 770,087 thousand (2018: PLN 846,532 thousand),
- other financial assets, i.e. deposits maturing in more than three months and loans of PLN 177,130 thousand (2018: PLN 17,438 thousand),
- goodwill of PLN 32,468 thousand (2018: PLN 32,468 thousand) because these assets are managed at the Group level.

(all amounts in PLN '000 unless indicated otherwise)

Segment liabilities do not include such items as current tax liabilities of PLN 44,672 thousand (2018: PLN 18,178 thousand), deferred tax liability of PLN 461,124 thousand (2018: PLN 448,600 thousand), liabilities under borrowings not used to finance investments in individual segments, of PLN 2,414,925 thousand (2018: PLN 2,539,959 thousand) as these liabilities are managed at the Group level.

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

| | Agro Fertilizers | Plastics | Chemicals | Energy | Other | Total |
|---|---|---|---|---|---|---|
| Expenditure on property, plant and equipment | 507,496 | 147,895 | 104,670 | 118,717 | 125,782 | 1,004,560 |
| Expenditure on investment property | - | - | - | - | 189 | 189 |
| Expenditure on intangible assets | 4,173 | 392 | 513 | 31 | 31,329 | 36,438 |
| Unallocated expenditure | - | - | - | - | - | 64,196 |
| **Total expenditure** | **511,669** | **148,287** | **105,183** | **118,748** | **157,300** | **1,105,383** |
| Segment's depreciation and amortisation | 324,621 | 66,947 | 114,471 | 113,270 | 108,341 | 727,650 |
| Unallocated depreciation and amortisation | - | - | - | - | - | 83,636 |
| **Total depreciation and amortisation** | **324,621** | **66,947** | **114,471** | **113,270** | **108,341** | **811,286** |

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

| | Agro Fertilizers | Plastics | Chemicals | Energy | Other | Total |
|---|---|---|---|---|---|---|
| Expenditure on property, plant and equipment | 538,183 | 87,098 | 123,772 | 112,706 | 145,889 | 1,007,648 |
| Expenditure on investment property | - | - | - | - | 286 | 286 |
| Expenditure on intangible assets | 267 | 52 | 422 | 370 | 19,852 | 20,963 |
| Unallocated expenditure | - | - | - | - | - | 64,859 |
| **Total expenditure** | **538,450** | **87,150** | **124,194** | **113,076** | **166,027** | **1,093,756** |
| Segment's depreciation and amortisation | 215,908 | 58,369 | 113,765 | 112,913 | 93,322 | 594,277 |
| Unallocated depreciation and amortisation | - | - | - | - | - | 89,021 |
| **Total depreciation and amortisation** | **215,908** | **58,369** | **113,765** | **112,913** | **93,322** | **683,298** |

** See section 2.1. b

(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 | 5,648,624 | 5,338,095 |
| Germany | 888,091 | 890,099 |
| Other EU countries | 3,128,981 | 2,737,049 |
| Asia | 391,181 | 233,775 |
| South America | 323,014 | 137,892 |
| Other countries | 928,024 | 662,057 |
| **Total** | 11,307,915 | **9,998,967** |

No single customer accounted for more than 10% of revenue in 2019 and 2018.

**Non-current assets**

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Poland | 9,920,301 | 9,178,611 |
| Germany | 480,617 | 398,861 |
| Spain | 34,247 | 30,964 |
| Belgium | 11,238 | 11,683 |
| Other | 2,687 | 2,969 |
| | 10,449,090 | **9,623,088** |

The non-current assets include property, plant and equipment, intangible assets, right-to-use assets, investment property, goodwill, shares, equity-accounted investments, and other assets.

## Note 1 Revenue from contracts with customers

***Accounting policy***

*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 Group 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.*

***Identifying the contract***

***Revenue from sale of products, services, merchandise and materials***

*The key categories of products, services, merchandise and materials sold by the Group are listed in the Operating segments section.*

*Revenue from sale of products, services, merchandise and materials is recognised in accordance with IFRS 15 Revenue from Contracts with Customers 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 Group 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 Group identifies the transport service or the transport and insurance service as a separate performance obligation towards a customer after passing control of the good / product to the customer. Revenue from sale of services is recognised at a specific point in time when the performance of the service is completed.*

*When recognising revenue, the Group takes into account specific issues, such as: determination whether the Group 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 Group enters into comprehensive contracts with customers for sale of electricity (supplied by third parties) and electricity distribution services provided over its own network. The Group 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, and for the distribution service, which is recognised under revenue from sale of products and services.*
*The Group also enters into comprehensive contracts with customers for the sale of electricity and electricity distribution services, where the Group purchases high-voltage electricity and sells it after conversion over medium and low-voltage grids. Also in this case the Group believes that under such contracts, which contain two performance obligations, the Group acts as the principal, and recognises both the sale of electricity and the distribution service under revenue from sale of products and services.*
*In the case of electricity sale contracts, the payment terms average 17 days.*

***Revenue recognised over time, including revenue from construction contracts***
*Construction recognised over time executed by the Group are contracts with customers providing for the construction of an asset or a group of interrelated assets. Such contract include in particular turn-key construction contracts, maintenance contracts, upgrade and redevelopment contracts. Revenue from construction contracts is recognised in a manner that reflects transfer of control to the customer. In particular, any variable consideration component (e.g. contractual penalty, discount, claim) is recognised by the Group in an amount which is highly probable not to be reversed and which can be reliably measured.*
*For each construction contract the Group assesses whether revenue from such contracts is to be recognised over a period of time or at a point in time; but in the case of most of its construction contracts, the Group recognises revenue over the period of time during which contractual work is performed. For construction contracts in the case of which revenue is recognised over a period of time, the Group selects a method to measure progress in satisfying the performance obligation which faithfully depicts (represents) the Group's performance in transferring control of the goods or services promised to the customer under the contract. Methods usually used by the Group which meet the objective described in the previous sentence include:*

- *an input method in which the percentage of completion is determined as the proportion that contract costs incurred for work performed to date bear to the estimated (budgeted) total costs required to complete the contract;*
- *an output method in which the progress towards completion is measured based on surveys of performance completed to date.*

*If the Group is not able to reasonably measure the outcome of a performance obligation, but expects to recover the costs incurred in satisfying the performance obligation, the Group recognises revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation (i.e. using the zero profit margin method).*

*The Group presents:*

- *an excess of revenue accrued based on progress towards completion (using an appropriate method) over invoiced receivables – as assets in the statement of financial position, under trade and other receivables;*
- *an excess of invoiced receivables over revenue accrued based on progress towards completion (using an appropriate method) – as liabilities in the statement of financial position, under trade and other payables.*

*In the case of construction contracts, the payment terms are usually 30 days. Under a construction contract the customer may retain a specified percentage of payments, however, the purpose of such retention is to secure proper performance of the contract by the Group, which means the absence of a significant financing component. Under construction contracts, the Group provides to its customers performance bonds, for which it creates a provision in accordance with IAS 37.*

***Contract costs***

***Incremental costs of obtaining a contract***

*The Group incurs incremental costs of obtaining a contract, i.e. costs it would not have incurred if the contract had not been obtained. The incremental costs of obtaining a contract are recognised by the Group as an asset in trade and other receivables if the Group expects to recover those costs. As a practical expedient, the Group recognises incremental costs to obtain a contract as an expense when they are incurred if the amortisation period of the asset that the Group 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 Group can specifically identify;*
- *the costs generate or enhance resources of the Group 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*,
- liabilities – Note 27 *Trade and other payables*.

(all amounts in PLN '000 unless indicated otherwise)

*For the period Jan 1 - Dec 31 2019*

| | Agro Fertilizers | Plastics | Chemicals | Energy | Other | Total |
|---|---|---|---|---|---|---|
| ***Main product lines*** | | | | | | |
| Revenue from sale of products and services | 6,575,799 | 1,454,732 | 2,598,119 | 220,712 | 198,892 | 11,048,254 |
| Revenue from sale of merchandise and materials | 136,887 | - | 40,766 | 46,981 | 24,246 | 248,880 |
| Revenue from sale of property rights | - | 1,755 | - | 5,967 | - | 7,722 |
| Revenue from sale of licences | 3,059 | - | - | - | - | 3,059 |
| **Total** | **6,715,745** | **1,456,487** | **2,638,885** | **273,660** | **223,138** | **11,307,915** |
| ***Geographical regions*** | | | | | | |
| Poland | 3,915,162 | 179,529 | 1,114,540 | 273,660 | 165,733 | 5,648,624 |
| Germany | 433,171 | 185,742 | 266,591 | - | 2,587 | 888,091 |
| Other EU countries | 1,319,081 | 773,038 | 993,166 | - | 43,696 | 3,128,981 |
| Asia | 201,072 | 186,651 | 569 | - | 2,889 | 391,181 |
| South America | 295,801 | 19,785 | 7,428 | - | - | 323,014 |
| Other countries | 551,458 | 111,742 | 256,591 | - | 8,233 | 928,024 |
| **Total** | **6,715,745** | **1,456,487** | **2,638,885** | **273,660** | **223,138** | **11,307,915** |
| ***Customer type*** | | | | | | |
| Legal persons | 6,691,731 | 1,456,487 | 2,638,716 | 272,994 | 216,597 | 11,276,525 |
| Individuals | 24,014 | - | 169 | 666 | 6,541 | 31,390 |
| **Total** | **6,715,745** | **1,456,487** | **2,638,885** | **273,660** | **223,138** | **11,307,915** |
| ***Agreement type*** | | | | | | |
| Fixed-price contracts | 1,700,129 | 1,451,156 | 507,507 | 138,381 | 96,921 | 3,894,094 |
| Time-and-materials contracts | 946,770 | - | 702,615 | 126,704 | 77,061 | 1,853,150 |
| Other | 4,068,846 | 5,331 | 1,428,763 | 8,575 | 49,156 | 5,560,671 |
| **Total** | **6,715,745** | **1,456,487** | **2,638,885** | **273,660** | **223,138** | **11,307,915** |
| ***Customer relations*** | | | | | | |
| Long-term | 2,303,437 | 670,462 | 886,370 | 220,452 | 62,771 | 4,143,492 |
| Short-term | 4,412,308 | 786,025 | 1,752,515 | 53,208 | 160,367 | 7,164,423 |
| **Total** | **6,715,745** | **1,456,487** | **2,638,885** | **273,660** | **223,138** | **11,307,915** |
| ***Revenue recognition timing*** | | | | | | |
| Revenue recognised at a point in time | 6,715,745 | 1,456,487 | 2,638,885 | 273,660 | 130,617 | 11,215,394 |
| Revenue recognised over time | - | - | - | - | 92,521 | 92,521 |
| **Total** | **6,715,745** | **1,456,487** | **2,638,885** | **273,660** | **223,138** | **11,307,915** |
| ***Sale channels*** | | | | | | |
| Direct sales | 2,661,996 | 1,116,247 | 2,393,999 | 272,435 | 222,742 | 6,667,419 |
| Intermediated sales | 4,053,749 | 340,240 | 244,886 | 1,225 | 396 | 4,640,496 |
| **Total** | **6,715,745** | **1,456,487** | **2,638,885** | **273,660** | **223,138** | **11,307,915** |

(all amounts in PLN '000 unless indicated otherwise)

### *For the period Jan 1 - Dec 31 2018*

| | Agro Fertilizers | Plastics | Chemicals | Energy | Other | Total |
|---|---|---|---|---|---|---|
| ***Main product lines*** | | | | | | |
| Revenue from sale of products and services | 4,759,444 | 1,561,648 | 3,082,815 | 169,711 | 141,264 | 9,714,882 |
| Revenue from sale of merchandise and materials | 144,547 | - | 30,842 | 75,435 | 23,540 | 274,364 |
| Revenue from sale of property rights | 60 | - | 298 | 7,831 | 1,532 | 9,721 |
| **Total** | **4,904,051** | **1,561,648** | **3,113,955** | **252,977** | **166,336** | **9,998,967** |
| ***Geographical regions*** | | | | | | |
| Poland | 3,553,641 | 185,394 | 1,190,537 | 252,975 | 155,548 | 5,338,095 |
| Germany | 301,897 | 217,536 | 368,910 | - | 1,756 | 890,099 |
| Other EU countries | 734,476 | 845,842 | 1,149,623 | 2 | 7,106 | 2,737,049 |
| Asia | 15,778 | 215,190 | 2,397 | - | 410 | 233,775 |
| South America | 99,877 | 14,529 | 23,486 | - | - | 137,892 |
| Other countries | 198,382 | 83,157 | 379,002 | - | 1,516 | 662,057 |
| **Total** | **4,904,051** | **1,561,648** | **3,113,955** | **252,977** | **166,336** | **9,998,967** |
| ***Customer type*** | | | | | | |
| Legal persons | 4,886,161 | 1,561,648 | 3,113,787 | 252,305 | 163,590 | 9,977,491 |
| Individuals | 17,890 | - | 168 | 672 | 2,746 | 21,476 |
| **Total** | **4,904,051** | **1,561,648** | **3,113,955** | **252,977** | **166,336** | **9,998,967** |
| ***Agreement type*** | | | | | | |
| Fixed-price contracts | 1,639,927 | 1,117,188 | 558,561 | 120,038 | 65,992 | 3,501,706 |
| Time-and-materials contracts | 878,515 | - | 947,076 | 98,364 | 55,691 | 1,979,646 |
| Other | 2,385,609 | 444,460 | 1,608,318 | 34,575 | 44,653 | 4,517,615 |
| **Total** | **4,904,051** | **1,561,648** | **3,113,955** | **252,977** | **166,336** | **9,998,967** |
| ***Customer relations*** | | | | | | |
| Long-term | 1,495,403 | 47,417 | 790,063 | 140,469 | 66,960 | 2,540,312 |
| Short-term | 3,408,648 | 1,514,231 | 2,323,892 | 112,508 | 99,376 | 7,458,655 |
| **Total** | **4,904,051** | **1,561,648** | **3,113,955** | **252,977** | **166,336** | **9,998,967** |
| ***Revenue recognition timing*** | | | | | | |
| Revenue recognised at a point in time | 4,904,051 | 1,561,648 | 3,113,955 | 249,921 | 77,521 | 9,907,096 |
| Revenue recognised over time | | | | 3,056 | 88,815 | 91,871 |
| **Total** | **4,904,051** | **1,561,648** | **3,113,955** | **252,977** | **166,336** | **9,998,967** |
| ***Sale channels*** | | | | | | |
| Direct sales | 3,980,057 | 1,347,662 | 3,007,640 | 238,569 | 52,055 | 8,625,983 |
| Intermediated sales | 923,994 | 213,986 | 106,315 | 14,408 | 114,281 | 1,372,984 |
| **Total** | **4,904,051** | **1,561,648** | **3,113,955** | **252,977** | **166,336** | **9,998,967** |

In 2019, the Group 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.

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.

## Note 2 Operating expenses

***Accounting policy***
***Cost of sales***
*Cost of sales includes all expenses 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.*

***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).*

***Administrative expenses***
*Administrative expenses comprise:*
- *general and administration 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).*

(all amounts in PLN '000 unless indicated otherwise)

| | *for the period Jan 1– Dec 31 2019* | *for the period Jan 1– Dec 31 2018 restated** |
|---|---|---|
| Depreciation and amortisation | 806,802 | 680,996 |
| Raw materials and consumables used | 6,155,810 | 6,122,652 |
| Services | 1,155,945 | 1,032,262 |
| Taxes and charges | 465,146 | 422,560 |
| Salaries and wages | 1,422,691 | 1,166,864 |
| Social security and other employee benefits | 372,453 | 308,789 |
| Other expenses | 167,469 | 132,449 |
| **Costs by nature of expense** | **10,546,316** | **9,866,572** |
| Change in inventories of finished goods (+/-) | (25,545) | (90,329) |
| Work performed by the entity and capitalised (-) | (120,235) | (155,519) |
| Selling and distribution expenses (-) | (902,195) | (658,602) |
| Administrative expenses (-) | (886,734) | (812,368) |
| Cost of merchandise and materials sold | 222,332 | 256,517 |
| **Cost of sales** | **8,833,939** | **8,406,271** |
| including excise duty | 4,354 | 19,091 |

** See section 2.1. b

The year-on-year increase in expenses follows in particular from consolidation of the COMPO EXPERT group's data for the entire reporting period. In 2018, the COMPO EXPERT Group's data was consolidated for the period from November 26th 2018 to the end of the year.

The other factors which contributed to the increase in expenses included:

- raw materials and consumables used – decrease in gas prices,
- services – higher costs of repair services,
- salaries and wages – higher employee benefits,
- taxes and charges – increase in prices of $CO_2$ emission allowances.

Depreciation and amortisation are presented in the following amounts 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 restated*** |
|---|---|---|
| Cost of sales | 652,620 | 566,837 |
| Selling and distribution expenses | 43,104 | 5,638 |
| Administrative expenses | 111,078 | 108,521 |
| **Total depreciation and amortisation** | **806,802** | **680,996** |

** See section 2.1. b

(all amounts in PLN '000 unless indicated otherwise)

## Note 2.1 Cost of sales

| | for the period Jan 1 - Dec 31 2019 | for the period Jan 1 - Dec 31 2018 restated* |
|---|---|---|
| Cost of products and services sold | 8,562,918 | 8,142,635 |
| Cost of merchandise and materials sold | 263,392 | 256,517 |
| Cost of property rights | 7,629 | 7,119 |
| **Total cost of sales** | **8,833,939** | **8,406,271** |

** See section 2.1. b

## 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 | 1,346,683 | 1,154,447 |
| Social security | 260,321 | 219,744 |
| Social benefits fund | 46,736 | 43,491 |
| Training | 3,875 | 4,294 |
| Change in defined benefit obligation | 17,434 | (2,248) |
| Change in long-term employee benefit obligation | 39,537 | 2,598 |
| Change in provision for accrued holiday entitlements | 11,045 | 1,321 |
| Change in provision for voluntary redundancy programme | 6,191 | 845 |
| Change in provision for annual and incentive bonuses | 2,308 | 12,416 |
| Change in other provisions for employee benefits | 14,759 | (991) |
| Other | 46,255 | 39,736 |
| | **1,795,144** | **1,475,653** |
| **Average employment** | **15,607** | **15,470** |

In the item Other, the Group recognises in particular the cost of:

- protective clothing and workwear,
- prophylactic meals,
- employee pension plan contributions,
- specialist medical examinations.

(all amounts in PLN '000 unless indicated otherwise)

## Note 2.3 Reconciliation of lease costs

| | for the period Jan 1 – Dec 31 2019 |
|---|---|
| | *unaudited* |
| Depreciation/amortisation of right-of-use assets (-) | (62,857) |
| Interest expense on lease liabilities (-) | (15,449) |
| Costs associated with short-term leases exempted from the scope of application of IFRS 16 (-) | (16,307) |
| Costs associated with leases of low value assets exempted from the scope of application of IFRS 16 (-) | (123) |
| Costs associated with variable lease payments not accounted for in the measurement of lease liabilities (-) | (215) |
| Other (+/-) | 390 |
| **Total** | **(94,561)** |

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

***Accounting policy***
*Other income includes income that has not been classified as operating income or finance income.*

| | for the period Jan 1 - Dec 31 2019 | for the period Jan 1 - Dec 31 2018 |
|---|---|---|
| Reversed impairment losses on: | | |
| Other receivables | 745 | 1,533 |
| Other | - | 6 |
| | **745** | **1,539** |
| Other income: | | |
| Income from lease of investment property | 12,703 | 18,938 |
| Provisions reversed | 15,564 | 4,763 |
| Received compensation | 11,107 | 7,213 |
| Grants | 13,851 | 13,114 |
| Other | 11,548 | 4,037 |
| | **64,773** | **48,065** |
| | **65,518** | **49,604** |

The main item of reversed provisions represents reversal of accruals for penalties expected for exceeding $SO_2$ emissions in previous years, in the amount of PLN 8,200 thousand.

(all amounts in PLN '000 unless indicated otherwise)

## Note 4Other expenses

*Accounting policy*
*Other expenses include costs that are not classified as operating expenses and finance costs.*

| | 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 | 12,841 | 6,302 |
| | **12,841** | **6,302** |
| Recognised impairment losses on: | | |
| Property, plant and equipment | 33,008 | 16,780 |
| Right-of-use assets | 12,749 | - |
| Investment property | 8,239 | 9 |
| Intangible assets | 141 | 787 |
| Other receivables | 3,458 | 949 |
| Other | | 15 |
| | **57,595** | **18,540** |
| Other expenses: | | |
| Investment property maintenance costs | 12,801 | 10,503 |
| Fines and compensations | 4,875 | 2,456 |
| Downtime costs | 2,541 | 2,821 |
| Failure recovery costs | 11,820 | 6,680 |
| Recognised provisions | 22,373 | 24,911 |
| Other expenses | 12,895 | 17,973 |
| | **67,305** | **65,344** |
| | **137,741** | **90,186** |

For details on impairment losses, see Note 10 *Property, plant and equipment*.

Investment property maintenance costs include depreciation and amortisation of investment property, which amounted to PLN 4,484 thousand in 2019 (2018: PLN 2,332 thousand).

Provisions of PLN 17,632 thousand include in particular:
- PLN 4,960 thousand provision for litigation involving Grupa Azoty KOLTAR,
- PLN 4,526 thousand provision for land remediation at the Grupa Azoty KĘDZIERZYN Group,
- PLN 3,723 thousand provision for fines for exceeding gas and particles emissions from the CHP plant at Grupa Azoty PUŁAWY.

The amount of PLN 11,820 thousand comprises in particular costs of remedying the consequences of the following technical failures:
- failure of boilers in the Fertilizers Segment at Grupa Azoty POLICE (PLN 3,765 thousand),
- failure of the SULZER turbine set in the Fertilizers Segment at the Parent (PLN 1,701 thousand),
- failure of the OP230 steam boiler in the Plastics Segment at the Parent (PLN 1,496 thousand).

The largest item under *Fines and compensations* is accrued expenses for expected penalties for exceeding $SO_2$, $NO_x$ and particulate matter emissions in the reporting period (PLN 2,665 thousand).

(all amounts in PLN '000 unless indicated otherwise)

## Note 5 Finance income

***Accounting policy***

*Finance income comprises the interest on funds invested by the Group, 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 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 Group's right to receive the dividend is established.*

| | for the period Jan 1 - Dec 31 2019 | for the period Jan 1 - Dec 31 2018 |
|---|---|---|
| Interest income: | | |
| Interest on bank deposits | 6,463 | 9,124 |
| Interest on cash pooling | 1,951 | 1,515 |
| Interest on trade receivables | 1,832 | 1,396 |
| Other interest income | 221 | 733 |
| | **10,467** | **12,768** |
| Gains on measurement of financial assets and liabilities: | | |
| Gains on measurement of financial assets at fair value through profit or loss | 3,312 | 688 |
| | **3,312** | **688** |
| Other finance income: | | |
| Foreign exchange gains | 8,597 | 36,185 |
| Discount on provisions and loans | 2,243 | 82 |
| Dividends received | 165 | 293 |
| Other finance income | 4,623 | 5,041 |
| | **15,628** | **41,601** |
| | **29,407** | **55,057** |

Foreign exchange gains of PLN 8,597 thousand (2018: PLN 36,185 thousand of foreign exchange gains) comprised:

- net realised foreign exchange gains of PLN 25,987 thousand (2018: net realised foreign exchange gains of PLN 18,269 thousand),
- net foreign exchange losses on realised transactions in currency derivatives of PLN (11,378) thousand (2018: net foreign exchange gains on realised transactions in currency derivatives of PLN 43 thousand),
- net foreign exchange gains on measurement of receivables and liabilities denominated in foreign currencies as at the reporting date of PLN 20,778 thousand (2018: net foreign exchange gains on measurement of receivables and liabilities denominated in foreign currencies as at the reporting date of PLN 4,686 thousand),
- net foreign exchange losses on measurement of other items as at the reporting date of PLN (26,790) thousand (2018: net foreign exchange gains on measurement of other items as at the reporting date of PLN 13,187 thousand).

(all amounts in PLN '000 unless indicated otherwise)

## Note 6 Finance costs

***Accounting policy***
*Finance costs comprise interest expense on borrowings, leases, unwinding of the discount on provisions, net foreign exchange losses, fair value losses on financial instruments through profit or loss 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 are recognised as an expense when incurred.*

| | for the period Jan 1 – Dec 31 2019 | for the period Jan 1 - Dec 31 2018 |
|---|---|---|
| Interest expense: | | |
| Interest on bank term and overdraft facilities | 55,840 | 33,730 |
| Interest on non-bank borrowings | 3,991 | 4,935 |
| Interest on factoring, discounting and lease liabilities | 18,833 | 2,810 |
| Other | 7,340 | 7,815 |
| | **86,004** | **49,290** |
| Loss on sale of financial investments: | | |
| Loss on sale of financial investments: | 474 | 51,468 |
| | **474** | **51,468** |
| Loss on measurement of financial assets and liabilities: | | |
| Loss on measurement of financial assets at fair value through profit or loss | - | 1,451 |
| | **-** | **1,451** |
| Other finance costs: | | |
| Unwind of discount on provisions and loans | 4,667 | 1,512 |
| Other finance costs: | 5,120 | 5,019 |
| | **9,787** | **6,531** |
| | **96,265** | **108,740** |

Other interest expense includes interest on factoring, receivables discounting, and interest on actuarial measurement of provisions for employee benefits.

## Note 7 Income tax

***Accounting policies***

*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.*

(all amounts in PLN '000 unless indicated otherwise)

*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.*

*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.*

*In accordance with IAS 12 Income taxes, the Group companies recognise a deferred tax asset for the carry forward 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 company considers the nature, origin, schedule and probability of such income.*

## 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 restated* |
|---|---|---|
| Current income tax: | | |
| Current income tax expense | 154,050 | 32,903 |
| Adjustments to current income tax for previous years | (3,663) | 2,296 |
| | **150,387** | **35,199** |
| Deferred income tax: | | |
| Deferred income tax associated with origination and reversal of temporary differences | 399 | (2,406) |
| | **399** | **(2,406)** |
| **Income tax disclosed in the statement of profit or loss** | **150,786** | **32,793** |

** See section 2.1. b

(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 restated* |
|---|---|---|
| **Profit/(loss) before tax** | **558,459** | **40,553** |
| Tax calculated at the applicable tax rate | 106,107 | 7,705 |
| Effect of tax rates in foreign jurisdictions | 5,687 | (970) |
| Effect of tax-exempt income (+/-) | (8,138) | (3,058) |
| Effect of non tax-deductible expenses and temporary differences for which no deferred tax asset is recognised (+/-) | 21,575 | 16,685 |
| Tax effect of inclusion of property, plant and equipment in operations in Special Economic Zone | 2,271 | 1,633 |
| Tax effect of tax losses deducted in the period (+/-) | (8,949) | - |
| Decrease in assets recognised on operations in Special Economic Zone at the Parent (+) | 25,894 | - |
| Recognition of state aid deductible in future periods (+/-) | (16,046) | (1,757) |
| Other (+/-) | 22,385 | 12,555 |
| **Income tax disclosed in the statement of profit or loss** | **150,786** | **32,793** |
| **Effective tax rate** | **27.00%** | **80.0%** |

** See section 2.1. b

The effective tax rate of 27.00% in 2019 results mainly from non-deductible costs which increase the tax base and  from a decrease in assets recognised on operations in the Special Economic Zone at the Parent, as described in more detail in Note 7.4.

The effective tax rate of 80.00% in 2018 was mainly a result of the low accounting profit (non-deductible expenses materially increased the tax base).

## 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 (+/-)** | **(4,995)** | **(3,633)** |
| Actuarial (losses)/gains from defined benefit plans | (4,995) | (3,633) |
| Other income | | - |
| **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** | **(4,054)** | **(6,811)** |

(all amounts in PLN '000 unless indicated otherwise)

## Note 7.4 Deferred tax assets and liabilities

| | Assets (-) | | Liabilities (+) | |
|---|---|---|---|---|
| | Dec 31 2019 | Dec 31 2018 restated* | Dec 31 2019 | Dec 31 2018 restated* |
| Property, plant and equipment | (71,614) | (91,508) | 410,463 | 407,987 |
| Perpetual usufruct of land | - | (98) | - | 84,018 |
| Right-of-use assets | (47) | - | 138,784 | - |
| Investment property | (1,616) | (1,540) | 9,203 | 7,744 |
| Intangible assets | (4,089) | (3,877) | 242,439 | 259,677 |
| Financial assets | (979) | (234) | 2,909 | 12,283 |
| Inventories and property rights | (20,138) | (13,699) | 40,771 | 25,089 |
| Trade and other receivables | (6,567) | (6,803) | 1,147 | 1,202 |
| Trade and other payables | (122,676) | (79,442) | 1,228 | 1,183 |
| Other non-current assets | (585) | (402) | 155 | 213 |
| Employee benefits | (108,919) | (94,057) | 714 | 623 |
| Provisions | (60,072) | (44,517) | 371 | 518 |
| Borrowings | (852) | (198) | 157 | 91 |
| Other financial liabilities, including leases | (53,932) | (1,089) | 3,821 | 432 |
| Measurement of hedging instruments through hedge accounting | - | - | 1,377 | 436 |
| State aid deductible in future periods | (28,286) | (73,972) | - | - |
| Tax losses | (9,114) | (13,680) | - | - |
| Other | (188) | (3,379) | 185 | 20 |
| **Deferred tax assets (-)/liabilities (+)** | **(489,674)** | **(428,495)** | **853,724** | **801,516** |
| **Offset** | **392,600** | **352,916** | **(392,600)** | **(352,916)** |
| **Deferred tax assets (-)/liabilities (+) recognised in the statement of financial position** | **(97,074)** | **(75,579)** | **461,124** | **448,600** |

** See section 2.1. b

**Parent**

In connection with a project involving construction of Polyamide Plant II, the Parent obtained a permit to operate in the Krakowski Park Technologiczny Special Economic Zone (“SEZ”). Pursuant to the terms of the permit, 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 Parent will be able to satisfy the condition concerning the staffing level.
Upon completion of the project, the Parent’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 Parent changed the estimates concerning calculation of the income tax asset relating to its operations in the special economic zone (SEZ). The change resulted from the experience gathered in accounting for operations in the SEZ, taking into account margins in setting transfer prices used for tax accounting purposes, and also from updating market and financial plans and extending the period of the tax projection for operations in the SEZ from three to five years. These factors had a partially offsetting effect, therefore the amount of tax assets related to operations in the SEZ as at June 30th 2019 was reduced by PLN 4,426 thousand relative to December 31st 2018.
As at December 31st 2019, due to the losses incurred in the Special Economic Zone in 2019 and the resulting uncertainty as to the possibility of realizing tax benefits on this account, the Parent decided to discontinue recognition of the deferred tax asset. Accordingly, the remaining asset of PLN 21,468 thousand was reversed.

**Grupa Azoty COMPOUNDING**

In connection with a project involving construction of a modified plastics plant in Tarnów, the Company obtained a licence to operate in the Krakowski Park Technologiczny Special Economic Zone. Pursuant to the terms of the licence, the Company was obliged to incur a minimum expenditure of PLN 53,540 thousand, to increase employment by 38 staff, and to maintain the headcount at least until December 31st 2021. The conditions specified in the licence were satisfied in the course of 2019 and, in line with the current plans, the Company will be able to continue satisfying the condition concerning the staffing level until December 31st 2021. As at December 31st 2019, the Company recognised assets for the benefits it may obtain from operating in the Special Economic Zone, in an amount corresponding to the expected tax savings in 2021–2024, i.e. PLN 14,506 thousand.
Upon completion of the project, the Company’s eligible capital expenditure totalled PLN 80,310 thousand, which may allow it to realise tax savings on its operations in the zone of ca. PLN 45m (net of the discount).

**Grupa Azoty PUŁAWY**

In connection with a project to launch production of solid fertilizers based on urea and ammonium sulfate, Grupa Azoty PUŁAWY obtained licence no. 134/2011 to operate in the Special Economic Zone. Pursuant to the terms of the licence, Grupa Azoty PUŁAWY was obliged to incur a minimum expenditure of PLN 68,000 thousand as well as to increase employment by 35 staff and maintain a headcount of 85 in the zone at least until June 30th 2020. The conditions specified in the licence were satisfied in the course of 2015 and, in line with current plans, Grupa Azoty PUŁAWY will be able to continue satisfying the condition concerning the staffing level until June 30th 2020. As at December 31st 2019, the Company recognised assets for the benefits it may obtain from operating in the Special Economic Zone, in an amount corresponding to the expected tax savings in the coming years, i.e. PLN 47,666 thousand.
Upon completion of the project, Grupa Azoty PUŁAWY’s eligible capital expenditure totalled PLN 102,000 thousand, which in the future may allow it to realise tax savings on its operations in the zone of ca. PLN 13,780 thousand (net of the discount, but including the amount of the exemption utilised so far).

Grupa Azoty PUŁAWY is also entitled to a corporate income tax credit, which can be used by the Company in connection with capital expenditure on the ongoing investment project to construct a production unit for ammonium nitrate-based granulated fertilizers, in the nominal amount of PLN 132,881 thousand (discounted amount: PLN 122,581 thousand). In accordance with the terms of the permit, (eligible) capital expenditure of at least PLN 310m must be incurred by December 31st 2020.

As the project was not completed by December 31st 2019, no tax assets were recognised on the project.

As at December 31st 2019, the Group recognised a deferred tax asset of PLN 9,114 thousand (December 31st 2018: PLN 13,680 thousand) for unused tax losses which, based on projections of future taxable income, the Company expected to be able to use in 2020-2024.

(all amounts in PLN '000 unless indicated otherwise)

## Note 7.5 Change in temporary differences

| | | Changes in temporary differences recognised in: (+/-) | | | | |
|---|---|---|---|---|---|---|
| | As at Jan 1 2019 | Implementation of IFRS 16 | Statement of profit or loss | Other comprehensive income | Exchange differences on translation recognised in other comprehensive income | As at Dec 31 2019 |
| Property, plant and equipment | 316,479 | | 24,012 | | (1,642) | 338,849 |
| Perpetual usufruct of land | 83,920 | (83,920) | - | - | - | - |
| Right-of-use assets | - | 83,920 | 54,819 | - | (2) | 138,737 |
| Investment property | 6,204 | - | 1,383 | - | - | 7,587 |
| Intangible assets | 255,800 | - | (14,771) | - | (2,679) | 238,350 |
| Financial assets | 12,049 | - | (10,124) | - | 5 | 1,930 |
| Inventories and property rights | 11,390 | - | 9,172 | - | 71 | 20,633 |
| Trade and other receivables | (5,601) | - | 171 | - | 10 | (5,420) |
| Trade and other payables | (78,259) | - | (43,189) | - | - | (121,448) |
| Other non-current assets | (189) | - | (118) | (126) | 3 | (430) |
| Employee benefits | (93,434) | - | (10,002) | (4,808) | 39 | (108,205) |
| Provisions | (43,999) | - | (15,754) | (55) | 107 | (59,701) |
| Borrowings | (107) | - | (588) | - | - | (695) |
| Other financial liabilities, including leases | (657) | - | (49,459) | - | 5 | (50,111) |
| Measurement of hedging instruments through hedge accounting | 436 | - | - | 941 | - | 1,377 |
| State aid deductible in future periods | (73,972) | - | 45,686 | - | - | (28,286) |
| Tax losses | (13,680) | - | 4,551 | - | 15 | (9,114) |
| Other | (3,359) | - | 3,357 | (6) | 5 | (3) |
| **Deferred tax assets (-)/liabilities (+)** | **373,021** | **-** | **(854)** | **(4,054)** | **(4,063)** | **364,050** |

(all amounts in PLN '000 unless indicated otherwise)

| | | | **Changes in temporary differences recognised in: (+/-) restated*** | | | | |
|---|---|---|---|---|---|---|---|
| | **As at Jan 1 2018** | **Adjustments for: implementation of IFRS 9 and IFRS 15** | **Statement of profit or loss** | **Other comprehensive income** | **Acquisition of companies** | **Exchange differences on translation recognised in other comprehensive income** | **As at Dec 31 2018** |
| Property, plant and equipment | 219,890 | - | 11,652 | 202 | 84,112 | 1,072 | 316,479 |
| Perpetual usufruct of land | 85,345 | - | (1,425) | - | - | - | 83,920 |
| Investment property | 6,749 | - | (545) | - | - | - | 6,204 |
| Intangible assets | 59,430 | - | (12,543) | - | 208,652 | 261 | 255,800 |
| Financial assets | 13,822 | (1,142) | (631) | - | - | - | 12,049 |
| Inventories and property rights | 2,527 | 2 | 11,209 | - | (2,342) | (6) | 11,390 |
| Trade and other receivables | (4,672) | 24 | 364 | - | (1,315) | (2) | (5,601) |
| Trade and other payables | (53,320) | 70 | (24,694) | - | (315) | | (78,259) |
| Other non-current assets | 119 | - | 175 | (11) | (471) | (1) | (189) |
| Employee benefits | (82,512) | - | (2,425) | (3,599) | (4,886) | (12) | (93,434) |
| Provisions | (34,753) | - | (2,408) | (23) | (6,800) | (15) | (43,999) |
| Borrowings | (105) | - | (2) | - | - | - | (107) |
| Other financial liabilities | 6 | (25) | (655) | - | 17 | - | (657) |
| Measurement of hedging instruments through hedge accounting | 3,614 | - | - | (3,178) | - | - | 436 |
| State aid deductible in future periods | (92,180) | - | 18,208 | - | - | - | (73,972) |
| Tax losses | (17,606) | - | 5,787 | - | (1,858) | (3) | (13,680) |
| Other | 1,651 | 591 | (4,269) | - | (1,354) | 22 | (3,359) |
| **Deferred tax assets (-)/liabilities (+)** | **108,005** | **(480)** | **(2,449)** | **(6,811)** | **273,440** | **1,316** | **373,021** |

(all amounts in PLN '000 unless indicated otherwise)

## Note 7.6 Unrecognised deferred tax assets/liabilities

The Group did not recognise deferred tax assets with respect to the following items:

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Tax losses | 6,960 | 4,175 |
| Unused tax credits, excluding SEZ | 1,222 | - |
| Temporary differences | 168 | 1,645 |
| | 8,350 | **5,820** |

As described in Note 7.4, given the limited time horizon of its tax budgets and the uncertainty related to the ability to generate taxable profit , the Group does not recognise the entire amount of some of its identifiable 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 SEZ are assumed to continue until 2026.

As at December 31st 2019, Grupa Azoty COMPOUNDING did not recognise an asset related to its activities in the SEZ of PLN 30m. Activities in the SEZ are assumed to continue until 2026.

Deferred tax assets not recognised as at December 31st 2019 mainly include deferred tax of PLN 2,210 thousand on the tax losses for 2019 of the subsidiary Grupa Azoty POLYOLEFINS and accumulated losses brought forward of PLN 3,273 thousand.

## 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 restated* |
|---|---|---|
| **Net profit** | **372,856** | **9,869** |
| 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) | 3.76 | 0.10 |
| Diluted (PLN) | 3.76 | 0.10 |

* See section 2.1. b.

## Diluted earnings per share

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

(all amounts in PLN '000 unless indicated otherwise)

## Note 10 Property, plant and equipment

***Accounting policy***

*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 Group 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.*

*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 Group. Other expenditure are recognised in the statement of profit or loss as an expense.*

*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* | *none* | - |
| *Mineral deposits* | *unit of production* | *6–72 years* |
| *Buildings and structures* | *1% - 33%* | *3–100 years* |
| *Plant and equipment* | *2% - 100%* | *1–50 years* |
| *Office equipment* | *10% - 100%* | *1–10 years* |
| *Vehicles* | *7% - 100%* | *1–7 years* |
| *Computers* | *20% - 100%* | *1–6 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.*

*The Group allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant components (if the component's value is significant compared to the total cost of the asset) and depreciates separately each such component over its useful life.*

***Impairment of non-financial assets***

*The carrying amounts of the Group'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 Group 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 Group'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.*

(all amounts in PLN '000 unless indicated otherwise)

**Net carrying amount of property, plant and equipment**

| | Land | Mineral deposits | Buildings and structures | Plant and equipment | Vehicles | Other property, plant and equipment | Property, plant and equipment under construction | Total |
|---|---|---|---|---|---|---|---|---|
| **Net carrying amount as at Dec 31 2018** | **57,453** | **14,087** | **2,598,368** | **3,707,568** | **140,731** | **136,714** | **1,102,150** | **7,757,071** |
| ***Effect of implementation of IFRS 16, including:*** | **-** | **-** | **(787)** | **(5,284)** | **(12,041)** | **(502)** | **-** | **(18,614)** |
| Transfers to right-of-use assets | *-* | *-* | *(787)* | *(5,284)* | *(12,041)* | *(502)* | *-* | *(18,614)* |
| **Net carrying amount as at Jan 1 2019** | ***57,453*** | ***14,087*** | ***2,597,581*** | ***3,702,284*** | ***128,690*** | ***136,212*** | ***1,102,150*** | ***7,738,457*** |
| ***Increase, including:*** | ***3,444*** | | ***326,558*** | ***567,440*** | ***12,430*** | ***53,544*** | ***1,083,189*** | ***2,046,605*** |
| Purchase, production, commissioning | 1,375 | - | 265,920 | 534,227 | 9,851 | 53,383 | 1,067,349 | 1,932,105 |
| Reversal and use of impairment losses | - | - | 14,709 | 29,172 | 119 | 152 | 7,595 | 51,747 |
| Reclassification from investment property | - | - | 335 | - | - | - | - | 335 |
| Increases due to reclassification to other items | 2,069 | - | - | 3,985 | 1,051 | - | - | 7,105 |
| Other increase | - | - | 45,594 | 56 | 1,409 | 9 | 8,245 | 55,313 |
| ***Decrease, including: (-)*** | ***(5,946)*** | ***(5,828)*** | ***(188,829)*** | ***(483,740)*** | ***(22,220)*** | ***(29,224)*** | ***(906,524)*** | ***(1,642,311)*** |
| Depreciation and amortisation | - | (2,151) | (151,856) | (438,795) | (19,988) | (28,403) | - | (641,193) |
| Sale, liquidation | (5) | - | (15,828) | (30,911) | (637) | (229) | (5,263) | (52,873) |
| Commissioning | - | - | | - | - | - | (876,279) | (876,279) |
| Recognition of impairment loss | (5,582) | (3,677) | (12,475) | (7,503) | (973) | (398) | (2,400) | (33,008) |
| Reclassification to investment property | - | - | (5,714) | (182) | - | - | (48) | (5,944) |
| Reclassification to non-current assets held for sale | - | - | (2) | (50) | (18) | - | - | (70) |
| Translation of exchange differences | (359) | - | (2,244) | (2,616) | (601) | (180) | (2,526) | (8,526) |
| Other decrease | - | - | (710) | (3,683) | (3) | (14) | (20,008) | (24,418) |
| **Net carrying amount as at Dec 31 2019** | **54,951** | **8,259** | **2,735,310** | **3,785,984** | **118,900** | **160,532** | **1,278,815** | **8,142,751** |

A significant portion of the item ‘use of impairment losses’ of PLN 51,747 thousand is the amount of PLN 44,387 thousand relating to physical decommissioning of the phthalic anhydride unit at Grupa Azoty KEDZIERZYN. Use of the impairment loss was recognised in profit or loss as a decrease in loss on sale of property, plant and equipment, intangible assets and investment property.

The item 'Other increase' of PLN 66,807 thousand includes estimated costs of landfill site reclamation and decommissioning and cleaning of units after they are put out of service, amounting to PLN 45,193 thousand, at Grupa Azoty POLICE. The increase in assets was attributable to an increase in liabilities under provisions for environmental protection, caused mainly by lower interest rates.

(all amounts in PLN '000 unless indicated otherwise)

| | Land | Mineral deposits | Buildings and structures | Plant and equipment | Vehicles | Other property, plant and equipment | Property, plant and equipment under construction | Total |
|---|---|---|---|---|---|---|---|---|
| **Net carrying amount as at Jan 1 2018** | **24,193** | **16,477** | **2,287,758** | **3,421,048** | **118,242** | **104,922** | **807,108** | **6,779,748** |
| ***Increase, including:*** | ***33,421*** | ***-*** | ***457,776*** | ***697,470*** | ***47,670*** | ***57,962*** | ***1,077,048*** | ***2,371,347*** |
| Purchase, production, commissioning | 86 | - | 224,095 | 456,824 | 21,732 | 49,827 | 1,066,545 | 1,819,109 |
| Lease contracts | - | - | - | 2,506 | 7,840 | 174 | - | 10,520 |
| Reversal and use of impairment losses | - | - | 724 | 2,803 | 1 | 183 | 4,757 | 8,468 |
| Reclassification from investment property | - | - | 6,968 | - | - | - | - | 6,968 |
| Merger, acquisition including: | 33,205 | - | 224,987 | 230,672 | 18,095 | 7,759 | 4,659 | 519,377 |
| *increase due to acquisition of COMPO EXPERT* | *33,204* | - | *220,230* | *228,799* | - | *7,641* | *4,659* | *494,533* |
| Increase due to translation of exchange differences | 130 | - | 915 | 2,170 | 2 | 13 | 446 | 3,676 |
| Other increase | - | - | 87 | 2,495 | - | 6 | 641 | 3,229 |
| ***Decrease, including: (-)*** | ***(161)*** | ***(2,390)*** | ***(147,166)*** | ***(410,950)*** | ***(25,181)*** | ***(26,170)*** | ***(782,006)*** | ***(1,394,024)*** |
| Depreciation and amortisation | - | (2,390) | (137,054) | (398,203) | (22,927) | (25,783) | (6) | (586,363) |
| Sale, liquidation | (161) | - | (1,465) | (3,127) | (1,770) | (45) | (8,503) | (15,071) |
| Commissioning | - | - | - | - | - | - | (767,052) | (767,052) |
| Recognition of impairment loss | - | - | (7,594) | (8,679) | (161) | (103) | (243) | (16,780) |
| Reclassification to investment property | - | - | (312) | (313) | - | - | (710) | (1,335) |
| Reclassification to non-current assets held for sale | - | - | - | (72) | (3) | (125) | - | (200) |
| Translation of exchange differences | - | - | - | (1) | (1) | - | - | (2) |
| Other decrease | - | - | (741) | (555) | (319) | (114) | (5,492) | (7,221) |
| **Net carrying amount as at Dec 31 2018 restated*** | **57,453** | **14,087** | **2,598,368** | **3,707,568** | **140,731** | **136,714** | **1,102,150** | **7,757,071** |

** See section 2.1. b

(all amounts in PLN '000 unless indicated otherwise)

## Property, plant and equipment by type

| | Land | Mineral deposits | Buildings and structures | Plant and equipment | Vehicles | Other property, plant and equipment | Property, plant and equipment under construction | Total |
|---|---|---|---|---|---|---|---|---|
| **As at Dec 31 2019** | | | | | | | | |
| Gross carrying amount | 63,636 | 49,009 | 4,077,644 | 7,095,251 | 288,444 | 369,166 | 1,351,432 | 13,294,582 |
| Accumulated depreciation (-) | - | (4,541) | (1,278,994) | (3,203,848) | (123,619) | (207,744) | - | (4,818,746) |
| Impairment (-) | (8,685) | (36,209) | (63,340) | (105,419) | (45,925) | (890) | (72,617) | (333,085) |
| **Net carrying amount as at Dec 31 2019** | **54,951** | **8,259** | **2,735,310** | **3,785,984** | **118,900** | **160,532** | **1,278,815** | **8,142,751** |
| **As at Dec 31 2018** | | | | | | | | |
| Gross carrying amount | 60,471 | 49,009 | 3,819,020 | 6,842,057 | 311,153 | 319,565 | 1,180,257 | 12,581,532 |
| Accumulated depreciation (-) | - | (2,390) | (1,155,882) | (3,007,493) | (125,357) | (181,609) | - | (4,472,731) |
| Impairment (-) | (3,018) | (32,532) | (64,770) | (126,996) | (45,065) | (1,242) | (78,107) | (351,730) |
| **Net carrying amount as at Dec 31 2018 restated*** | **57,453** | **14,087** | **2,598,368** | **3,707,568** | **140,731** | **136,714** | **1,102,150** | **7,757,071** |

** See section 2.1. b

## Impairment losses and their use

| | Land | Mineral deposits | 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** | **3,018** | **32,532** | **64,770** | **126,996** | **45,065** | **1,242** | **78,107** | **351,730** |
| Impairment loss recognised in the statement of profit or loss | 5,582 | 3,677 | 12,475 | 7,503 | 973 | 398 | 2,400 | 33,008 |
| Reversal and use of impairment losses recognised in the statement of profit or loss (-) | - | - | (14,709) | (29,172) | (119) | (152) | (7,595) | (51,747) |
| Presentation changes | 85 | - | 804 | 92 | 6 | (598) | (295) | 94 |
| **Impairment losses as at Dec 31 2019** | **8,685** | **36,209** | **63,340** | **105,419** | **45,925** | **890** | **72,617** | **333,085** |
| **Impairment losses as at Jan 1 2018** | **3,018** | **32,532** | **57,900** | **121,120** | **44,905** | **1,322** | **82,621** | **343,418** |
| Impairment loss recognised in the statement of profit or loss | - | - | 7,594 | 8,679 | 161 | 103 | 243 | 16,780 |

(all amounts in PLN '000 unless indicated otherwise)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Reversal and use of impairment losses recognised in the statement of profit or loss (-) | - | - | (724) | (2,803) | (1) | (183) | (4,757) | (8,468) |
| **Impairment losses as at Dec 31 2018 restated*** | **3,018** | **32,532** | **64,770** | **126,996** | **45,065** | **1,242** | **78,107** | **351,730** |

### Impairment test

As at December 31st 2019, the trigger referred to in paragraph 12d of IAS 36 *Impairment* occurred (the carrying amount of the Parent's net assets was more than the market capitalisation). Accordingly, the Group's key companies, i.e. the Parent, Grupa Azoty POLICE, Grupa Azoty Puławy, Grupa Azoty ZAK and Grupa Azoty SIARKOPOL and COMPO EXPERT were tested for impairment. Following the tests, it was found that with respect to the Grupa Azoty SIARKOPOL's assets disclosed in the Grupa Azoty Group's consolidated financial statements an impairment loss of PLN 28,829 thousand should be recognised. The test did not identify any impairment at the other companies.

Key assumptions and results of the tests at the Parent, Grupa Azoty KĘDZIERZYN and Grupa Azoty SIARKOPOL are presented in the table below.

For a description of tests for impairment of cash-generating units comprising goodwill and intangible assets with unlimited useful life at Grupa Azoty POLICE, Grupa Azoty PUŁAWY and COMPO EXPERT, see Note 13.1.

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 36 Information on the effects of the COVID-19 pandemic.

| Item | Parent | Grupa Azoty KĘDZIERZYN | Grupa Azoty SIARKOPOL |
|---|---|---|---|
| CGU | *Fertilizers*<br>*Plastics* | *Fertilizers*<br>*Oxoplast* | *Minerals extraction*<br>*Chemicals* |
| Recognition of impairment loss | None | None | Yes: PLN 28,829 thousand – *Minerals Extraction* |
| Reversal of impairment loss | None | None | None |
| Nominal weighted average cost of capital (WACC) (%) | 6.92 | 6.92 | 6.92 |
| Key assumptions | Unlimited duration of the CGU.<br>Prices of key raw materials were assumed based on market prices in the forecast period.<br>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.<br>It was assumed that the growth rate in the residual period would be close to the inflation target of the National Bank of Poland.<br>Corporate assets of the Segments not covered by the CGU tests (Energy, Other) were not tested separately as the Segments' operations 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:<br>• Energy – energy consumption,<br>• Other – share of CGU's assets in the tested CGUs' total assets. | Unlimited duration of the CGU.<br>The EBITDA margin for the Fertilizers CGU and the Oxoplast CGU was assumed at market levels close to those observed in the past, based on forecast price trends.<br>It was assumed that the growth rate in the residual period would be close to the inflation target of the National Bank of Poland.<br>Assets of the Fertilizers CGU and the Oxoplast CGU were tested for impairment.<br>Corporate assets of the Segments not covered by the CGU tests (Energy, Other) were not tested separately as the Segments' operations support the tested CGUs.<br>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:<br>• Energy – energy consumption, taking into account assets dedicated to manufacturing | Minerals Extraction CGU: The projection period was assumed to equal the expected useful life of the Osiek sulfur deposit, that is until 2029. Sulfur reserves in the Osiek deposit are estimated at ca. 4,124 thousand tonnes.<br>Chemicals CGU: The test performed for the Chemicals CGU assumes a 5-year projection period with a residual value. The sales volume matches the production capacity.<br>Other Segments' assets (Energy, Other) were not tested separately as the segments operate to support the tested CGU. 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:<br>• Energy – energy consumption,<br>• Other – share of CGU's assets in the tested CGUs' total assets. |

(all amounts in PLN '000 unless indicated otherwise)

| | | | |
|---|---|---|---|
| | | products for sale,<br>• Other – share of CGU's assets in the tested CGUs' total assets. | |
| **Value in use** | *Fertilizers* – PLN 1,096,391 thousand<br>*Plastics* – PLN 962,668 thousand | *Fertilizers* – PLN 1,795,368 thousand<br>*Oxoplast* - PLN 576,163 thousand | *Minerals Extraction* – PLN 105,924 thousand<br>*Chemicals* – PLN 128,870 thousand |
| **Excess of value in use over carrying amount of assets** | *Fertilizers* – PLN 188,526 thousand<br>*Plastics* – PLN 24,488 thousand | *Fertilizers - PLN 817,778 thousand*<br>*Oxoplast - PLN 79,734 thousand* | *Minerals Extraction – PLN 28,829 thousand*<br>*Chemicals - PLN 47,625 thousand* |

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Sensitivity analyses of the tests show no need to recognise impairment losses:

- at the Parent if EBITDA falls by no more than 3.07% for the Plastics CGU and 17.53% for the Fertilizers CGU, or if WACC increases to no more than 7.05% for the Plastics CGU, and 7.82% for the Fertilizers CGU;
- at Grupa Azoty KĘDZIERZYN if EBITDA falls by no more than 23.56% for the Fertilizers CGU and 6.31% for the Oxoplast CGU, or if WACC increases to no more than 10.26% for the Fertilizers CGU, and 7.99% for the Oxoplast CGU;
- at Grupa Azoty SIARKOPOL if EBITDA falls by no more than 27.80% or if WACC increases to no more than 9.52% for the Chemicals CGU. As regards the Minerals Extraction CGU, in order to reverse the impairment loss, EBITDA in the projection period would have to increase by more than 25.57% or WACC would have to decrease below 3.14%.

In determining the carrying amount of a cash-generating unit (CGU), the right-of-use asset disclosed in accordance with 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. The carrying amount and the value in use of the CGU were subsequently reduced by the carrying amount of the liabilities related to the right-of-use assets as at the reporting date.

As Zakłady Azotowe Chorzów S.A.'s actual performance is significantly worse than the financial results projected in H1 2019 and its equity has been reduced following a loss recognised in H1 2019, Zakłady Azotowe Chorzów S.A. conducted an impairment test for its fertilizer business as at the end of June 2019.

Key assumptions:

- the business will continue for an indefinite period.
- projection period – 8.5 years,
- discount rate (real) – 6.36%,
- long-term growth rate – 0.0%.

The results of the test showed impairment and the need to recognise an impairment loss of PLN 21,988 thousand on the assets allocated to this business line, comprising the following amounts:

- PLN 3,277 thousand for property, plant and equipment,
- PLN 10,483 thousand for right-of-use assets,
- PLN 124 thousand for intangible assets,
- PLN 8,104 thousand for investment property.

As at December 31st 2019, Zakłady Azotowe Chorzów S.A. had the assets tested as at June 30th 2019 appraised by an independent expert. The appraisal did not show any further impairment of the company's assets.

In 2018, Zakłady Azotowe Chorzów S.A. (the Chemicals segment) recognised impairment losses of PLN 16,780 thousand on property, plant and equipment. The impairment losses related in particular to property, plant and equipment of the fat processing unit. Impairment losses on these assets were recognised in the total amount of PLN 12,537 thousand, of which PLN 6,445 thousand was recognised following an impairment test performed as at June 30th 2018, while PLN 6,092 thousand, bringing the value of the assets to the unit's liquidation value in connection with a temporary production stoppage, was additionally recognised as at December 31st 2018. The liquidation value was estimated by an independent appraiser.

**Grupa Azoty POLYOLEFINS impairment test**

**Impairment test**
As at December 31st 2019, expenditure on property, plant and equipment and intangible assets incurred by the subsidiary Grupa Azoty POLYOLEFINS was tested for impairment. In order to estimate the present value of the expected future cash flows generated by the Project, a financial forecast was prepared based on the current assumptions regarding the estimated cash outflows needed before the Project is placed in service and the expected economic benefits during the Project operation. Grupa Azoty POLYOLEFINS monitors the projected profitability of its investment using a financial model for the 'Polimery Police' project developed in cooperation with reputable advisory firms. The key assumptions developed for the purposes of the financial model, including technological assumptions and market forecasts, are based on independent studies, such as technical

documentation provided by recognised engineering companies (including technology licensors) and market advisor reports. The subsidiary reviews the need to update the key model assumptions and parameters on an ongoing basis. In 2019, the updates were related, among others, to:

a) update of the project's CAPEX based on the bid submitted by the general contractor selected in the tender procedure and the OPEX parameters specified in the bid;
b) update of the electricity price path based on a market report on electricity,
c) update of the polypropylene, propane and ethylene price paths by the market advisor to the financing institutions,
d) modification of the sales strategy,
e) update of the terms and conditions of senior debt financing, including levels of credit margins and fees, in line with the bids of the financing institutions.

In December 2019, the Parent, Grupa Azoty POLICE and Grupa Azoty POLYOLEFINS executed term sheets concerning equity investment and financing of the Polimery Police project with Hyundai Engineering Co., Ltd and Korea Overseas Infrastructure & Urban Development Corporation. In the same month, Grupa Azoty POLYOLEFINS issued a full notice to proceed (FNTP) to Hyundai Engineering Co. Ltd., the general contractor. The subsidiary is also in advanced talks with a syndicate of Polish and foreign financial institutions regarding senior debt financing. Commitment letters confirming that the offers submitted by the institutions are supported by approval from their credit committees were signed. The total amount offered by the financial institutions will be sufficient to fully cover the needs of the Polimery Police project. The subsidiary is currently working on the terms and conditions of the credit facility agreement and related agreements.

In connection with the above status of the process of raising financing for the Polimery Police project and in view of the updated positive results yielded by the financial model, which are treated by the subsidiary as a recoverable amount estimate as part of an asset impairment test, the conclusion that the assets of the Polimery Police project are not impaired was maintained. As at December 31st 2019, the project's assets comprised non-current assets, including expenditure on property, plant and equipment under construction, intangible assets under construction, advance payments for property, plant and equipment and intangible assets, perpetual usufruct rights, and capitalised borrowing costs.

For the purposes of the impairment test, the value of the Polimery Police project was measured based on the following assumptions:

- a 35-year period of project operation, beginning from the production unit start-up scheduled for Q2 2022, without taking into account the residual value,
- the project's total budget being an equivalent of USD 1.8bn,
- maintaining the currently envisaged time frame for finalising the process of raising financing through the execution of debt financing agreements and investment agreements.

At the same time, it should be noted that the capital expenditure incurred to date as part of the Polimery Police project represents ca. 4.6% of the estimated total capital expenditure.

**Property, plant and equipment under construction**

The most significant items of property, plant and equipment under construction included:

- construction of a polypropylene production unit at Grupa Azoty POLYOLEFINS. As at December 31st 2019, capitalised expenditure was PLN 156,007 thousand (December 31st 2018: PLN 101,847 thousand),
- upgrade of the existing and construction of new nitric acid units, and facilities for neutralisation and production of new fertilizers based on nitric acid at Grupa Azoty PUŁAWY. As at December 31st 2019, capitalised expenditure was PLN 114,209 thousand (December 31st 2018: PLN 67,891 thousand).

(all amounts in PLN '000 unless indicated otherwise)

**Collateral**
As at December 31st 2019, the net carrying amount of property (buildings and structures), plant and equipment pledged as security for bank loans was PLN 27,252 thousand (December 31st 2018: PLN 26,962 thousand).

| Obligation/restriction on use | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Bank loan/mortgage | 19,393 | 20,824 |
| Bank loan/registered pledge | 7,859 | 6,138 |
| | **27,252** | **26,962** |

## Note 11 Right-of-use assets

***Accounting policy***
*At inception of a contract, the Group 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 Group 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 Group 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 n 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 Group 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 Group 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 Group 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 Group 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 Group'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 Group has a reason to assume a longer period (i.e. for real estate – period of depreciation of the asset by the lessor). The Group reviews the estimate at least once a year at the end of each financial year. In determining the lease term, the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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)

**Net carrying amount of right-of-use assets**

| | Perpetual usufruct of land | Land | Buildings and structures | Plant and equipment | Vehicles | Other fixtures and fittings, tools and equipment | Right-of-use assets under construction | Total |
|---|---|---|---|---|---|---|---|---|
| **Net carrying amount as at Dec 31 2018** | | | | | | | | |
| ***Effect of implementation of IFRS 16, including:*** | ***688,250*** | ***487*** | ***43,385*** | ***126,285*** | ***43,612*** | ***1,216*** | ***-*** | ***903,235*** |
| *Value of assets disclosed as at Dec 31 2018 as finance leases in accordance with IAS 17* | *-* | *-* | *787* | *5,284* | *12,041* | *502* | *-* | *18,614* |
| *On-balance-sheet perpetual usufruct of land as at Dec 31 2018* | *470,178* | *-* | *-* | *-* | *-* | *-* | *-* | *470,178* |
| *Increases due to the implementation of IFRS 16* | *218,072* | *487* | *42,598* | *121,001* | *31,571* | *714* | *-* | *414,443* |
| **Net carrying amount as at Jan 1 2019** | **688,250** | **487** | **43,385** | **126,285** | **43,612** | **1,216** | **-** | **903,235** |
| ***Increase, including:*** | ***6,557*** | ***383*** | ***14,929*** | ***7,560*** | ***34,502*** | ***3,556*** | ***2,675*** | ***70,162*** |
| Increases due to execution of new agreements | 3,895 | 382 | 5,689 | 7,474 | 32,629 | 790 | 2,659 | 53,518 |
| Increase due to translation of exchange differences | - | - | 22 | - | - | - | - | 22 |
| Other | 2,662 | 1 | 9,218 | 86 | 1,873 | 2,766 | 16 | 16,622 |
| ***Decrease, including: (-)*** | ***(55,782)*** | ***(231)*** | ***(13,141)*** | ***(25,267)*** | ***(23,085)*** | ***(1,157)*** | ***(2,659)*** | ***(121,322)*** |
| Depreciation and amortisation | (9,481) | (123) | (11,493) | (21,946) | (20,572) | (1,122) | - | (64,737) |
| Decrease due to placement in service | - | - | - | - | - | - | (2,659) | (2,659) |
| Translation of exchange differences | - | - | (213) | (54) | (60) | (35) | - | (362) |
| Recognition of impairment loss | (12,665) | (66) | - | - | (18) | - | - | (12,749) |
| Reclassification to investment property | (24,997) | - | - | - | - | - | - | (24,997) |
| Other decrease | (8,639) | (42) | (1,435) | (3,267) | (2,435) | - | - | (15,818) |
| **Net carrying amount as at Dec 31 2019** | **639,025** | **639** | **45,173** | **108,578** | **55,029** | **3,615** | **16** | **852,075** |

The Group applies the following depreciation periods:

- perpetual usufruct right to land – the period remaining until the end of statutory period of use, i.e. up to 71 years,
- other groups of assets with definite-term contracts – a period equal to the contract term,
- other groups of assets with indefinite-term contracts – individual periods in accordance with the adopted accounting policies.

**Carrying amount of right-of-use assets**

(all amounts in PLN '000 unless indicated otherwise)

| | Perpetual usufruct of land | Land | Buildings and structures | Plant and equipment | Vehicles | Other fixtures and fittings, tools and equipment | Right-of-use assets under construc tion | Total |
|---|---|---|---|---|---|---|---|---|
| **As at Dec 31 2019** | | | | | | | | |
| Gross carrying amount | 694,006 | 826 | 56,826 | 131,128 | 78,524 | 4,744 | 16 | 966,070 |
| Accumulated depreciation (-) | (34,316) | (122) | (11,565) | (22,553) | (23,477) | (1,129) | - | (93,162) |
| Impairment (-) | (12,665) | (66) | - | - | (18) | - | - | (12,749) |
| Other | (8,000) | 1 | (88) | 3 | - | - | - | (8,084) |
| **Net carrying amount as at Dec 31 2019** | **639,025** | **639** | **45,173** | **108,578** | **55,029** | **3,615** | **16** | **852,075** |

(all amounts in PLN '000 unless indicated otherwise)

## Note 12 Investment property

***Accounting policy***
*Investment property is land, structures and buildings held by the Group for capital appreciation or other benefits, e.g. to earn rental income.*
*Investment property is measured in accordance with the measurement 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.*

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| **Carrying amount at the beginning of the period** | **43,799** | **49,649** |
| ***Increase, including:*** | ***31,400*** | ***4,759*** |
| Purchase, production, subsequent expenditure | 246 | 1,357 |
| Accounting for business acquisition | - | 2,403 |
| Increase from foreign exchange translation differences | 178 | - |
| Reversal of impairment losses | 32 | - |
| Reclassification from another asset category | 30,941 | 625 |
| Other increase | 3 | 374 |
| ***Decrease, including: (-)*** | ***(13,185)*** | ***(10,609)*** |
| Depreciation (-) | (4,361) | (3,989) |
| Sale, liquidation | (127) | (28) |
| Reclassification to another asset category | (335) | (6,578) |
| Recognition of impairment loss | (8,239) | (9) |
| Other decrease | (123) | (5) |
| **Carrying amount at the end of the period** | **62,014** | **43,799** |

In 2019, revenue from lease of investment property was PLN 12,703 thousand (2018: PLN 18,938 thousand).
As at December 31st 2019, the gross carrying amount of investment property was PLN 140,789 thousand (December 31st 2018: PLN 107,850 thousand).
As at December 31st 2019, fair value of investment property was PLN 90,431 thousand (December 31st 2018: PLN 80,831 thousand).

## Note 13 Intangible assets

***Accounting policy***
***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 Group has sufficient technical, financial and other resources to complete 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.*

***Goodwill***
*The methods of determining the amount of goodwill at initial recognition are described in section 2.6.4.*

(all amounts in PLN '000 unless indicated otherwise)

*Subsequent to initial recognition, goodwill is recognised at cost less accumulated amortisation. Goodwill is reviewed annually for impairment at the level of a cash-generating unit or a group of cash-generating units.*
*For equity-accounted investees, goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.*

***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.*

***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.*

***Depreciation and 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 Group assumes the following useful lives for each category of intangible assets:*

| *Type* | *Amortisation rate* | *Period* |
|---|---|---|
| *Trade marks* | *none* | - |
| *Brand names* | *individually* | - |
| *Customer portfolio* | *17% - 100%* | *1–7 years* |
| *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* |

**Carrying amount**

| | as at Dec 31 2019 | as at Dec 31 2018 restated* |
|---|---|---|
| Trade marks | 269,349 | 271,108 |
| Corporate logo | 117,825 | 160,677 |
| Customer portfolio | 329,418 | 367,911 |
| Patents and licences | 85,993 | 94,425 |
| Software | 28,746 | 30,021 |
| Development costs | 1,934 | 2,425 |
| Other intangible assets | 60,149 | 66,319 |

(all amounts in PLN '000 unless indicated otherwise)

| | | |
|---|---|---|
| | **893,414** | **992,886** |
| Intangible assets under development | 91,657 | 55,575 |
| | **985,071** | **1,048,461** |

** See section 2.1. b

As at December 31st 2019, the carrying amount of the trademarks recognised on acquisition of Grupa Azoty POLICE was PLN 55,688 thousand (December 31st 2018: PLN 55,688 thousand). As at December 31st 2018, the carrying amount of the trademarks recognised on acquisition of Grupa Azoty PUŁAWY was PLN 33,100 thousand.
As at December 31st 2019, the carrying amount of the trademarks recognised on acquisition of COMPO EXPERT was PLN 180,561 thousand (December 31st 2018: PLN 182,320 thousand).
The COMPO EXPERT logo and the identified key trademarks are not amortised due to their well-established long-term standing on the global fertilizer market. The COMPO EXPERT brand and the key product brands have been present on the market for more than 60 years, with the formulas consistently revised and improved and with support in the form of application advice.

As at December 31st 2019, the carrying amount of the COMPO EXPERT corporate brand was PLN 117,825 thousand (December 31st 2018: PLN 118,677 thousand).

As at December 31st 2019, the value of the customer portfolio is primarily related to the customers of the Agro-Fertilizers segment. The customer portfolios were recognised on acquisition of Grupa Azoty POLICE, Grupa Azoty PUŁAWY and COMPO EXPERT. As at December 31st 2019, the value of the customer portfolio recognised upon acquisition of COMPO EXPERT, amounting to PLN 323,263 thousand (December 31st 2018: PLN 367,911 thousand) and the value of the customer portfolio of Grupa Azoty PUŁAWY of PLN 6,155 thousand (December 31st 2018: PLN 24,183 thousand ) were yet to be accounted for.
For information on impairment tests of intangible assets with an indefinite useful life, see Note 13.1.

The Group does not carry any intangible assets with restricted legal title or intangible assets pledged as collateral. Amortisation of intangible assets is generally allocated to the administrative expenses. The carrying amount of research and development work recognised as an expense in 2019 was PLN 18,232 thousand (2018: PLN 13,924 thousand).

(all amounts in PLN '000 unless indicated otherwise)

## Intangible assets, net

| | Trade marks | Corporate logo | Customer portfolio | Patents and licences | Software | Development costs | Other intangible assets | Intangible assets under development | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Net carrying amount as at Jan 1 2019** | **271,108** | **160,677** | **367,911** | **94,425** | **30,021** | **2,425** | **66,319** | **55,575** | **1,048,461** |
| ***Increase, including:*** | ***-*** | ***297*** | ***-*** | ***4,541*** | ***3,640*** | ***270*** | ***2,446*** | ***47,696*** | ***58,890*** |
| Purchase, production, commissioning | - | - | - | 4,274 | 3,640 | 270 | 1,607 | 42,253 | 52,044 |
| Exchange differences on translation | - | - | - | 267 | - | - | 839 | 268 | 1,374 |
| Reversal of impairment losses | - | - | - | - | - | - | - | 1,659 | 1,659 |
| Other increase | - | 297 | - | - | - | - | - | 3,516 | 3,813 |
| ***Decrease, including: (-)*** | ***(1,759)*** | ***(43,149)*** | ***(38,493)*** | ***(12,973)*** | ***(4,915)*** | ***(761)*** | ***(8,616)*** | ***(11,614)*** | ***(122,280)*** |
| Depreciation and amortisation | - | (42,004) | (35,352) | (12,673) | (4,859) | (311) | (7,664) | - | (102,863) |
| Liquidation | - | - | - | - | (2) | - | - | (1,659) | (1,661) |
| Commissioning | - | - | - | - | - | - | - | (6,494) | (6,494) |
| Recognition of impairment loss | - | - | - | - | (2) | - | (139) | - | (141) |
| Translation of exchange differences | (1,759) | (1,145) | (3,141) | (287) | (5) | - | (520) | - | (6,857) |
| Other decrease | | | | (13) | (47) | (450) | (293) | (3,461) | (4,264) |
| **Net carrying amount as at Dec 31 2019** | **269,349** | **117,825** | **329,418** | **85,993** | **28,746** | **1,934** | **60,149** | **91,657** | **985,071** |

(all amounts in PLN '000 unless indicated otherwise)

| | Trade marks | Corporate logo | Customer portfolio | Patents and licences | Software | Development costs | Other intangible assets | Intangible assets under development | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Net carrying amount as at Jan 1 2018** | **88,788** | **84,000** | **50,222** | **93,862** | **36,319** | **4,766** | **7,419** | **30,379** | **395,755** |
| ***Increase, including:*** | ***182,320*** | ***118,678*** | ***344,853*** | ***10,671*** | ***1,111*** | ***292*** | ***60,615*** | ***36,971*** | ***755,511*** |
| Purchase, production, commissioning | - | - | - | 6,200 | 1,096 | 291 | 1,055 | 28,158 | 36,800 |
| Exchange differences on translation | 149 | 392 | 381 | 6 | 3 | - | 664 | 4 | 1,599 |
| Reversal of impairment losses | - | - | - | - | - | - | 96 | 2,690 | 2,786 |
| Merger, acquisition | 182,171 | 118,286 | 344,472 | 4,371 | - | - | 58,800 | 1,270 | 709,370 |
| *Acquisition of COMPO EXPERT* | *182,171* | *118,286* | *344,472* | *4,213* | - | - | *58,799* | *1,270* | *709,212* |
| Other increase | - | - | - | 94 | 12 | 1 | - | 4,849 | 4,956 |
| ***Decrease, including: (-)*** | | ***(42,001)*** | ***(27,164 )*** | ***(10,108)*** | ***(7,409)*** | ***(2,633)*** | ***(1,715)*** | ***(11,775)*** | ***(102,805)*** |
| Amortisation | - | (42,001) | (27,164) | (10,106) | (5,499) | (290) | (1,625) | - | (86,685) |
| Liquidation | - | - | - | - | (5) | - | (90) | - | (95) |
| Commissioning | - | - | - | - | - | - | - | (7,992) | (7,992) |
| Recognition of impairment loss | - | - | - | - | (609) | (18) | - | (160) | (787) |
| Other decrease | - | - | - | (2) | (1,296) | (2,325) | - | (3,623) | (7,246) |
| **Net carrying amount as at Dec 31 2018 restated*** | **271,108** | **160,677** | **367,911** | **94,425** | **30,021** | **2,425** | **66,319** | **55,575** | **1,048,461** |

** See section 2.1. b

(all amounts in PLN '000 unless indicated otherwise)

## Intangible assets

| | Trade marks | Corporate logo | Customer portfolio | Patents and licences | Software | Development costs | Other intangible assets | Intangible assets under development | Total |
|---|---|---|---|---|---|---|---|---|---|
| **As at Dec 31 2019** | | | | | | | | | |
| Gross carrying amount | 269,349 | 223,122 | 543,720 | 166,770 | 73,454 | 5,402 | 244,847 | 95,185 | 1,621,849 |
| Accumulated amortisation (-) | | (105,297) | (214,302) | (74,074) | (41,996) | (3,273) | (183,954) | - | (622,896) |
| Impairment (-) | | | | (6,703) | (2,712) | (195) | (744) | (3,528) | (13,882) |
| **Net carrying amount as at Dec 31 2019** | **269,349** | **117,825** | **329,418** | **85,993** | **28,746** | **1,934** | **60,149** | **91,657** | **985,071** |
| **As at Dec 31 2018** | | | | | | | | | |
| Gross carrying amount | 271,108 | 223,678 | 546,853 | 173,030 | 71,046 | 5,731 | 137,523 | 60,762 | 1,489,731 |
| Accumulated amortisation (-) | | (63,001) | (178,942) | (71,905) | (38,375) | (3,111) | (70,599) | - | (425,933) |
| Impairment (-) | - | - | - | (6,700) | (2,650) | (195) | (605) | (5,187) | (15,337) |
| **Net carrying amount as at Dec 31 2018 restated*** | **271,108** | **160,677** | **367,911** | **94,425** | **30,021** | **2,425** | **66,319** | **55,575** | **1,048,461** |

** See section 2.1. b

## Impairment losses and their use

| | Patents and licences | Software | Development costs | Other intangible assets | Intangible assets under development | Exploration for and evaluation of mineral resources | Total |
|---|---|---|---|---|---|---|---|
| **As at Dec 31 2019** | **6,700** | **2,650** | **195** | **605** | **5,187** | **-** | **15,337** |
| Impairment loss recognised in the statement of profit or loss | - | 2 | - | 139 | - | - | 141 |
| Reversal and use of impairment losses recognised in the statement of profit or loss (-) | - | - | - | - | (1,659) | - | (1,659) |
| Presentation change | 3 | 60 | - | - | - | - | 63 |
| **Net carrying amount as at Dec 31 2019** | **6,703** | **2,712** | **195** | **744** | **3,528** | **-** | **13,882** |
| **As at Dec 31 2018** | **6,700** | **2,041** | **3,638** | **701** | **4,256** | **64,044** | **81,380** |
| Impairment loss recognised in the statement of profit or loss | - | 609 | 18 | - | 160 | - | 787 |
| Reversal and use of impairment losses recognised in the statement of profit or loss (-) | - | - | - | (96) | (2,690) | (64,044) | (66,830) |
| Exchange differences on translation | - | - | (3,461) | | 3,461 | - | - |
| **Net carrying amount as at Dec 31 2018** | **6,700** | **2,650** | **195** | **605** | **5,187** | **-** | **15,337** |

(all amounts in PLN '000 unless indicated otherwise)

## Note 13.1 Goodwill

| | as at Dec 31 2019 | as at Dec 31 2018 restated* |
|---|---|---|
| On acquisition of COMPO EXPERT | 276,121 | 278,812 |
| On acquisition of Grupa Azoty POLICE | 29,815 | 29,815 |
| On acquisition of control by Grupa Azoty KOLTAR | 1,720 | 1,720 |
| On acquisition of control of Unibaltic Agro | 933 | 933 |
| | **308,589** | **311,280** |

** See section 2.1. b

(all amounts in PLN '000 unless indicated otherwise)

**Recoverable amount of CGUs comprising goodwill and intangible assets with indefinite useful lives**

| Item | Assets | Grupa Azoty PUŁAWY | Grupa Azoty POLICE | COMPO EXPERT Group |
|---|---|---|---|---|
| **Allocation to CGU** | *Goodwill and Intangible assets with indefinite useful lives;* | *Agro* - PLN 33,100 thousand<br>*Plastics* - none | *Fertilizers* - PLN 58,507 thousand<br>*Pigments* – PLN 26,996 thousand | *Fertilizers* - PLN 897,770 thousand |
| **Recognition of impairment loss** | *Goodwill and intangible assets with indefinite useful lives* | None | None | None |
| | *Property, plant and equipment* | None | None | None |
| **Nominal weighted average cost of capital (WACC) (%)** | | 6.92 | 6.92 | 6.77 |
| **Key assumptions** | | The business will continue for an indefinite period.<br>The EBITDA margin for the Agro CGU was assumed at market levels close to those observed in the past, based on forecast price trends.<br>The total volume of fertilizer sales will be comparable to the volumes recorded in the past.<br>The corporate assets of Grupa Azoty PUŁAWY were allocated to the CGUs on an indirect basis. The cost ratios were assumed to be the most rational allocation method for most corporate assets.<br>It was assumed that the growth rate in the residual period would be close to the long-term inflation target of the National Bank of Poland.<br>Costs and expenses of the Energy and Other Activities Segments were accounted for in profit or loss of the tested CGU according to the following allocation: | Fertilizers – the forecast period to the end in 2042.<br>Pigments – business continues indefinitely, a 7-year period of detailed forecasts, residual value with revenue increase at the rate close to the long-term inflation target of the National Bank of Poland.<br><br>Production output, sales volumes and margins were assumed at levels similar to past performance.<br>Corporate assets were allocated mainly based on production costs.<br>Balance-sheet items used jointly by the Support Areas and the Corporate Centre were indirectly allocated to the business segments.<br>It was concluded that the most reasonable way of allocating the corporate-level assets and liabilities was: | Financial projections were based on a long-term plan prepared by the COMPO EXPERT Management Board for 2019–2026, with residual value taken into account.<br><br>A long-term nominal growth rate of 2.0% was assumed to determine the residual value. |

(all amounts in PLN '000 unless indicated otherwise)

| | | | | |
|---|---|---|---|---|
| | | • Energy – consumption of utilities (steam and electricity) for each year in the forecast period,<br>• Other Activities – intra-Group sales with the Agro and Plastics Segments in the last 12 months.<br>Assets of the two segments were accounted for according to the following allocation:<br>• Energy segment – average consumption of utilities (steam and electricity) in the forecast period,<br>• Other Activities segment – internal trading in the last 12 months with the Agro and Plastics segments. | • for the Support Area – based on internal cost accounting between business units as in 2019. In 2019, internal settlement prices of products and services produced by the Support Areas were equal to their production costs,<br>• Administrative costs were accounted for on an at-cost basis currently applied by the organisation to account for the full product costs (ratio of cost of sales of the key business unit to total cost of sales). | |
| **Value in use** | | *Agro* – PLN 3,344,582 thousand<br>*Plastics* – PLN 307,739 thousand | *Fertilizers* – PLN 1,301,329 thousand<br>*Pigments* – PLN 323,016 thousand | *Entire COMPO EXPERT group* – EUR 442.1m (PLN 1,882.6m) |
| **Excess of value in use over carrying amount of assets** | | *Agro* – PLN 28,295 thousand<br>*Plastics* – PLN 66,355 thousand | *Fertilizers* – PLN 125,048 thousand<br>*Pigments* – PLN 10,582 thousand | EUR 36.4m (PLN 155.2m) |

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(all amounts in PLN '000 unless indicated otherwise)

Sensitivity analyses of the tests show no need to recognise impairment losses:

- at Grupa Azoty PUŁAWY if EBITDA falls by no more than 0.31% for the Agro CGU and 7.4% for the Plastics CGU, or if WACC increases to no more than 6.94% for the Agro CGU and 7.62% for the Plastics CGU;
- at Grupa Azoty POLICE if EBITDA falls by no more than 5.79% for the Fertilizers CGU and 1.50% for the Pigments CGU, or if WACC increases to no more than 7.96% for the Fertilizers CGU, and 7.07% for the Pigments CGU;
- at COMPO EXPERT if EBITDA falls by no more than 5.62% or if WACC increases to no more than 7.19%.

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 36 *Information on the effects of the COVID-19 pandemic*.

## Note 14 Financial assets

### Note 14.1 Shares

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Shares in associates and jointly-controlled entities, including: | 88,909 | 89,496 |
| *Bałtycka Baza Masowa (jointly controlled)* | *14,119* | *14,889* |
| *KEMIPOL (associated)* | *74,790* | *74,607* |
| Shares in other unconsolidated investees | 9,198 | 9,113 |
| | **98,107** | **98,609** |
| including | | |
| Long-term | 98,107 | 98,609 |
| | **98,107** | **98,609** |

**Investments in associates and jointly-controlled entities**

Kemipol Sp. z o.o. of Police is an individually material associate of Grupa Azoty POLICE accounted for using the equity method. Its principal business includes services related to the installation and maintenance of machinery on water and sewage facilities, and disposal of waste. As at December 31st 2019 and December 31st 2018, the Group's ownership interest in the company was 33.99%. In the period under review, there were no changes in holdings of the company shares.

The table below presents summary information regarding the investment in Kemipol Sp z o.o.

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Value of the investment in the associate, determined using the equity method | 74,790 | 74,607 |
| Current (short-term) assets | 52,941 | 55,590 |
| Non-current (long-term) assets | 39,087 | 40,352 |
| Current liabilities | 12,652 | 17,679 |
| Non-current liabilities | 1,948 | 1,374 |

(all amounts in PLN '000 unless indicated otherwise)

| | for the period Jan 1 - Dec 31 2019 | for the period Jan 1 - Dec 31 2018 |
|---|---|---|
| Revenue | 166,333 | 165,612 |
| Profit from continuing operations | 36,888 | 36,348 |
| Profit/loss for financial year | 36,888 | 36,348 |
| Total comprehensive income for the year | 36,888 | 36,348 |
| Dividends received from the associate, attributable to shareholders of the Parent | 12,314 | 13,103 |

Reconciliation of the above financial information with the carrying amounts of the shares in Kemipol Sp. z o.o. disclosed in the Group's consolidated financial statements:

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Group's holding in the Group's share capital | 33.99 | 33.99 |
| Net assets attributable to Grupa Azoty | 26,318 | 26,135 |
| Fair value adjustment as at the date of obtaining control | 48,472 | 48,472 |
| Equity-accounted investees | 74,790 | 74,607 |

As at December 31st 2019, the carrying amount of the investment in Baltic Masowa Sp. z o.o., a jointly-controlled entity, measured using the equity method, was PLN 14,119 thousand (December 31st 2018: PLN 14,889 thousand).

The table below presents summary information regarding the investment in Bałtycka Baza Masowa Sp. z o.o.

| | for the period Jan 1 - Dec 31 2019 | for the period Jan 1 - Dec 31 2018 |
|---|---|---|
| Net profit from continuing operations | 226 | 1,367 |
| Other comprehensive income for the year | - | - |
| Total comprehensive income for the year | 226 | 1,367 |

**Shares in other entities**

Shares in other entities are measured at fair value through other comprehensive income. The Group has adopted this presentation model because of the nature of those entities and the size of the Group's shareholdings in them.

As at December 31st 2019, the largest item was the shares in Tarnowskie Wodociągi – PLN 6,464 thousand (as at December 31st 2018: PLN 6,464 thousand).

## Note 14.2 Other financial assets

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Bank deposits maturing in more than 3 months | 176,957 | 11,997 |
| Loans | 118 | 3,178 |
| Other | 55 | 2,263 |
| | **177,130** | **17,438** |
| including | | |
| Long-term | 2,406 | 2,377 |
| Short-term | 174,724 | 15,061 |
| | **177,130** | **17,438** |

(all amounts in PLN '000 unless indicated otherwise)

## Note 15 Inventories

***Accounting policy***
*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-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.*

| | as at Dec 31 2019 | as at Dec 31 2018 restated* |
|---|---|---|
| Finished products | 556,856 | 527,837 |
| Semi-finished products, work in progress | 193,271 | 170,380 |
| Materials | 846,887 | 735,611 |
| Merchandise | 72,795 | 71,196 |
| **Total inventories, including:** | **1,669,809** | **1,505,024** |
| *carrying amount of inventories at realisable value less cost to sell* | *75,990* | *20,627* |

** See section 2.1. b

| | 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 | 42,361 | 41,834 |
| Write-downs used/reversed in the period | (43,012) | (38,211) |
| | **(651)** | **3,623** |

### 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 | 6,155,810 | 6,122,652 |
| Change in inventories of finished goods (+/-) | (25,545) | (90,329) |
| | **6,130,265** | **6,032,323** |

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Inventory write-downs | 59,731 | 48,739 |

Inventory write-downs recognised in 2019 relate to finished goods, semi-finished products and materials for which cost exceeds net realisable value, or which have been held on stock for more than one year.

(all amounts in PLN '000 unless indicated otherwise)

Changes in write-downs resulted from sale, use or liquidation of particular items and are recognised as cost of sales in the statement of profit or loss as cost of sales.

## Note 16 Property rights

### *Accounting policy*

*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 (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 Group 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 the allowances held by the Group. The unit cost of allowances required to settle the estimated emissions is determined using the weighted average method,*
- *if the Group 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 Group 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 Group 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.*

*Energy certificates for electricity production in cogeneration are recognised as a decrease in electricity production cost when they become receivable as property rights. 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 Group 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.*

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Emission allowances | 471,648 | 257,292 |
| Energy certificates | 2,485 | 3,591 |
| Other | - | 884 |
| **Total property rights, including:** | **474,133** | **261,767** |
| *carrying amount of property rights at fair value less cost to sell* | - | *760* |

(all amounts in PLN '000 unless indicated otherwise)

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Impairment losses on property rights recognised as expense in the period | 14 | 501 |
| Impairment losses on property rights used/reversed in the period | (515) | (149) |
| **Inventory write-downs** | **(501)** | **352** |

## 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)** | **6,459,906** | **7,988,473** |
| Redeemed | (7,333,410) | (7,627,962) |
| Allocated | 4,506,316 | 4,745,301 |
| Purchased | 1,758,870 | 1,354,094 |
| **Balance at the end of the period (units held)** | **5,391,682** | **6,459,906** |
| Emissions in the reporting period | 7,004,209 | 7,344,625 |

Following completion of investment projects in 2016–2018, the Group received 440,634 $CO_2$ emission allowances in 2019. In 2018, following completion of investment projects in 2015–2017, the Group received 478,296 $CO_2$ emission allowances.

As at December 31st 2019, the Group held the entire amount of $CO_2$ emission allowances required to be settled for 2019, including emission allowances acquired free of charge as well as allowances from forward contracts.

## Note 16 Trade and other receivables

***Accounting policy***

*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;*

***Presentation of factoring and receivables discounting contracts***

*The Group 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 Group 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 relevant Group 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 Group 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 relevant Group company for the period between the original due date of an amount payable and the deferred date, when such amount is paid by the Group 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 Group 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 Group to the financing party on the deferred payment date is recognised as expenditure on other financing activities.*

(all amounts in PLN '000 unless indicated otherwise)

| | as at Dec 31 2019 | as at Dec 31 2018 restated* |
|---|---|---|
| Trade receivables - related parties | 938 | - |
| Trade receivables - other entities | 1,007,681 | 1,133,613 |
| Receivables from state budget, except for income tax | 236,371 | 333,156 |
| Receivables under construction contracts - other entities | 3,079 | 629 |
| Prepayments for deliveries of property, plant and equipment and intangible assets - other entities | 115,756 | 161,873 |
| Prepayments for deliveries of materials, goods and services - other entities | 5,065 | 22,533 |
| Prepaid expenses - related parties | - | 2 |
| Prepaid expenses - other entities | 59,214 | 32,596 |
| Other receivables - related parties | 23 | 666 |
| Other receivables - other entities | 344,226 | 51,981 |
| | **1,772,353** | **1,737,049** |
| including | | |
| Long-term | 156,867 | 185,397 |
| Short-term | 1,615,486 | 1,551,652 |
| | **1,772,353** | **1,737,049** |

** See section 2.1. b

The amount PLN 344,226 thousand includes PLN 291,225 thousand paid by the Parent to increase the share capital of Grupa Azoty POLICE, which as at December 31st 2019 was deposited in the bank account of the Central Securities Depository of Poland. The share capital increase was registered on January 10th 2020, following which the amount was released to Grupa Azoty POLICE.

**Changes in loss allowances (including for estimated credit loss) - Trade receivables**

| | for the period Jan 1 – Dec 31 2019 | for the period Jan 1 – Dec 31 2018 |
|---|---|---|
| **At beginning of period** | **82,290** | **98,045** |
| *IFRS 9 adjustment* | *-* | *(203)* |
| Recognised | 17,536 | 13,568 |
| Reversed | (7,800) | (9,384) |
| Used | (7,801) | (21,433) |
| Changes in the Group | - | 1,753 |
| Exchange differences on translation | 252 | (56) |
| **At end of period** | **84,477** | **82,290** |
| including | | |
| Long-term | - | - |
| Short-term | 84,477 | 82,290 |
| | **84,477** | **82,290** |

Effect of changes in credit risk during the reporting period on expected losses on trade receivables is presented in Note 30.3.1.

(all amounts in PLN '000 unless indicated otherwise)

**Trade and other receivables by currency**

| | as at Dec 31 2019 | as at Dec 31 2018 restated* |
|---|---|---|
| PLN | 901,676 | 765,572 |
| EUR translated into PLN | 647,921 | 725,501 |
| USD translated into PLN | 142,796 | 168,296 |
| Other* | 79,960 | 77,680 |
| | **1,772,353** | **1,737,049** |
| including | | |
| Long-term | 156,867 | 185,397 |
| Short-term | 1,615,486 | 1,551,652 |
| | **1,772,353** | **1,737,049** |

*GBP, CHF ,BRL, INR, TRY, MXN, CNY, MYR, ZAR , XOF

Receivables of PLN 104,247 thousand (December 31st 2018: PLN 52,508 thousand) are pledged as security for the Group’s liabilities under receivables discounting.

## Note 17.1 Prepayments

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Insurance premiums | 29,383 | 9,890 |
| Subscriptions | 604 | 329 |
| Advertising | 185 | 431 |
| Other | 29,042 | 21,948 |
| | **59,214** | **32,598** |
| including | | |
| Long-term | 36,278 | 14,231 |
| Short-term | 22,936 | 18,367 |
| | **59,214** | **32,598** |

The increase in the amount of insurance premiums was due to execution of a project insurance policy at Grupa Azoty POLYOLEFINS.

## Note 18 Cash

***Accounting policy***
*Cash and cash equivalents comprise cash in hand, demand deposits with original maturities of less than three months. Cash and cash equivalents presented in the statement of cash flows include the above-mentioned items.*

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Cash in hand | 493 | 589 |
| Bank balances in PLN | 143,707 | 391,706 |
| Bank balances in foreign currencies (translated to PLN) | 566,994 | 151,460 |
| Bank deposits – up to 3 months | 50,493 | 302,166 |
| Other bank deposits | 6,944 | 482 |
| Other | 1,456 | 129 |
| | **770,087** | **846,532** |
| **Cash and cash equivalents in the statement of financial position** | **770,087** | **846,532** |
| **Cash and cash equivalents in the statement of cash flows** | **770,087** | **846,532** |

(all amounts in PLN '000 unless indicated otherwise)

As at December 31st 2019, the amount of funds in the split payment account was PLN 21,970 thousand (December 31st 2018: PLN 3,168 thousand) and was included in the total amount of cash at banks (PLN) disclosed at PLN 143,707 thousand.

The financing functions at the Group are centralised at the Parent which, together with the other companies of the Grupa Azoty Group, participates in the physical cash pooling mechanism in PLN ("PLN CPR") and in EUR ("EUR CPR") under an agreement with PKO BP S.A. ("PKO BP"). 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 Parent acts as an agent coordinating the cash pooling services within the Group, which means that individual Group companies settle their accounts with the Parent, and the Parent – with PKO BP. Internal settlement balances are eliminated in the consolidation process.
Any surplus cash may be invested by the Group companies in bank deposits of up to three months.

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

| | 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:** | **845,943** | **769,736** | **(142)** | **769,594** |
| AAA/AA | 25,315 | - | - | - |
| A | 467,562 | 146,916 | - | 146,916 |
| BBB/BB | 334,308 | 615,537 | (40) | 615,497 |
| B | 10,612 | 401 | (9) | 392 |
| Other | 8,146 | 6,882 | (93) | 6,789 |

| | 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:** | **1,085,338** | **846,219** | **(276)** | **845,943** |
| AAA/AA | - | 25,317 | (2) | 25,315 |
| A | 513,423 | 467,650 | (88) | 467,562 |
| BBB/BB | 444,684 | 334,453 | (145) | 334,308 |
| B | 12,168 | 10,669 | (57) | 10,612 |
| Other | 115,063 | 8,130 | 16 | 8,146 |

(all amounts in PLN '000 unless indicated otherwise)

## Note 19 Other assets

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Drilling and production costs | 15,456 | 14,562 |
| Other | 483 | 379 |
| | 15,939 | 14,941 |
| including | | |
| Long-term | 483 | 363 |
| Short-term | 15,456 | 14,578 |
| | **15,939** | **14,941** |

## Note 20 Assets held for sale

***Accounting policy***
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 Group'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 operation is a part of the Group's operations, which represent separate major line of business or a geographical area of operations, which is a part of a single coordinated plan to sold or dispose, or is a subsidiary acquired exclusively with a view to 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.*

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Land | 95 | 95 |
| Buildings and structures | 169 | 198 |
| Plant and equipment | 93 | 104 |
| Vehicles | - | 9 |
| Other property, plant and equipment | 1 | 3 |
| Property, plant and equipment under construction | 325 | 305 |
| Perpetual usufruct of land | - | 1,741 |
| Investment property | 6,527 | 6,595 |
| Right-of-use assets | 13,391 | - |
| Loans | 67 | - |
| | **20,668** | **9,050** |

The Management Board of Grupa Azoty POLICE reviewed the process of selling shares in Supra Agrochemia Sp. z o.o., a subsidiary, and resolved to dispose of the subsidiary's real estate rather than of its shares. Currently, steps are being taken to find a buyer for land properties with a total area of 11.3014 ha used by Supra Agrochemia Sp. z o.o. of Wrocław as a perpetual usufructuary. The owner of the land is the State Treasury. In October 2019, the required corporate approvals were granted and the auction process was commenced.

As the sale of assets of Supra Agrochemia Sp. z o.o. is highly probable, net non-current assets held for sale and liabilities directly related to the assets held for sale were presented as at December 31st 2019, including:

- PLN 577 thousand for property, plant and equipment,
- PLN 13,391 thousand for right-of-use assets,

(all amounts in PLN '000 unless indicated otherwise)

- PLN 6,527 thousand for investment property.
- PLN 11,502 thousand for lease liabilities presented under liabilities directly related to the assets available for sale.

On the basis of the analyses carried out, including the measurement of the right of perpetual usufruct of land, it was assessed that the carrying amount of all the subsidiary's assets is not higher than their market value.

## Note 21 Equity

***Accounting policy***
*Equity is divided by type according to the applicable laws and the Parent'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.*

### 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** |

**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 Parent's 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 Parent carrying at least one-fifth of the total voting rights, the other shareholders' voting rights will be limited in such a manner that no shareholder may exercise at the General Meeting more than one-fifth of total voting rights 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** |

The share premium is recognised exclusively at the level of the Parent. Reserve capital and statutory capital reserves of the subsidiaries are recognised in retained earnings.

## 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.

(all amounts in PLN '000 unless indicated otherwise)

## Note 21.4 Non-controlling interests

| December 31st 2019 | Grupa Azoty POLICE | Grupa Azoty PUŁAWY | Grupa Azoty KĘDZIERZYN | Grupa Azoty S.A. POLYOLEFINS | ZARZĄD MORSKIEGO PORTU POLICE |
|---|---|---|---|---|---|
| Equity attributable to non-controlling interests (%) | **34.00%** | **4.02%** | **6.52%** | **18.02%** | **34.06%** |
| Non-current assets | 1,885,856 | 3,443,002 | 1,566,855 | 319,440 | 13,867 |
| Current assets | 662,363 | 1,642,345 | 773,163 | 398,352 | 39,844 |
| Non-current liabilities | (491,416) | (524,746) | (458,091) | (15,687) | (3,508) |
| Current liabilities | (810,558) | (913,383) | (538,828) | (269,481) | (515) |
| **Net assets** | **1,246,245** | **3,647,218** | **1,346,099** | **432,624** | **49,688** |
| **Non-controlling interests** | **311,766** | **133,150** | **85,735** | **77,492** | **16,891** |
| Revenue | 2,419,091 | 3,137,472 | 1,834,609 | 1,053 | 4,719 |
| Net profit/(loss) | 66,933 | 223,717 | 126,434 | (12,971) | 1,465 |
| Other comprehensive income | (2,304) | (7,835) | 2,979 | (298) | - |
| **Total profit or loss and other comprehensive income** | **64,629** | **215,882** | **129,413** | **(13,269)** | **1,465** |
| **Net profit/(loss) attributable to non-controlling interests** | **22,757** | **8,993** | **8,243** | **(2,335)** | **499** |
| **Other comprehensive income attributable to non-controlling interests** | **(783)** | **(315)** | **194** | **(54)** | **-** |
| Cash flows from operating activities | 350,826 | 696,770 | 496,370 | (52,135) | 2,747 |
| Cash flows from investing activities | (159,300) | (536,214) | (149,366) | (77,900) | 2,403 |
| Cash flows from financing activities | (184,597) | (89,340) | (125,049) | 405,904 | (175) |
| **Total net cash flows** | **6,929** | **71,216** | **221,955** | **275,869** | **4,975** |
| **Dividend payable to non-controlling interests** | **-** | **1,352** | **520** | **-** | **-** |

| Dec 31 2018 | Grupa Azoty POLICE | Grupa Azoty PUŁAWY | Grupa Azoty KĘDZIERZYN | Grupa Azoty S.A. POLYOLEFINS | ZARZĄD MORSKIEGO PORTU POLICE |
|---|---|---|---|---|---|
| Equity attributable to non-controlling interests (%) | **34.00%** | **4.02%** | **6.52%** | **20.00%** | **34.06%** |
| Non-current assets | 1,748,026 | 3,233,514 | 1,498,564 | 184,266 | 10,700 |
| Current assets | 600,969 | 1,330,080 | 589,769 | 112,052 | 38,668 |
| Non-current liabilities | (441,843) | (266,632) | (385,331) | (330) | - |

(all amounts in PLN '000 unless indicated otherwise)

| | | | | | |
|---|---|---|---|---|---|
| Current liabilities | (726,401) | (831,984) | (481,334) | (13,434) | (1,145) |
| **Net assets** | **1,180,751** | **3,464,978** | **1,221,668** | **282,554** | **48,223** |
| **Non-controlling interests** | **314,049** | **120,284** | **78,735** | **56,340** | **16,393** |
| Revenue | 2,411,802 | 3,107,307 | 1,963,179 | 51 | 3,967 |
| Net profit/(loss) | 53,212 | (159) | 11,585 | (9,731) | 4,040 |
| Other comprehensive income | (1,440) | (388) | (6,488) | 61 | - |
| **Total profit or loss and other comprehensive income** | 51,772 | (547) | 5,097 | (9,670) | 4,040 |
| **Net profit/(loss) attributable to non-controlling interests** | 18,092 | (6) | 755 | (1,946) | 1,376 |
| **Other comprehensive income attributable to non-controlling interests** | **(490)** | **(16)** | **(423)** | **12** | **-** |
| Cash flows from operating activities | 210,869 | 376,715 | 178,975 | (9,504) | 1,602 |
| Cash flows from investing activities | (170,589) | (276,949) | (138,155) | (58,720) | (221) |
| Cash flows from financing activities | (77,406) | (87,576) | (5,766) | 120,271 | - |
| **Total net cash flows** | **(37,126)** | **12,190** | **35,054** | **52,047** | **1,381** |
| **Dividend payable to non-controlling interests** | **13,515** | **3,427** | **2,639** | **-** | **-** |

(all amounts in PLN '000 unless indicated otherwise)

The non-controlling interests in other subsidiaries are not individually material.

**Changes in non-controlling interests**

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| **At beginning of period** | 625,188 | 587,648 |
| *Effect of IFRS 9 and IFRS 15* | - | *(400)* |
| Dividend paid by subsidiaries | (2,695) | (20,350) |
| Loss of control over a subsidiary | - | 60,889 |
| Changes in the subsidiaries' shareholding structure | 3,103 | 654 |
| Share in profit/loss of subsidiaries | 33,391 | (3,056) |
| Other | (1,414) | (197) |
| **At end of period** | **657,573** | 625,188 |

As at December 31st 2019 and December 31st 2018, the proportion of non-controlling shareholders' voting rights at the Group's subsidiaries was equal to the non-controlling shareholders' interest in their respective share capitals,

## Note 21.5 Acquisition of non-controlling interests

For description of changes in the ownership structure of the Group companies, including in particular the description of purchase of shares in Grupa Azoty SIARKOPOL from minority shareholders by the Parent in 2019, see section 1.2.2. Other decreases in non-controlling interests resulted from cancellation of shares at PROZAP Sp. z o.o. and REMZAP Sp. z o.o.

## Note 21.6 Dividends

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

## Note 22 Borrowings

***Accounting policy***
*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.*

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Bank borrowings | 2,751,911 | 2,739,456 |
| Loans | - | 111,517 |
| | **2,751,911** | **2,850,973** |
| including | | |
| Long-term | 2,546,003 | 2,488,353 |
| Short-term | 205,908 | 362,620 |
| | **2,751,911** | **2,850,973** |

As part of the centralised financing model, the Parent Company has entered into a syndicated credit facility agreement with PKO BP BGK, Santander and 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 Parent is also party to long-term facility agreements totalling PLN 1,670m, including a

- PLN 100m facility from the EIB and a PLN 127m 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 Parent, 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). Additionally, the Company and other selected subsidiaries are parties to a PLN 310m overdraft facility agreement (PLN KRB) with PKO BP (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, amendments to the facility 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; among other things, the amendments require that the Group participates in the financing of the Police Polymery project at the level expected by the bank syndicate. For further information on covenants, see Note 30.3.2.

The amount of limits under overdraft and multi-purpose credit facilities available to the Group as at December 31st 2019 was PLN 894m (December 31st 2018: PLN 677m). In addition, as at the reporting date, the Group had unused limits under corporate credit facilities of ca. PLN 2,143m and ca. PLN 52m in funds available under special purpose loans.

In total, as at December 31st 2019 the Group had access to credit limits under the agreements specified above of ca. PLN 3,089m (December 31st 2018: PLN 3,082m).

**Security for borrowings**

The corporate financing package is secured in the form of harmonised sureties and guarantees granted by the selected subsidiaries, i.e. Grupa Azoty Puławy S.A., Grupa Azoty Police S.A. and Grupa Azoty ZAK S.A. Each of the above-mentioned subsidiaries provided sureties/guarantees up to 1 /3 of 120% of the value of the loan agreements, including:

- The PLN 3,000m revolving credit facility and term credit facility (total sureties of up to PLN 3,600m),
- 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 European Investment Bank (total guarantees of up to PLN 660m),
- the EUR 145m loan facility from the European Investment Bank (total guarantees of up to EUR 174m).
- the PLN 150m loan facility from the European Bank for Reconstruction and Development (total guarantees of up to PLN 180m).
- the PLN 500m loan facility from the European Bank for Reconstruction and Development (total guarantees of up to PLN 600m).

Additionally, as presented in Note 10, certain Group's subsidiaries have mortgages and registered pledges securing their bank credits and loans contracts. Such mortgages and pledges do not violate the covenants included in the above mentioned corporate

(all amounts in PLN '000 unless indicated otherwise)

**Grupa Azoty's credit facility and loan agreements as at December 31st 2019**

| Credit facility/loan | Currency | Reference rate | Amount as at the reporting date in foreign currency | Amount as at the reporting date in PLN | up to 1 year | 1–2 years | 2–5 years | over 5 years |
|---|---|---|---|---|---|---|---|---|
| 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 |
| PKO Bank Poland (loan logistics centre) EUR | EUR | variable | 2,000 | 8,517 | 1,703 | 3,407 | 3,407 | - |
| Brazil Banco do Brasil Overdraft facility factoring line | BRL | fixed | 2,540 | 511 | 511 | - | - | - |
| Greece pyraeus bank loan | EUR | fixed | 247 | 1,052 | 1,052 | - | - | - |
| Spain Loan CDTI | EUR | fixed | 350 | 1,490 | 298 | 596 | 596 | - |
| Spain Mortage loan - BBVA | EUR | fixed | 2,484 | 10,578 | 1,445 | 1,422 | 4,531 | 3,180 |
| Spain Credit line - Sabadell | EUR | variable | 2,853 | 12,150 | 12,150 | - | - | - |
| Spain Credit line - Santander | EUR | fixed | 992 | 4,224 | 4,224 | - | - | - |
| Spain Credit line – BBVA | EUR | variable | 1,334 | 5,681 | 5,681 | - | - | - |
| Overdraft facility with PKO BP S.A. | PLN | variable | (18) | - | (18) | - | - | - |
| PKO BP S.A., working capital facility | PLN | variable | 5,000 | - | 5,000 | - | - | - |
| WFOŚiGW – loan | PLN | variable | 33,176 | - | 10,722 | 11,250 | 11,204 | - |
| NFOŚiGW – loan | PLN | variable | 54,496 | - | 12,721 | 12,860 | 28,915 | - |
| BGK EUR | EUR | variable | 16,000 | 68,137 | 17,035 | 16,836 | 34,266 | - |
| PKO BP S.A. payment cards | PLN | variable | 15 | - | 15 | - | - | - |
| | | | | **2,751,911** | **205,908** | **178,658** | **586,488** | **1,780,857** |

(all amounts in PLN '000 unless indicated otherwise)

**Grupa Azoty Group's credit facility and loan agreements as at December 31st 2018**

| Credit facility/loan | Currency | Reference rate | Amount as at the reporting date in foreign currency | Amount as at the reporting date in PLN | up to 1 year | 1–2 years | 2–5 years | over 5 years |
|---|---|---|---|---|---|---|---|---|
| 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 |
| Other | PLN | | - | 1 | 1 | - | - | - |
| Multi-purpose credit facility limit | EUR | variable | 13,941 | 13,941 | 5,341 | 3,440 | 5,160 | - |
| Term credit facility from BGK | EUR | variable | 20,000 | 86,000 | 17,200 | 17,200 | 51,600 | |
| Loan from the National Fund for Environmental Protection and Water Management | PLN | variable | - | 67,287 | 12,652 | 12,860 | 38,580 | 3,195 |
| Loan from the Provincial Fund for Environmental Protection and Water Management | PLN | variable | - | 44,230 | 10,525 | 11,250 | 22,455 | - |
| Term credit facility from BGK | PLN | variable | - | 7,125 | 7,125 | - | - | - |
| Payment card credit facility from PKO BP S.A. | PLN | variable | - | 9 | 9 | - | - | - |
| Credit facility from Banco do Brasil | BRL | fixed | 853 | 826 | 826 | - | - | - |
| Credit facility from Banco Bradesco | USD | fixed | 300 | 1,127 | 1,127 | - | - | - |
| Credit facility from Alpha Bank | EUR | variable | 241 | 1,036 | 1,036 | - | - | - |
| Credit facility from Piraeus Bank | EUR | variable | 754 | 3,242 | 3,242 | - | - | - |
| Overdraft credit facility from Banco Popular | EUR | variable | 905 | 3,892 | 3,892 | - | - | - |
| Overdraft credit facility from BBVA | EUR | variable | 1,363 | 5,861 | 5,861 | - | - | - |
| Overdraft credit facility from Banco Sabadell | EUR | variable | 2,899 | 12,466 | 12,466 | - | - | - |
| Term credit facility from BBVA | EUR | variable | 2,808 | 12,073 | 1,426 | 1,458 | 4,468 | 4,721 |
| Term credit facility from CDTI | EUR | fixed | 167 | 718 | - | 301 | 417 | - |
| | | | | **2,850,973** | **362,620** | **145,306** | **522,317** | **1,820,730** |

(all amounts in PLN '000 unless indicated otherwise)

The amount in PLN includes adjustments for the measurement of credit facilities at adjusted cost, i.e. inclusive of facility commission fees.

**Maturities and currencies of borrowings**

**As at December 31st 2019**

| Currency | Reference rate | Amount as at the reporting date | | up to 1 year | 1–2 years | 2–5 years | over 5 years |
|---|---|---|---|---|---|---|---|
| | | in foreign currency | in PLN | | | | |
| PLN | variable / fixed | 1,026,146 | 1,026,146 | 50,928 | 50,663 | 141,318 | 783,237 |
| EUR | variable / fixed | 405,131 | 1,725,254 | 154,469 | 127,995 | 445,170 | 997,620 |
| BRL | fixed | 2,540 | 511 | 511 | - | - | - |
| | | | **2,751,911** | **205,908** | **178,658** | **586,488** | **1,780,857** |

**As at December 31st 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 / fixed | 1,070,499 | 1,070,499 | 51,191 | 44,810 | 154,715 | 819,783 |
| EUR | variable / fixed | 415,171 | 1,778,521 | 309,476 | 100,496 | 367,602 | 1,000,947 |
| USD | fixed | 300 | 1,127 | 1,127 | - | - | - |
| BRL | fixed | 853 | 826 | 826 | - | - | - |
| | | | **2,850,973** | **362,620** | **145,306** | **522,317** | **1,820,730** |

**Note 23 Lease liabilities**

***Accounting policy***

***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 Group 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.*

(all amounts in PLN '000 unless indicated otherwise)

***Reassessment of the lease liability***

*The Group 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 Group 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 Group then determines the revised lease payments to reflect the change in amounts payable under the purchase option.*

*The Group 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 Group; and*
- *affects whether the Group 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 Group 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 Group exercises an option not previously included in the Group's determination of the lease term;*
- *the Group does not exercise an option previously included in the Group's determination of the lease term;*
- *an event occurs that contractually obliges the Group to exercise an option not previously included in the Group 's determination of the lease term; or*
- *an event occurs that contractually prohibits the Group from exercising an option previously included in the Group's determination of the lease term.*

*The Group 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 Group 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 Group 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 Group 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 Group recognises any remaining amount of the remeasurement in profit or loss.*

| | **as at Dec 31 2019** |
|---|---|
| As at January 1st 2019 | 439,954 |
| Increase (new leases) | 21,283 |
| Lease modifications | 6,247 |
| Revaluation | 518 |
| Interest | 13,553 |
| Payments | (54,543) |
| | **427,012** |
| including | |
| Long-term | 367,482 |
| Short-term | 59,530 |
| | **427,012** |

(all amounts in PLN '000 unless indicated otherwise)

***Lease liabilities as at December 31st 2018***

| | as at Dec 31 2018 |
|---|---|
| Finance lease liabilities | 25,672 |
| including | |
| Long-term | 16,806 |
| Short-term | 8,866 |
| | **25,672** |

**Schedule of finance lease liabilities as at December 31st 2018**

| | Minimum lease payments | Interest | Principal |
|---|---|---|---|
| Up to 1 year | 9,949 | 1,071 | 8,878 |
| From 1 to 3 years | 14,170 | 942 | 13,228 |
| From 3 to 5 years | 1,745 | 147 | 1,598 |
| Over 5 years | 3,713 | 1,745 | 1,968 |
| | **29,577** | **3,905** | **25,672** |

## Note 24 Other financial liabilities

| | as at Dec 31 2019 | as at Dec 31 2018 restated* |
|---|---|---|
| Liabilities under receivables discounting | 104,247 | 52,340 |
| Liabilities under reverse factoring agreements | 446,047 | 132,833 |
| Other obligations | 22,368 | 26,029 |
| | **572,662** | **211,202** |
| including | | |
| Long-term | 18,357 | 21,930 |
| Short-term | 554,305 | 189,272 |
| | **572,662** | **211,202** |

Liabilities under reverse factoring agreements relate to liabilities towards suppliers paid by the financing party when due, and for which the financing party postponed the due date in exchange for payment of interest by the Group for the financing period from the original payment date to the postponed date. The Group 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. Payment of reverse factoring liabilities is presented under cash flows from financing activities.

(all amounts in PLN '000 unless indicated otherwise)

## Note 25 Change in liabilities arising from financing activities

**December 31st 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 | 2,488,353 | - | 172,241 | (13,887) | (100,704) | 2,546,003 |
| Lease liabilities (non-current) | 23 | 16,806 | 368,369 | (16,927) | (766) | - | 367,482 |
| Interest-bearing borrowings (short-term) | 22 | 362,620 | - | (241,688) | (4,140) | 89,116 | 205,908 |
| Lease liabilities (current) | 23 | 8,866 | 88,769 | (38,079) | (26) | - | 59,530 |
| Derivative financial instruments | 30 | 188 | - | - | - | (173) | 15 |
| Liabilities under receivables discounting | 24 | 52,340 | - | 52,412 | (505) | - | 104,247 |
| Liabilities under reverse factoring agreements | 24 | 132,833 | - | (695,547) | (1,532) | 1,010,293 | 446,047 |
| Other financial liabilities | 24 | 26,029 | - | (40,388) | - | 36,727 | 22,368 |
| **Total liabilities arising from financing activities** | | **3,088,035** | **457,138** | **(807,976)** | **(20,856)** | **1,035,259** | **3,751,600** |
| **Other financial liabilities** | 24 | **211,202** | **-** | **(683,523)** | **(2,037)** | **1,047,020** | **572,662** |
| **Derivative financial instruments** | 30 | **188** | **-** | **-** | **-** | **(173)** | **15** |
| **Borrowings** | 22 | **2,850,973** | **-** | **(69,447)** | **(18,027)** | **(11,588)** | **2,751,911** |
| **Lease liabilities** | 23 | **25,672** | **457,138** | **(55,006)** | **(792)** | **-** | **427,012** |

(all amounts in PLN '000 unless indicated otherwise)

**December 31st 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 | 1,564,879 | 446,117 | 14,215 | 463,142 | 2,488,353 |
| Liabilities under finance leases and lease contracts with purchase option (non-current) | 23 | 14,846 | (3,444) | - | 5,404 | 16,806 |
| Interest-bearing borrowings (short-term) | 22 | 70,209 | 185,641 | 284 | 106,486 | 362,620 |
| Liabilities under finance leases and lease contracts with purchase option (current) | 23 | 7,597 | (6,643) | - | 7,912 | 8,866 |
| Derivative financial instruments | 30 | | - | - | 188 | 188 |
| Liabilities under receivables discounting | 24 | 20,387 | 30,944 | 1,009 | - | 52,340 |
| Liabilities under reverse factoring agreements | 24 | - | - | | 132,833 | 132,833 |
| Other financial liabilities | 24 | 28,246 | (6,644) | - | 4,427 | 26,029 |
| **Total liabilities arising from financing activities** | | **1,706,164** | **645,971** | **15,508** | **720,392** | **3,088,035** |
| **Other financial liabilities** | 24 | **48,633** | **24,300** | **1,009** | **137,260** | **211,202** |
| **Derivative financial instruments** | 30 | **-** | **-** | **-** | **188** | **188** |
| **Borrowings** | 22 | **1,635,088** | **631,758** | **14,499** | **569,628** | **2,850,973** |
| **Lease liabilities** | 23 | **22,443** | **(10,087)** | | **13,316** | **25,672** |

(all amounts in PLN '000 unless indicated otherwise)

## Note 26 Employee benefit obligations

***Accounting policy***

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

***Defined contribution plans***

*Under current regulations the Group has an obligation to withhold and pay contributions concerning social security of the employees. Under IAS 19, these benefits are a defined contribution state plan. The Group's obligations relating to the 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 agreements with employees, the Group companies pay fixed contributions to separate entities and have 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.*

***Defined benefit plans***

*The Group'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.*

***Defined benefit plans - retirement and death benefits***

*Under current Labour Code and collective bargaining agreement regulations the Group has an obligation to pay retirement and death benefits.*

*The Group's retirement benefit obligation is calculated by a qualified actuary using the projected unit credit method. The estimate of the future salaries and wages at the retirement date and the amount of future benefits to be paid is included in the calculation. The benefits are discounted to determine their present value. The Group'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 Group'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.*

***Defined benefit plans - provisions for Company Social Fund benefits for pensioners***

*Under current regulations the Group has an obligation to pay social benefits to pensioners. Therefore, the Group 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.*

***Other long-term employee benefits − jubilee benefits***

*The Group offers jubilee awards to its employees. The cost of the awards depends on the length of service and remuneration of the employees when the awards are paid.*

*Benefits are calculated using the projected unit credit method. The Group's obligation under jubilee awards 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 Group'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.*

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Pension benefit obligations | 219,189 | 177,656 |
| Jubilee benefit obligations | 254,551 | 213,123 |
| Pensioner Social Fund benefit obligations | 24,110 | 22,425 |

(all amounts in PLN '000 unless indicated otherwise)

| | | |
|---|---|---|
| Other obligations | 24,771 | 27,103 |
| | **522,621** | **440,307** |
| including | | |
| Long-term | 469,351 | 394,677 |
| Short-term | 53,270 | 45,630 |
| | **522,621** | **440,307** |

**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** | **227,184** | **178,236** |
| Current service cost (+) | 10,958 | 6,557 |
| Interest expense (+) | 5,617 | 5,554 |
| Remeasurement of net defined benefit obligation/asset, resulting from: | 31,366 | 19,428 |
| *- changes in demographic estimates (+/-)* | *20,625* | *6,597* |
| *- changes in financial assumptions (+/-)* | *10,741* | *12,831* |
| Past service cost (+/-) | 6,961 | 1,844 |
| Exchange differences on translation (+/-) | (591) | 127 |
| Benefits paid (-) | (13,405) | (12,695) |
| Acquisition of companies, including | - | 28,133 |
| *Increase due to acquisition of COMPO EXPERT* | - | *27,275* |
| **At end of period** | **268,090** | **227,184** |

**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** | **213,123** | **200,861** |
| Current service cost (+) | 13,127 | 11,435 |
| Interest expense (+) | 5,789 | 6,491 |
| Actuarial gains and losses recognised in profit or loss for the period (+/-) | 35,405 | 7,312 |
| Past service cost (+/-) | 9,556 | (41) |
| Change in foreign exchange rates (+/-) | (92) | 15 |
| Benefits paid (-) | (22,377) | (22,243) |
| Acquisition of companies, including | - | 9,293 |
| *Increase due to acquisition of COMPO EXPERT* | - | *6,165* |
| **At end of period** | **254,531** | **213,123** |

**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)

## Note 27 Trade and other payables

***Accounting policy***
*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.*

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Trade payables - other entities | 1,252,536 | 1,526,748 |
| Liabilities to state budget, except for income tax | 157,581 | 168,055 |
| Liabilities under construction contracts – other entities | 851 | 29 |
| Salaries and wages payable | 60,802 | 58,240 |
| Liabilities under purchases of property, plant and equipment, intangible assets, investment properties - other entities | 114,177 | 133,647 |
| Prepayments for deliveries - other entities | 10,559 | 53,958 |
| Other liabilities - related parties | 2,199 | 1,816 |
| Other liabilities - other entities | 37,286 | 57,713 |
| Accrued expenses - related parties | 797 | 294 |
| Accrued expenses - other entities | 858,392 | 586,385 |
| Deferred income – other entities | | 5,305 |
| Liabilities under bonuses – other entities | 44,539 | 17,524 |
| Liabilities under material rights granted to customers – other entities | 4,100 | 1,021 |
| | **2,543,819** | **2,610,735** |
| including | | |
| Long-term | 27,252 | 12,446 |
| Short-term | 2,516,567 | 2,598,289 |
| | **2,543,819** | **2,610,735** |

(all amounts in PLN '000 unless indicated otherwise)

**Aging of trade payables**

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Not past due | 1,166,879 | 1,404,415 |
| Past due up to 60 days | 76,128 | 114,510 |
| Past due 61−180 days | 2,301 | 5,125 |
| Past due 181-360 days | 4,463 | 1,228 |
| Past due more than 360 days | 2,765 | 1,470 |
| | **1,252,536** | **1,526,748** |

**Currency structure of payables**

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| PLN | 1,836,802 | 1,965,072 |
| EUR translated into PLN | 600,222 | 517,965 |
| USD translated into PLN | 65,694 | 87,345 |
| Other* | 41,101 | 40,353 |
| | **2,543,819** | **2,610,735** |

*GBP, CHF, BRL, INR, TRY, MXN, CNY, MYR, ZAR

## Note 27.1 Accrued expenses

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Obligations – annual bonus | 110,164 | 106,725 |
| Obligations – accrued holiday entitlements | 42,497 | 41,718 |
| Liabilities – incentive/quarterly bonus | 20,624 | 19,762 |
| Other employee benefit obligations | 6,648 | 6,888 |
| Costs related to sale of licence | 149 | 149 |
| Energy certificates | 18,581 | 30,151 |
| Emission allowances | 594,553 | 321,253 |
| Uninvoiced expenses | 33,319 | 25,373 |
| Other | 32,654 | 34,660 |
| | **859,189** | **586,679** |
| including | | |
| Long-term | 95 | 6,381 |
| Short-term | 859,094 | 580,298 |
| | **859,189** | **586,679** |

The PLN 272,510 thousand increase as at December 31st 2019 was mainly attributable to an increase in the provision for amortisation of $C0_2$ allowances, attributable to an increase in prices of the allowances.

## Note 28 Provisions

***Accounting policy***
*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.*

(all amounts in PLN '000 unless indicated otherwise)

*If the Group 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.*
*Costs of provisions for the rehabilitation of production waste disposal sites are recognised in accordance with simultaneous recognition of decommissioning assets in accordance with IAS 16 Property, Plant and Equipment and IFRIC 1 Changes in Existing Decommissioning, Rehabilitation and Similar Liabilities. Depreciation of the recognised asset is charged to production costs. Reversal of the provision discount is charged to finance costs.*

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Provision for litigation | 10,566 | 8,171 |
| Provision for environmental protection | 196,529 | 139,486 |
| Other provisions | 34,868 | 40,540 |
| | **241,963** | **188,197** |
| including | | |
| Long-term | 204,850 | 143,772 |
| Short-term | 37,113 | 44,425 |
| | **241,963** | **188,197** |

***Parent***
**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, including a cost reserve. 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 as at the reporting date and the long-term inflation target set by the National Bank of Poland.

***Grupa Azoty POLICE***

**Provision for environmental protection**

The provision for site restoration was recognised to cover future costs of land remediation, monitoring and protection of surface waters for the ferrous sulfate and phosphogypsum landfill sites. It was assumed that sludge from the sediment tanks located at the company's wastewater treatment plant would be used (in accordance with a decision of the Governor of the Szczecin Province) for partial rehabilitation of the phosphogypsum landfill site, which would significantly reduce the costs of its restoration once the disposal of phosphogypsum is completed. The extraction and transport costs were estimated on the basis of evaluation of related work. The costs of groundwater monitoring and protection were estimated on the basis of average costs incurred in recent years, taking into account their reduction resulting from the passage of time. The amount of the provision reflects expected costs to be incurred after the landfill sites are closed, taking into account the time will pass until completion of the rehabilitation process. As at December 31st 2019, the amount of provisions recognised for the costs was PLN 101,953 thousand (December 31st 2018: PLN 62,342 thousand).

The provision for cleaning of process units (removal of chemical substances) was recognised to cover costs of cleaning activities following closure of the process units. The provision was estimated separately for each production line, based on cost estimates prepared by each plant. As at December 31st 2019, the amount of provisions recognised for the costs was PLN 9,150 thousand (December 31st 2018: PLN 5,521 thousand).

The Company estimates that the provision for site restoration will be used in approximately 25 to 30 years (after the use of the landfill sites for waste storage is discontinued) and from that time onwards, for about 30 years, the provisions for the costs of monitoring and protection of surface water will be used.

The discount rate for provisions was determined by the Company based on the return on securities whose maturity date corresponds to the estimated liabilities settlement date (30-year treasury bonds). The provisions were discounted at the real interest rate of 0.02% as at December 31st 2019 (December 31st 2018: 1.8%).

The change in the balance of provisions was due to the lower discount rate as well as changes in other provision estimates, including:

- a PLN 40,322 thousand increase in provisions, including PLN 31,583 thousand for landfill site restoration,
- discount of PLN 2,918 thousand was unwound (including PLN 2,231 thousand relating to site restoration).

The amount of the increase in provisions was charged to assets related to costs of restoration and decommissioning, and costs of cleaning of decommissioned units.

*Grupa Azoty KĘDZIERZYN*

**Remediation of areas contaminated by chemical substances**

A survey of soil quality found that the permitted contamination limits were exceeded for certain chemicals. The environmental protection laws require that areas where contamination limits have been exceeded must be remediated to restore the quality of soil and ground to the required standards. At the beginning of 2020 the provision estimate was updated by Ramboll Environ, which resulted in a PLN 4,526 thousand increase in the provision as at December 31st 2019. The amount of the provision for remediation of areas contaminated with chemical substances was estimated on the assumption that these works will be carried out and completed by 2035. The other changes in 2019 were due solely to the change in the real discount rate.

The amount of the provision for land remediation is revised based on work performed at certain locations and discounted. As at December 31st 2019, a real discount rate of 0% was applied. The present value of the remediation provision as at December 31st 2019 was PLN 19 thousand (December 31st 2018: PLN 13,522 thousand, at a real discount rate of 1%).

In addition, a PLN 1,575 thousand provision was recognised for remediation of a site leased by the company where waste with a potential adverse impact on the environment was stored. The amount of the provision remained unchanged as at December 31st 2019.

**Other provisions**

The Company recognised a PLN 3,210 thousand provision for the costs of removal and disposal of waste. Following the revision of the report by Rambol Environ, the provision was increased by PLN 215 thousand as at December 31st 2019.

In the current period, the Company, having taken certain administrative actions, reversed a PLN 600 thousand provision relating to claims of the authors of the operationalisation solution for phtalic acid anhydride units; the steps taken are likely to result in the claims being nullified.

*Grupa Azoty PUŁAWY*

**Provisions for waste disposal and other costs related to environmental protection**

The provisions comprise:

- provision for liabilities related to landfill site restoration and monitoring,
- provision for liabilities related to withdrawal of asbestos-containing products,
- provision for liabilities related to emptying of production units and management of removed waste.

The provisions are estimated up to the amount of expected future liabilities. Given their longer time horizon, in the statement of financial position they are shown at amounts discounted to the present values. The nominal discount rate of 2.05% was used to calculate the amounts of the provisions.

As regards the provision for landfill site restoration, it was assumed that further use of the landfill would continue for 18.5 years and its monitoring – for 30 years. Restoring and monitoring of landfill sites is mandated by law.

As regards the provision related to withdrawal of asbestos-containing products, it was assumed that the expenditure would be incurred proportionally over a 12.5-year period. Withdrawal from use of asbestos-containing products is mandated by law.

(all amounts in PLN '000 unless indicated otherwise)

In the case of the provision for emptying of production units and management of removed waste, it was estimated that the units would be in further operation for 18.5 years. The obligation to empty the production units and manage the removed waste is imposed by law.

**Change in provisions**

| | Provision for litigation | Provision for environmental protection | Other provisions | Total |
|---|---|---|---|---|
| **As at Jan 1 2019** | **8,171** | **139,486** | **40,540** | **188,197** |
| ***Increase, including:*** | ***6,713*** | ***83,157*** | ***14,195*** | ***104,065*** |
| Recognition | 6,685 | 17,224 | 14,044 | 37,953 |
| Change of discount rate | - | 65,933 | - | 65,933 |
| Other increase | 28 | - | 151 | 179 |
| ***Decrease, including: (-)*** | ***(4,318)*** | ***(26,114)*** | ***(19,867)*** | ***(50,299)*** |
| Use | (1,780) | (1,740) | (9,365) | (12,885) |
| Reversal | (2,231) | (84) | (6,474) | (8,789) |
| Translation of exchange differences | (6) | - | (64) | (70) |
| Disposal | - | (24,290) | - | (24,290) |
| Other decrease | (301) | - | (3,964) | (4,265) |
| **As at Dec 31 2019** | **10,566** | **196,529** | **34,868** | **241,963** |

(all amounts in PLN '000 unless indicated otherwise)

| | Provision for litigation | Provision for environmental protection | Other provisions | Total |
|---|---|---|---|---|
| **As at Jan 1 2018** | **5,164** | **123,066** | **24,315** | **152,545** |
| ***Increase, including:*** | ***5,131*** | ***20,255*** | ***23,177*** | ***48,563*** |
| Recognition | 1,553 | 17,560 | 15,844 | 34,957 |
| Acquisition of COMPO EXPERT | 3,578 | - | 6,882 | 10,460 |
| Discount | - | 1,588 | - | 1,588 |
| Increase due to translation of exchange differences | - | - | 395 | 395 |
| Other increase | - | 1,107 | 56 | 1,163 |
| ***Decrease, including: (-)*** | ***(2,124)*** | ***(3,835)*** | ***(6,952)*** | ***(12,911)*** |
| Use | (1,058) | (2,085) | (2,341) | (5,484) |
| Reversal | (1,042) | (1,750) | (4,490) | (7,282) |
| Translation of exchange differences | (2) | - | - | (2) |
| Other decrease | (22) | - | (121) | (143) |
| **As at Dec 31 2018** | **8,171** | **139,486** | **40,540** | **188,197** |

## Note 29 Grants

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Grants | **207,443** | **144,001** |
| including | | |
| Long-term | 193,963 | 136,002 |
| Short-term | 13,480 | 7,999 |
| | **207,443** | **144,001** |

The Group received and settled grants related to free-of-charge $CO_2$ emission allowances amounting to PLN 381,672 thousand (2018: PLN 189,948 thousand) and received $CO_2$ emission allowances following the completion of a project included in the National Investment Plan, with a value of PLN 51,628 thousand (2018: PLN 26,802 thousand);

Material grants which remained unsettled as at December 31st 2019 were:

- grant of PLN 102,582 thousand (December 31st 2018: PLN 56,971 thousand) for receipt of $CO_2$ emission allowances upon completion of a project recognised in the National Investment Plan, at the Parent, Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN,
- grant of PLN 16,418 thousand (December 31st 2018: PLN 17,445 thousand) to finance the project “Flue gas desulfurisation unit and upgrade of EC II” at Grupa Azoty POLICE,
- grant of PLN 14,035 thousand (December 31st 2018: PLN 13,034 thousand) for the construction of a new techincal-grade nitric acid unit and a pressure neutralisation unit at Grupa Azoty KĘDZIERZYN,
- grant of PLN 19,294 thousand (December 31st 2018: PLN 13,042 thousand) for the project “Technology Demonstrator-Special Esters I” related to the purchase and construction of property, plant and equipment at Grupa Azoty KĘDZIERZYN,
- grant of PLN 18,432 thousand (December 31st 2018: PLN 12,114 thousand) for the construction of the Parent’s Research and Development Centre.

## Note 30 Financial instruments

***Accounting policy***

*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 Group'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 Group's own equity instruments. For this purpose the Group's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the Group'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 Group'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 Group's own equity instruments. For this reason 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.*

**Initial recognition and derecognition of financial assets and liabilities**

*The Group 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 Group 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 Group 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 Group 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.*

***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).*

***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 Group 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 Group classifies trade receivables to be sold.*

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

*Upon initial recognition, the Group 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 Group 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 Group:*

- *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.*

***Derivative financial instruments***

*The Group uses derivative financial instruments to manage its currency risk exposure resulting from operating, financing and investment activities. In accordance with its treasury policy, the Group 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.*

***Impairment of financial assets***

*The Group 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 Group 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 Group under the contract throughout the expected life of the asset and the amount of cash flows that the Group 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 Group uses the following models for estimating allowances for expected credit losses:*

*a) general approach,*

*b) simplified approach (provision matrix).*

*Under the general approach, the Group 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 Group 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 Group analyses whether there is any indication that a financial asset should be classified to any of the above stages.*

*The Group applies the general approach for financial assets other than trade receivables.*

*The simplified model is applied to trade receivables.*

*Under the simplified approach, the Group estimates the impairment allowance based on historical credit loss experience.*

*In the case of purchased or originated credit-impaired financial assets, the Group 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 Group 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.*

***Hedge accounting***

*As regards hedge accounting, the Group 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 Group 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 Group 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.*

(all amounts in PLN '000 unless indicated otherwise)

## Note 30.1 Capital management

The Group'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 Parent monitors changes in the shareholding structure, return on capital, and debt to equity ratios.
The Group manages the capital in order to ensure the Group's ability to continue as a going concern and to maximise returns for shareholders through optimisation of the debt to equity ratio.
The capital structure of the Group consists of liabilities, including borrowings presented in Note 22, other financial liabilities presented in Note 24, and equity presented in Note 21.
The Parent, as a joint-stock company, is subject to the regulation under Art. 396.1 of the Commercial Companies Code, which requires transferring to the reserves at least 8% of the profit for the period, until such reserves equal one-third or more of the share capital. This level was reached in previous years and is therefore at present the regulation does not apply to the Parent.

## Note 30.2 Categories of financial instruments

### Financial assets

| | as at Dec 31 2019 | as at Dec 31 2018 restated* |
|---|---|---|
| At fair value through profit or loss | 5,918 | 2,017 |
| At amortised cost | 2,296,048 | 2,043,598 |
| At fair value through other comprehensive income | 16,314 | 16,374 |
| | **2,318,280** | **2,061,989** |
| **Recognised in the statement of financial position as:** | | |
| Derivative financial instruments | 5,918 | 2,017 |
| Shares | 9,198 | 9,113 |
| Trade and other receivables | 1,355,947 | 1,186,889 |
| Cash and cash equivalents | 770,087 | 846,532 |
| Other financial assets | 177,130 | 17,438 |
| | **2,318,280** | **2,061,989** |

* See section 2.1. b.

### Financial liabilities

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| At fair value through profit or loss | 15 | 188 |
| At amortised cost | 5,263,975 | 4,882,266 |
| | **5,263,990** | **4,882,454** |
| **Recognised in the statement of financial position as:** | | |
| Long-term borrowings | 2,546,003 | 2,488,353 |
| Short-term borrowings | 205,908 | 362,620 |
| Derivative financial instruments | 15 | 188 |
| Trade and other payables | 1,512,390 | 1,794,419 |
| Non-current ease liabilities | 367,482 | 16,806 |
| Current lease liabilities | 59,530 | 8,866 |
| Other non-current financial liabilities | 18,357 | 21,930 |
| Other current financial liabilities | 554,305 | 189,272 |
| | **5,263,990** | **4,882,454** |

(all amounts in PLN '000 unless indicated otherwise)

**Gains/(losses) (+/-) recognised in finance income or finance costs**
**Recognised from January 1st to December 31st 2019**

| | Gains/(losses) for period recognised in profit or loss | Gains/(losses) for period 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 | 5,437 | - | - | - |
| At amortised cost | 5,207 | 728 | 5,027 | 145 |
| **Financial liabilities** | | | | |
| At fair value through profit or loss | (622) | - | - | - |
| At amortised cost | (15,390) | (4,173) | (5,156) | - |
| | **(5,368)** | **(3,445)** | **(129)** | **145** |

**Recommendations for Company stock issued from January 1st 2018 to December 31st 2018**

| | | | | |
|---|---|---|---|---|
| **Financial assets** | | | | |
| At fair value through profit or loss | 743 | - | - | - |
| At amortised cost | (143) | - | 7,469 | (95) |
| **Financial liabilities** | | | | |
| At fair value through profit or loss | (1,421) | - | - | - |
| At amortised cost | (1,801) | - | (126) | (125) |
| | **(2,622)** | **-** | **7,343** | **(220)** |

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 Group did not foreclose any security provided 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 Group 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 Group 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 Group has identified the following classes of financial assets for which, in accordance with IFRS 9 *Financial instruments*, 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 Group 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 Group's business. The objective of the Group'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 Group'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 Group measured the fair value of its shares in Tarnowska Wodociągi spółka z o.o. (equity investments), using the DCF method.

The circumstance that the Group 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.

**Effect of changes in credit risk during the reporting period on expected loss of cash and trade receivables**

| | **for the period Jan 1 - Dec 31 2019** | **for the period Jan 1 - Dec 31 2018** |
|---|---|---|
| Estimated over a period of up to 12 months (loans, cash) | (862) | (276) |
| Estimated over the lifetime of the instruments, (accounts receivable) - in accordance with the simplified approach | **(242)** | **(152)** |

With respect to trade receivables, the Group presents information on ratings assigned to individual counterparties using a provision matrix.

(all amounts in PLN '000 unless indicated otherwise)

**Provision matrix for trade receivables**

**As at December 31st 2019**

| | Gross receivables | Estimated loss | % of expected loss | Net receivables |
|---|---|---|---|---|
| Not past due | 868,377 | (6,272) | 0.72% | 862,105 |
| Past due up to 60 days | 109,236 | (988) | 0.90% | 108,248 |
| Past due 60-180 days | 31,126 | (2,303) | 7.40% | 28,823 |
| Past due 180-360 days | 6,182 | (3,508) | 56.75% | 2,674 |
| Past due more than 360 days | 78,175 | (71,406) | 91.34% | 6,769 |
| | 1,093,096 | (84,477) | 7.73% | 1,008,619 |

**As at December 31st 2018 restated***

| | Gross receivables | Estimated loss | % of expected loss | Net receivables |
|---|---|---|---|---|
| Not past due | 1,046,596 | (9,244) | 0.88% | 1,037,352 |
| Past due up to 60 days | 81,294 | (987) | 1.21% | 80,307 |
| Past due 60-180 days | 14,818 | (1,178) | 7.95% | 13,640 |
| Past due 180-360 days | 3,584 | (2,137) | 59.63% | 1,447 |
| Past due more than 360 days | 69,611 | (68,744) | 98.75% | 867 |
| | **1,215,903** | **(82,290)** | **6.77%** | **1,133,613** |

*See note 2.1.b

**Trade receivables by business segment**

| | as at Dec 31 2019 | as at Dec 31 2018 restated* |
|---|---|---|
| Agro Fertilizers | 144,305 | 574,182 |
| Plastics | 520,943 | 171,286 |
| Chemicals | 261,417 | 343,204 |
| Energy | 31,279 | 28,263 |
| Other Activities | 50,675 | 16,678 |
| | **1,008,619** | **1,133,613** |

*See note 2.1.b

Over 70% of the Group’s trade receivables from third parties as at December 31st 2019 (December 31st 2018: 73%) were insured under trade credit insurance policies, which limit the credit risk exposure to the deductible amount (5-8% of the amount of insured receivables). The policies ensure that customers’ financial condition is monitored on an ongoing basis and enable debt recovery when required. Upon a customer’s actual or legal insolvency, the Group receives compensation equal to 92-95% of the amount of the insured receivables. Additionally, as at December 31st 2019 more than 5% (December 31st 2018: 5.98%) of the Group’s trade receivables from third parties were secured by letters of credit and guarantees. Such receivables are excluded from the insurance. Further, 1.8% of the trade receivables as at December 31st 2019 (December 31st 2018: 3.3%) were secured by mortgages and pledges. The Group 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. The Group grants trade credit – mainly to domestic customers in the Agro Fertilizers segment – up to the market value of the collateral provided. If there is no positive history of trading between the Group and a customer, or where transactions are occasional and the credit limit cannot be insured, the customer is required to make a prepayment. 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 Group's internal financial staff (individually for each trading partner) and, if a receivable is insured, also by insurance companies' credit analysts. The concentration of credit risk is not significant given the Group's procedures and diversified customer portfolio.

The Group's revenue concentrates in three main segments reflecting the profile of the Group's business. The Agro-Fertilizers segment accounts for the largest share, of 51.7%, in the Group's trade receivables (December 31st 2018: 50.7%), followed by Chemicals – 25.9% (December 31st 2018: 30.2%) and Plastics – 14.3% (December 31st 2018: 15.1%). The Plastics and Chemicals segments are dominated by foreign customers, with sales made on a deferred payment basis, mostly within insured credit limits or against letters of credit and guarantees. 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 excess of domestic cash and cash equivalents is first consolidated in the Parent's PLN and EUR current accounts with negative balances in overdraft accounts held by the Group companies using the physical cash pooling facilities provided by PKO BP.

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 Group 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 Group has 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 Group'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.

**December 31st 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 | 15 | 15 | 15 | - | - |
| At amortised cost, including: | **5,263,975** | **6,085,507** | **2,394,731** | **1,271,722** | **2,419,054** |
| borrowings | 2,751,911 | 3,086,063 | 264,883 | 1,040,323 | 1,780,857 |
| lease liabilities | 427,012 | 914,392 | 71,158 | 205,037 | 638,197 |
| factoring and receivables discounting | 550,294 | 550,294 | 550,294 | - | - |
| other financial liabilities | 22,368 | 22,368 | 22,368 | - | - |
| trade and other payables | 1,512,390 | 1,512,390 | 1,486,028 | 26,362 | - |
| | **5,263,990** | **6,085,522** | **2,394,746** | **1,271,722** | **2,419,054** |

**December 31st 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 | 188 | 188 | 188 | - | - |
| At amortised cost, including: | **4,882,266** | **5,169,808** | **2,431,086** | **914,279** | **1,824,443** |
| borrowings | 2,850,973 | 3,132,610 | 419,076 | 892,804 | 1,820,730 |
| lease liabilities | 25,672 | 29,577 | 9,949 | 15,915 | 3,713 |
| factoring and receivables discounting | 185,173 | 185,173 | 185,173 | - | - |
| other financial liabilities | 26,029 | 26,029 | 26,029 | - | - |
| trade and other payables | 1,794,419 | 1,796,419 | 1,790,859 | 5,560 | - |
| | **4,882,454** | **5,169,996** | **2,431,274** | **914,279** | **1,824,443** |

(all amounts in PLN '000 unless indicated otherwise)

## Note 30.3.3 Market risk

**Interest rate risk**

The Group 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 Group 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 assets | 303,246 | 446,178 |
| Financial liabilities (-) | (1,646,373) | (1,272,827) |
| | **(1,343,127)** | **(826,649)** |
| **Instruments with variable interest rates** | | |
| Financial assets | 632,469 | 417,792 |
| Financial liabilities (-) | (2,116,714) | (1,815,020) |
| | **(1,484,245)** | **(1,397,228)** |

The Group 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 Group’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 Group 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 change in the interest rates on profit or loss and equity.

**Sensitivity analysis: (+/-)**

| | **Statement of profit or loss** | | **Other comprehensive income** | |
|---|---|---|---|---|
| | Increase 100bp | decrease 100bp | increase 100bp | decrease 100bp |
| Dec 31 2019 | (1,484) | 1,484 | 3,297 | (3,297) |
| Dec 31 2018 | (1,397) | 1,397 | 4,402 | (4,402) |

(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 Group'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 Group does not intend to use such instruments to hedge price volatility.

The Group 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.

**Currency risk**

The Group 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 priced based on market quotations, caused by exchange rate fluctuations, are partly compensated for by changes in the cost of raw material imports and domestic purchases indexed to foreign currencies, which to a large extent reduces the Group's exposure to the exchange rate risk.

The Group 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 exposure. In the reporting period, the Group 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 Group 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 | (27,668) | 27,668 | (42,562) | 42,562 |
| Dec 31 2018 | (66,405) | 66,405 | (36,131) | 36,131 |

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

**Net exposure to currency risk**

| **December 31st 2019** | **EUR** | **USD** | **Other*** |
|---|---|---|---|
| Trade and other receivables | 119,677 | 51,662 | 13 |
| Cash in foreign currencies | 181,703 | 22,634 | 2 |
| Trade and other payables (-) | (13,123) | (21,408) | (71,025) |
| Borrowings (-) | (467,486) | 301 | 1,518 |
| Currency futures and forward contracts (+/-) | 31,806 | 8,165 | |
| Lease, factoring and discounting liabilities (-) | (62,994) | (4,530) | |
| Other financial liabilities (-) | (22,827) | - | |
| **Total in the relevant currency** | (233,244) | 56,824 | (69,492) |
| *Impact of a 5% appreciation of the currency on the statement of profit or loss (PLN thousand)* | *(38,463)* | *10,799* | *(4)* |
| *Impact of a 5% depreciation of the currency on the statement of profit or loss (PLN thousand)* | *38,463* | *(10,799)* | *4* |
| *Impact of a 5% appreciation of the currency on other comprehensive income (PLN thousand)* | - | - | - |
| *Impact of a 5% depreciation of the currency on other comprehensive income (PLN thousand)* | - | - | - |

*The other currencies are: GBP, CHF, ARS, CLP, BRL, INR, TRA, MXN, CNY, MYR and ZAR.

| **December 31st 2018** | **EUR** | **USD** | **XOF** | **Other*** |
|---|---|---|---|---|
| Trade and other receivables | 110,853 | 39,364 | - | 2,409,188 |
| Cash in foreign currencies | 88,177 | 19,713 | - | 907,042 |
| Trade and other payables (-) | (92,662) | (16,345) | (70,881) | (2,271,030) |
| Borrowings (-) | (436,747) | (300) | - | (853) |
| Currency futures and forward contracts (+/-) | 3,259 | 3,492 | - | - |
| Lease, factoring and discounting liabilities (-) | (20,038) | - | - | (4,030) |
| Other financial liabilities (-) | (725) | - | - | (176) |
| **Total in the relevant currency** | (347,883) | 45,924 | (70,881) | 1,040,141 |
| *Impact of a 5% appreciation of the currency on the statement of profit or loss (PLN thousand)* | *(74,795)* | *8,633* | *(23)* | *(2,307)* |
| *Impact of a 5% depreciation of the currency on the statement of profit or loss (PLN thousand)* | *74,795* | *(8,633)* | *23* | *2,307* |
| *Impact of a 5% appreciation of the currency on other comprehensive income (PLN thousand)* | - | - | - | - |
| *Impact of a 5% depreciation of the currency on other comprehensive income (PLN thousand)* | - | - | - | - |

*The other currencies are: GBP, CHF

(all amounts in PLN '000 unless indicated otherwise)

## Note 30.4 Fair value of financial instruments

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

- cash and cash equivalents, short-term bank deposits and short-term bank borrowings, factoring and reverse factoring transactions, and sale and discount of receivables – the carrying amount of the instruments approximates their fair value due to their short maturities,
- trade receivables, other receivables and trade payables – the carrying amount of the instruments approximates their fair value due to their short-term nature,
- long-term variable rate borrowings – the carrying amount of the instruments approximates their fair value due to the variable nature of their interest rates.
- long-term fixed rate borrowings – the carrying amount of the instruments amounts to PLN 850,648 thousand, and their fair value is about PLN 859,499 thousand (Level 2 in the hierarchy),
- foreign currency derivatives – the carrying amount of the instruments equals their fair value.

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 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Financial assets at fair value, including: | | | |
| at fair value through profit or loss | - | 5,918 | - |
| measured at fair value through other comprehensive income, including: | - | - | 16,314 |
| *shares* | - | - | 6,767 |
| *trade receivables* | - | - | 9,547 |
| | **-** | **5,918** | **16,314** |

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 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Financial assets at fair value, including: | | | |
| at fair value through profit or loss | - | 2,017 | - |
| measured at fair value through other comprehensive income | - | - | 16,374 |
| | **-** | **2,017** | **16,374** |

There were no transfers between the levels in 2019 or in 2018.

The fair value hierarchy presented in the tables above is as follows:
Level 1 – price quoted in an active market for the same asset or liability,
Level 2 – values based on inputs other than quoted Level 1 prices that are either directly or indirectly observable or determined on the basis of market data,
Level 3 – values based on input data that are not based on observable market data.

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

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

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

(all amounts in PLN '000 unless indicated otherwise)

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

## Note 30.5 Derivatives

**Foreign currency derivatives**

As at December 31st 2019, the notional amount of the Group's open currency derivatives (forwards) totalled EUR 63m (which included instruments maturing in 2020: January – EUR 2.5m, February-March – EUR 2.8m each month, April – EUR 8.6m, May – EUR 9.2m, June – EUR 9.1m, July – EUR 8.4m, August – EUR 5.2m, September-October – EUR 5.3m each month, November – EUR 2.8m and December – EUR 1m) and USD 8.1m (which included instruments maturing in 2020: January – USD 0.9m, February – USD 0.5m, March – USD 0.9m, April – USD 1m, May – USD 0.5m, June – USD 0.5m, July – USD 1m, August-September – USD 0.7m each month, October – USD 0.8m, November – USD 0.6m).

Such contracts are only entered into with reliable banks under master agreements. All the contracts reflect actual cash flows in foreign currencies. Currency forwards and derivative contracts are executed to match the Company's currency exposure and their purpose is to limit the effect of exchange rate fluctuations on profit or loss. As at December 31st 2018, the notional amount of the Group's open currency derivatives (forwards) was EUR 18.8m.
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 Group's net currency exposure and their purpose is to limit the effect of exchange rate fluctuations on profit or loss.

## Note 30.6 Hedge accounting

The Group applies cash flow hedge accounting. The hedged item are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from January 2020 to September 2028. The hedging covers the 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 Contingent liabilities, contingent assets, sureties and guarantees

**Contingent assets**

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| Contingent receivables | 114,213 | 30,595 |

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.

(all amounts in PLN '000 unless indicated otherwise)

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 Group disclosed contingent assets of PLN 83,399 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 |
|---|---|---|
| Other contingent liabilities, including guarantees | 31,651 | 31,243 |

## Note 32 Related-party transactions

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

*Trade transactions*

| | Revenue | Receivables | Purchases | Liabilities |
|---|---|---|---|---|
| **In the 12 months ended December 31st 2019 and as at that day** | | | | |
| Related parties of Grupa Azoty POLICE | 9,509 | 910 | 7,188 | 1,384 |
| Related parties of Grupa Azoty PUŁAWY | 248 | 51 | 14,139 | 1,612 |
| | **9,757** | **961** | **21,327** | **2,996** |

| | Revenue | Receivables | Purchases | Liabilities |
|---|---|---|---|---|
| **In the 12 months ended December 31st 2018 and as at that day** | | | | |
| Related parties of Grupa Azoty POLICE | 7,312 | 642 | 7,973 | 1,201 |
| Related parties of Grupa Azoty PUŁAWY | 263 | 24 | 17,842 | 1,028 |
| | **7,575** | **666** | **25,815** | **2,229** |

*Other transactions*

| | Other income | Other expenses | Finance income | Finance costs |
|---|---|---|---|---|
| **In the 12 months ended Dec 31 2019** | - | - | - | - |
| Related parties of Grupa Azoty PUŁAWY | 52 | - | - | 755 |
| | **52** | **-** | **-** | **755** |

| | Other income | Other expenses | Finance income | Finance costs |
|---|---|---|---|---|
| **In the 12 months ended December 31st 2018** | | | | |
| Related parties of Grupa Azoty PUŁAWY | 50 | - | - | - |
| | **50** | **-** | **-** | **-** |

(all amounts in PLN '000 unless indicated otherwise)

**Borrowings from related parties**

As at December 31st 2019 and December 31st 2018, the Group recognised no such borrowings.

**Terms of related-party transactions**
Terms of related-party transactions are determined on an arm's length basis. Parties to a transaction determine the price based on market benchmarks to ensure that the transaction price is not dependent on the cost of goods or services, using the methods specified in the Corporate Income Tax Act of February 15th 1992 (consolidated text: Dz. U. of 2019, item 865). A detailed analysis of the transaction terms (division of risks and costs as well as the assets involved) is carried out before a method is selected, so that the price reflects the transaction terms that would be agreed on between unrelated parties.

**Remuneration of members of the Parent's Management Board for positions held in the Group**

| | 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 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 registered offices of a given company.

**Bonuses for members of the Management Board**
The variable remuneration 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:

- the Directors' Report on the Company's operations and of the financial statements for the previous financial year are received,
- 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.

(all amounts in PLN '000 unless indicated otherwise)

**Remuneration of the Supervisory Board members for holding office at the Group**

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

**Remuneration of members of management boards of the Group's leading companies (excluding the Parent)**

| | for the period Jan 1 - Dec 31 2019 | for the period Jan 1 – Dec 31 2018 |
|---|---|---|
| Short-term benefits | 15,930 | 14,217 |
| Post-employment benefits | 1,085 | 641 |
| Termination benefits | 460 | - |
| Other long-term benefits | 631 | - |
| | **18,106** | **14,858** |

**Loans**
In 2019 and 2018, the Company did not grant any loans to members of the Group companies' management or supervisory boards.

**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.

For a description of transactions involving the issue of shares in Grupa Azoty POLICE, including execution of an investment agreement with the State Treasury, see section 1.2.2 of these consolidated financial statements. In addition, some of the new issue shares were acquired by the existing shareholders controlled by the State Treasury, i.e. Otwarty Fundusz Emerytalny PZU „Złota Jesień" and Agencja Rozwoju Przemysłu S.A.

**Transactions with parties related through the State Treasury**

**For the year ended Dec 31 2019**

| Company | Amount | Transaction |
|---|---|---|
| PGNiG S.A. | 1,429,575 | purchase of natural gas |
| PKN Orlen S.A. | 287,275 | purchase of raw materials |
| Polska Grupa Górnicza S.A. | 164,178 | purchase of fine coal |
| Enea S.A. | 217,782 | purchase of electricity |
| PKP Cargo S.A. | 117,884 | purchase of transport services |
| PGE Obrót S.A. | 221,816 | purchase of electricity |
| PSE S.A. | 65,479 | purchase of transmission services |
| Grupa LOTOS S.A. | 21,051 | purchase of raw materials |
| TAURON Polska Energia S.A. | 25,217 | purchase of electricity and fine coal |
| Jastrzębska Spółka Węglowa S.A. | 167 | purchase of fine coal |
| KGHM Polska Miedź S.A. | 26,080 | purchase of raw materials |
| PKO BP S.A. | 14,781 | payment of interest and commissions, purchase of brokerage services |

(all amounts in PLN '000 unless indicated otherwise)

| | | |
|---|---|---|
| BGK Bank Państwowy | 11,179 | payment of interest and commissions |
| PZU S.A. | 49,090 | property and personal insurance, PPE |
| Polish National Foundation | 3,500 | the foundation's statutory activities |
| | **2,655,054** | |

**For the year ended Dec 31 2018**

| Company | Amount | Transaction |
|---|---|---|
| PGNiG S.A. | 2,225,572 | purchase of natural gas |
| PKN Orlen S.A. | 294,605 | purchase of raw materials |
| Polska Grupa Górnicza S.A. | 139,490 | purchase of fine coal |
| Enea S.A. | 127,182 | purchase of electricity |
| PKP Cargo S.A. | 116,432 | purchase of transport services |
| PGE Obrót S.A. | 70,903 | purchase of electricity |
| PSE S.A. | 67,337 | purchase of transmission services |
| Grupa LOTOS S.A. | 25,096 | purchase of raw materials |
| TAURON Polska Energia S.A. | 23,335 | purchase of electricity and fine coal |
| Jastrzębska Spółka Węglowa S.A. | 22,290 | purchase of fine coal |
| KGHM Polska Miedź S.A. | 15,889 | purchase of raw materials |
| PKO BP S.A. | 7,914 | payment of interest and commissions, purchase of brokerage services |
| BGK Bank Państwowy | 7,525 | payment of interest and commissions |
| PZU S.A. | 40,640 | property and personal insurance, PPE |
| Polish National Foundation | 3,500 | the foundation's statutory activities |
| | **3,187,710** | |

## Note 33 Investment commitments

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

The largest capital commitments are as follows:

| | as at Dec 31 2019 | as at Dec 31 2018 |
|---|---|---|
| PDH and polypropylene unit at Grupa Azoty POLICE | 3,868,889 | 63,340 |
| Construction of CHP plant at Grupa Azoty PUŁAWY | 1,159,900 | - |
| Construction of nitric acid units | 144,243 | 176,407 |

As at December 31st 2019, the total amount of the Company's commitments under the contracts was PLN 5,537,548 thousand (December 31st 2018:  PLN 557030 thousand).

(all amounts in PLN '000 unless indicated otherwise)

## Note 34 Notes to the statement of cash flows

| | for the period Jan 1 – Dec 31 2019 | for the period Jan 1 – Dec 31 2018 |
|---|---|---|
| Difference arising from the statement of financial position - trade and other receivables | (35,304) | (499,344) |
| *Change due to prepayments for property, plant and equipment, intangible assets, right-to-use assets and investment property* | (68,671) | 21,250 |
| *Change due to disposal of property, plant and equipment, intangible assets, right-of-use assets, investment properties* | (3,306) | - |
| *Change due to prepayments and accrued income* | (5,745) | 1,674 |
| *Change due to non-cash items* | (33,491) | 313,128 |
| **Change in trade and other receivables in the statement of cash flows** | **(146,517)** | **(163,292)** |
| Difference arising from the statement of financial position - inventories and property rights | (377,151) | (573,563) |
| *Change due to non-cash items* | (9,052) | 336,331 |
| **Change in inventories and property rights in the statement of cash flows** | **(386,203)** | **(237,232)** |
| Difference arising from the statement of financial position - trade and other payables | (66,916) | 836,022 |
| *Change due to dividend* | (6) | |
| *Change due to purchase of property, plant and equipment, intangible assets, right-of-use assets, investment properties* | 27,190 | (5,583) |
| *Change due to prepayments and accrued income* | (272,510) | (125,948) |
| *Change due to reverse factoring* | 1,002,076 | 132,833 |
| *Change due to non-cash items* | 92,643 | (298,854) |
| **Change in trade and other payables in the statement of cash flows** | **782,477** | **538,470** |

| | for the period Jan 1 – Dec 31 2019 | for the period Jan 1 – Dec 31 2018 |
|---|---|---|
| Difference arising from the statement of financial position - provisions, employee benefit obligations and grants | 199,522 | 144,781 |
| *Change due to prepayments and accrued income* | 245,894 | 127,032 |
| *Change due to grants* | - | (32,877) |
| *Change due to other non-cash items* | (58,775) | (88,689) |
| **Change in provisions, accruals and grants in the statement of cash flows** | **386,641** | 150,247 |
| Difference arising from the statement of financial position - other adjustments | - | - |
| *Change due to other non-cash items* | (3,541) | -26,144 |
| **Change in other adjustments** | (3,541) | -26,144 |

## Note 35 Events after the reporting date

For information on the secondary issue of shares in Grupa Azoty POLICE, registered by the registry court on January 10th 2020, see section 1.2.2.

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 Parent, 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.

## Note 36 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 Group has taken immediate measures to protect its business against the consequences of the pandemic. In order to enable the Parent and other Group companies to operate in a possibly smooth manner, procedures have been put in place to ensure prompt reaction of appropriate services. In addition, the Grupa issued instructions to mitigate the risk of infection among its employees, including in particular:

- detailed instructions and guidelines on monitoring the health of the Group's employees and the health of trading partners' employees who come in physical contact with the Group's employees,
- 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 Group employees with additional personal protection and hygiene supplies.

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

As at the date of authorisation of these financial statements for issue, the Grupa Azoty Group did not observe any significant decline in sales or any disruptions 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 Group's future financial results. 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 for export goods.
2. Potential temporary disruptions in timely execution of investment projects and repair works at the Group 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. Volatility of exchange rates.

Possible risks of sales disruption in the individual segments as at the date of these consolidated 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, which as at December 31st 2019 amounted to PLN 945m (including cash held as bank deposits), undrawn credit facilities, which as at December 31st 2019 amounted to 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 Group 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 Parent's Management Board, the implemented preventive measures minimise the risk of disruption of business continuity. However, it cannot be rule out that continued spread of the COVID-19 pandemic and its consequences may have a material adverse effect on the Grupa Azoty Group's operations. Due to the many uncertainties as at the date of authorisation of these consolidated financial statements, the effects of the pandemic cannot be reliably estimated.

**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