



Consolidated interim report  
of the Grupa Azoty Group  
for Q3 2020

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Interim condensed consolidated financial statements  
of the Grupa Azoty Group  
interim condensed separate financial statements for  
the three and nine months ended  
September 30th 2020

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

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019	for the period Jul 1 – Sep 30 2020	for the period Jul 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited restated*</i>	<i>unaudited</i>	<i>unaudited restated*</i>
<b><i>Profit/loss</i></b>				
Revenue	7,788,663	8,666,404	2,416,045	2,563,895
Cost of sales	(6,172,751)	(6,736,294)	(1,978,884)	(2,021,488)
<b>Gross profit</b>	<b>1,615,912</b>	<b>1,930,110</b>	<b>437,161</b>	<b>542,407</b>
Selling expenses	(683,067)	(668,228)	(202,943)	(210,685)
Administrative expenses	(585,659)	(636,660)	(178,675)	(209,758)
Other income	127,273	43,119	18,971	14,462
Other expenses	(40,493)	(76,645)	(12,915)	(15,317)
<b>Operating profit</b>	<b>433,966</b>	<b>591,696</b>	<b>61,599</b>	<b>121,109</b>
Finance income	11,653	14,508	2,121	1,207
Finance costs	(85,100)	(70,856)	(13,126)	(27,115)
<b>Net finance costs</b>	<b>(73,447)</b>	<b>(56,348)</b>	<b>(11,005)</b>	<b>(25,908)</b>
Share of profit of equity-accounted investees	11,298	9,286	4,218	3,159
<b>Profit before tax</b>	<b>371,817</b>	<b>544,634</b>	<b>54,812</b>	<b>98,360</b>
Income tax	(108,732)	(128,740)	(13,832)	(24,850)
<b>Net profit</b>	<b>263,085</b>	<b>415,894</b>	<b>40,980</b>	<b>73,510</b>
<b><i>Other comprehensive income</i></b>				
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial losses from defined benefit plans	(16,474)	(12,249)	5	739
Tax on items that will not be reclassified to profit or loss	3,154	2,328	(1)	(140)
	<b>(13,320)</b>	<b>(9,921)</b>	<b>4</b>	<b>599</b>

\* as described in Section 2.2.

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

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

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019	for the period Jul 1 – Sep 30 2020	for the period Jul 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited restated*</i>	<i>unaudited</i>	<i>unaudited restated*</i>
<b>Items that are or may be reclassified to profit or loss</b>				
Cash flow hedging - effective portion of fair value changes	(51,757)	(18,537)	(11,601)	(26,604)
Exchange differences on translating foreign operations	43,133	19,228	11,876	30,167
Income tax relating to items that are or will be reclassified to profit or loss	9,834	3,521	2,204	5,054
	<b>1,210</b>	<b>4,212</b>	<b>2,479</b>	<b>8,617</b>
<b>Total other comprehensive income</b>	<b>(12,110)</b>	<b>(5,709)</b>	<b>2,483</b>	<b>9,216</b>
<b>Comprehensive income for the period</b>	<b>250,975</b>	<b>410,185</b>	<b>43,463</b>	<b>82,726</b>
<b>Net profit attributable to:</b>				
Owners of the parent	226,517	384,061	31,293	71,736
Non-controlling interests	36,568	31,833	9,687	1,774
<b>Comprehensive income for the period attributable to:</b>				
Owners of the parent	216,204	379,051	33,773	80,908
Non-controlling interests	34,771	31,134	9,690	1,818
<b>Earnings per share:</b>				
Basic (PLN)	2.28	3.87	0.32	0.72
Diluted (PLN)	2.28	3.87	0.32	0.72

\* as described in Section 2.2.

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

## Interim condensed consolidated statement of financial position

	as at Sep 30 2020	as at Dec 31 2019
	<i>unaudited</i>	<i>audited</i>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	9,454,357	8,142,751
Right-of-use assets	817,834	852,075
Investment property	51,460	62,014
Intangible assets	1,011,951	985,071
Goodwill	325,977	308,589
Shares	9,198	9,198
Equity-accounted investees	87,910	88,909
Other financial assets	5,727	2,406
Other receivables	660,162	156,867
Deferred tax assets	96,785	97,074
Other non-current assets	509	483
<b>Total non-current assets</b>	<b>12,521,870</b>	<b>10,705,437</b>
<b>Current assets</b>		
Inventories	1,367,594	1,669,809
Property rights	499,975	474,133
Derivative financial instruments	21,640	5,918
Other financial assets	32	174,724
Current tax assets	8,181	26,973
Trade and other receivables	1,443,839	1,615,486
Cash and cash equivalents	576,137	770,087
Other non-current assets	17,240	15,456
Assets held for sale	19,450	20,668
<b>Total current assets</b>	<b>3,954,088</b>	<b>4,773,254</b>
<b>Total assets</b>	<b>16,475,958</b>	<b>15,478,691</b>

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

## Interim condensed consolidated statement of financial position (continued)

	as at Sep 30 2020	as at Dec 31 2019
	<i>unaudited</i>	<i>audited</i>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	(36,051)	5,872
Translation reserve	34,903	(8,252)
Retained earnings, including:	4,334,851	4,124,507
<i>Net profit for the period</i>	<i>226,517</i>	<i>372,856</i>
<b>Equity attributable to owners of the parent</b>	<b>7,247,950</b>	<b>7,036,374</b>
<b>Non-controlling interests</b>	<b>899,194</b>	<b>657,573</b>
<b>Total equity</b>	<b>8,147,144</b>	<b>7,693,947</b>
<b>Liabilities</b>		
Borrowings	2,957,075	2,546,003
Lease liabilities	347,544	367,482
Other financial liabilities	15,412	18,357
Employee benefit obligations	503,020	469,351
Trade and other payables	28,399	27,252
Provisions	211,325	204,850
Government grants received	193,296	193,963
Deferred tax liabilities	500,717	461,124
<b>Total non-current liabilities</b>	<b>4,756,788</b>	<b>4,288,382</b>
Borrowings	454,017	205,908
Lease liabilities	59,279	59,530
Derivative financial instruments	5,754	15
Other financial liabilities	242,182	554,305
Employee benefit obligations	51,515	53,270
Current tax liabilities	58,130	44,672
Trade and other payables	2,510,928	2,516,567
Provisions	34,517	37,113
Government grants received	144,659	13,480
Liabilities directly associated with assets available for sale	11,045	11,502
<b>Total current liabilities</b>	<b>3,572,026</b>	<b>3,496,362</b>
<b>Total liabilities</b>	<b>8,328,814</b>	<b>7,784,744</b>
<b>Total equity and liabilities</b>	<b>16,475,958</b>	<b>15,478,691</b>

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



Consolidated interim report of the Grupa Azoty Group for Q3 2020  
Interim condensed consolidated financial statements of the Grupa Azoty Group  
for the three and nine months ended September 30th 2020  
(all amounts in PLN '000 unless indicated otherwise)

## Interim condensed consolidated statement of changes in equity

For the period ended September 30th 2020

	Share capital	Share premium	Hedging reserve	Translation reserve	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as at Jan 1 2020	495,977	2,418,270	5,872	(8,252)	4,124,507	7,036,374	657,573	7,693,947
<i>Profit or loss and other comprehensive income</i>								
Net profit	-	-	-	-	226,517	226,517	36,568	263,085
Other comprehensive income	-	-	(41,923)	43,155	(11,545)	(10,313)	(1,797)	(12,110)
Comprehensive income for the period	-	-	(41,923)	43,155	214,972	216,204	34,771	250,975
<i>Transactions with owners, recognised directly in equity</i>								
Issue of ordinary shares	-	-	-	-	-	-	210,368	210,368
Dividends	-	-	-	-	-	-	(9,447)	(9,447)
Total contributions by and distributions to owners	-	-	-	-	-	-	200,921	200,921
Changes in the Group's structure	-	-	-	-	(5,584)	(5,584)	6,897	1,313
Total transactions with owners	-	-	-	-	(5,584)	(5,584)	207,818	202,234
Other Activities	-	-	-	-	956	956	(968)	(12)
Balance as at Sep 30 2020 (unaudited)	495,977	2,418,270	(36,051)	34,903	4,334,851	7,247,950	899,194	8,147,144

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

Consolidated interim report of the Grupa Azoty Group for Q3 2020  
Interim condensed consolidated financial statements of the Grupa Azoty Group  
for the three and nine months ended September 30th 2020  
(all amounts in PLN '000 unless indicated otherwise)

**For the period ended September 30th 2019 (restated\*)**

	Share capital	Share premium	Hedging reserve	Translation reserve	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as at Jan 1 2019	495,977	2,418,270	1,861	2,789	3,783,874	6,702,771	625,188	7,327,959
<i>Profit or loss and other comprehensive income</i>								
Net profit	-	-	-	-	384,061	384,061	31,833	415,894
Other comprehensive income	-	-	(15,016)	19,222	(9,216)	(5,010)	(699)	(5,709)
Comprehensive income for the period	-	-	(15,016)	19,222	374,845	379,051	31,134	410,185
<i>Transactions with owners, recognised directly in equity</i>								
Dividends	-	-	-	-	-	-	(2,695)	(2,695)
Total contributions by and distributions to owners	-	-	-	-	-	-	(2,695)	(2,695)
Changes in the Group's structure	-	-	-	-	(11,056)	(11,056)	4,319	(6,737)
Total transactions with owners	-	-	-	-	(11,056)	(11,056)	1,624	(9,432)
Other	-	-	-	-	1,992	1,992	(1,231)	761
Balance as at Sep 30 2019 (unaudited)	495,977	2,418,270	(13,155)	22,011	4,149,655	7,072,758	656,715	7,729,473

\* as described in Section 2.2.

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

## Interim condensed consolidated statement of cash flows

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited restated*</i>
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>371,817</b>	<b>544,634</b>
<i>Adjustments for:</i>	<i>683,319</i>	<i>701,749</i>
Depreciation and amortisation	568,932	616,147
(Reversal)/Recognition of impairment losses on assets	(998)	23,189
Loss on investing activities	1,171	1,237
Gain on disposal of financial assets	(453)	(478)
Share of profit of equity-accounted investees	(11,298)	(9,286)
Interest, foreign exchange gains or losses	123,013	67,976
Dividends	(127)	(159)
Fair value loss on financial assets at fair value	3,079	3,123
	<b>1,055,136</b>	<b>1,246,383</b>
Decrease/(Increase) in trade and other receivables	149,355	(13,951)
Decrease/(Increase) in inventories and property rights	286,384	(129,361)
Increase/(Decrease) in trade and other payables	314,678	(187,544)
Increase in provisions, accruals and government grants	26,427	286,299
Other adjustments	(4,677)	12,316
<b>Cash generated from operating activities</b>	<b>1,827,303</b>	<b>1,214,142</b>
Income tax paid	(43,069)	(35,872)
<b>Net cash from operating activities</b>	<b>1,784,234</b>	<b>1,178,270</b>

\* as described in Section 2.2.

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

## Interim condensed consolidated statement of cash flows (continued)

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited restated*</i>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	14,650	6,525
Purchase of property, plant and equipment, intangible assets and investment property	(1,879,660)	(748,694)
Dividend received	7	11
Acquisition of financial assets	(80,669)	(415,252)
Proceeds from sale of financial assets	253,844	101,564
Interest received	17,866	16,858
Government grants received	680	754
Repayments of loans advanced	86	82
Other disbursements	(27,427)	(1,652)
<b>Net cash from investing activities</b>	<b>(1,700,623)</b>	<b>(1,039,804)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from non-controlling interests on account of issue of shares in a subsidiary	205,175	-
Dividends paid	(9,447)	(2,717)
Proceeds from borrowings	769,482	383,668
Repayment of borrowings	(245,116)	(171,084)
Interest paid	(143,507)	(74,797)
Payment of lease liabilities	(48,154)	(52,269)
Repayment of reverse factoring	(825,578)	(499,109)
Other cash provided by financing activities	7,745	6,394
Other cash used in financing activities	(2,508)	(35,125)
<b>Net cash from financing activities</b>	<b>(291,908)</b>	<b>(445,039)</b>
<b>Total net cash flows</b>	<b>(208,297)</b>	<b>(306,573)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>770,087</b>	<b>846,532</b>
Effect of exchange rate fluctuations on cash held	14,347	12,031
<b>Cash and cash equivalents at end of period</b>	<b>576,137</b>	<b>551,990</b>

\* as described in Section 2.2.

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

## Supplementary information to the interim condensed consolidated financial statements

### 1. Description of the Group

#### 1.1. The Group's organisational structure

As at September 30th 2020, the Grupa Azoty Group (the "Group") comprised: Grupa Azoty Spółka Akcyjna (the Parent, Group Azoty S.A.), direct subsidiaries:

- COMPO EXPERT Holding GmbH (COMPO EXPERT) - wholly-owned,
- Grupa Azoty ATT Polymers GmbH - wholly-owned,
- Grupa Azoty Compounding Sp. z o.o. - wholly-owned,
- Grupa Azoty Folie Sp. z o.o. w likwidacji (in liquidation) - wholly-owned,
- Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKOPOL) - a 99.56% 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 Polskie Konsorcjum Chemiczne Sp. z o.o. (Grupa Azoty PKCh Sp. z o.o.) - a 63.27% interest, with Grupa Azoty KĘDZIERZYN holding a 36.73% interest,
- Grupa Azoty Zakłady Chemiczne Police S.A. (Grupa Azoty POLICE) - a 62.86% interest,
- Grupa Azoty Koltar Sp. z o.o. (Grupa Azoty KOLTAR) - a 60% interest, with Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN each holding a 20% interest,

as well as the indirect subsidiaries and associates presented in the charts showing the Group's structure on the next pages.

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

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

The principal business of the Grupa Azoty Group companies is in particular:

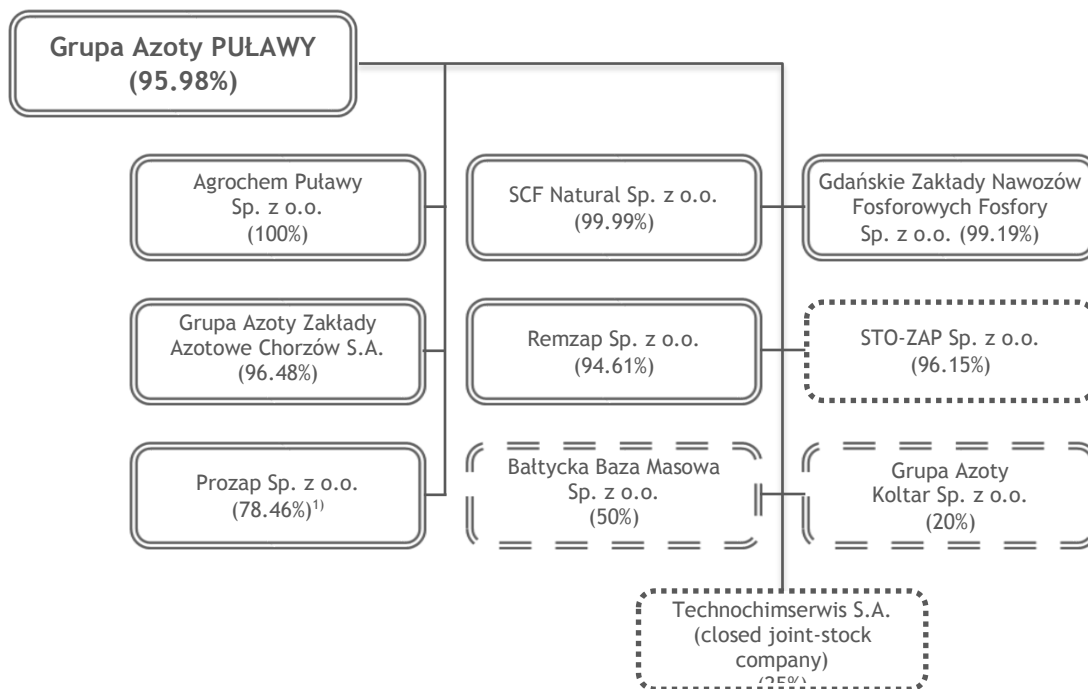
- processing of nitrogen products,
- manufacture and sale of mineral fertilizers,
- manufacture and sale of plastics,
- manufacture and sale of OXO alcohols,
- manufacture and sale of titanium white,
- manufacture and sale of melamine,
- production of sulfur and processing of sulfur-based products.

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

These interim condensed consolidated financial statements were authorised for issue by the Parent's Management Board on November 18th 2020.

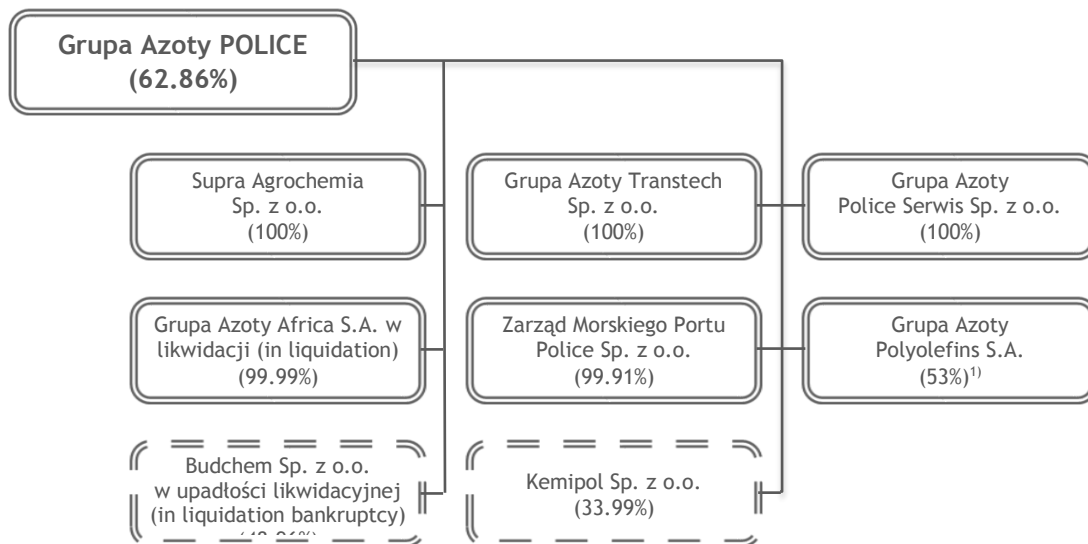
The structures of the Parent's subsidiary groups are shown in the charts on the following pages of these condensed consolidated financial statements.

**Structure of Grupa Azoty PUŁAWY as at September 30th 2020:**



¹) Grupa Azoty POLICE holds 7.35% of shares.

**Structure of Grupa Azoty POLICE as at September 30th 2020**



¹) The Parent holds 47% of shares in Grupa Azoty Polyolefins S.A. (Grupa Azoty POLYOLEFINS).

Legend:

Fully-consolidated entities

Equity-accounted entities

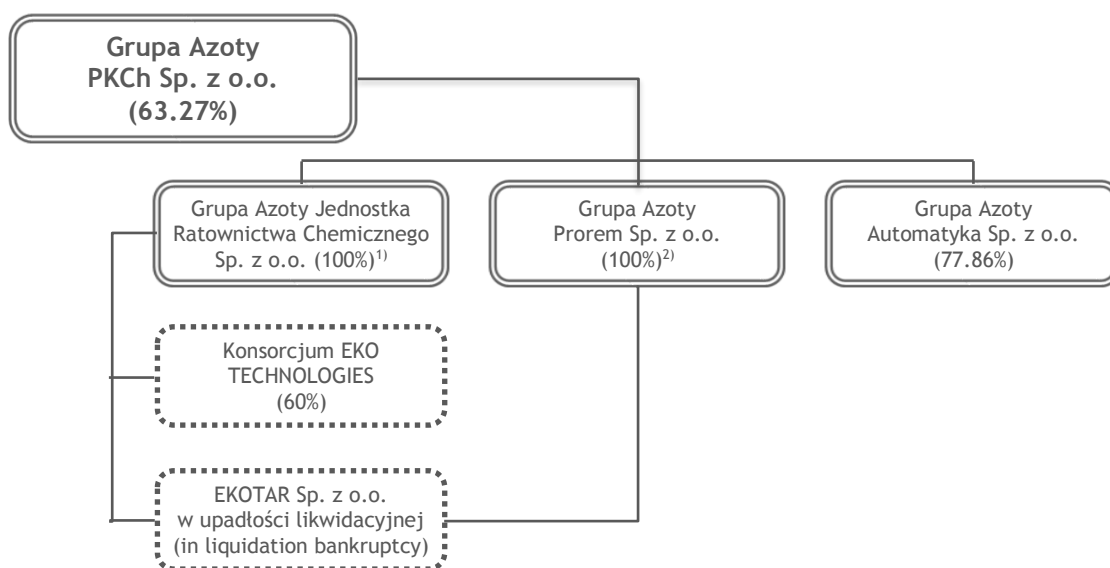
Non-consolidated entities

**Structure of Grupa Azoty KĘDZIERZYN as at September 30th 2020**



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




**Structure of Grupa Azoty PKCh Sp. z o.o. as at September 30th 2020**



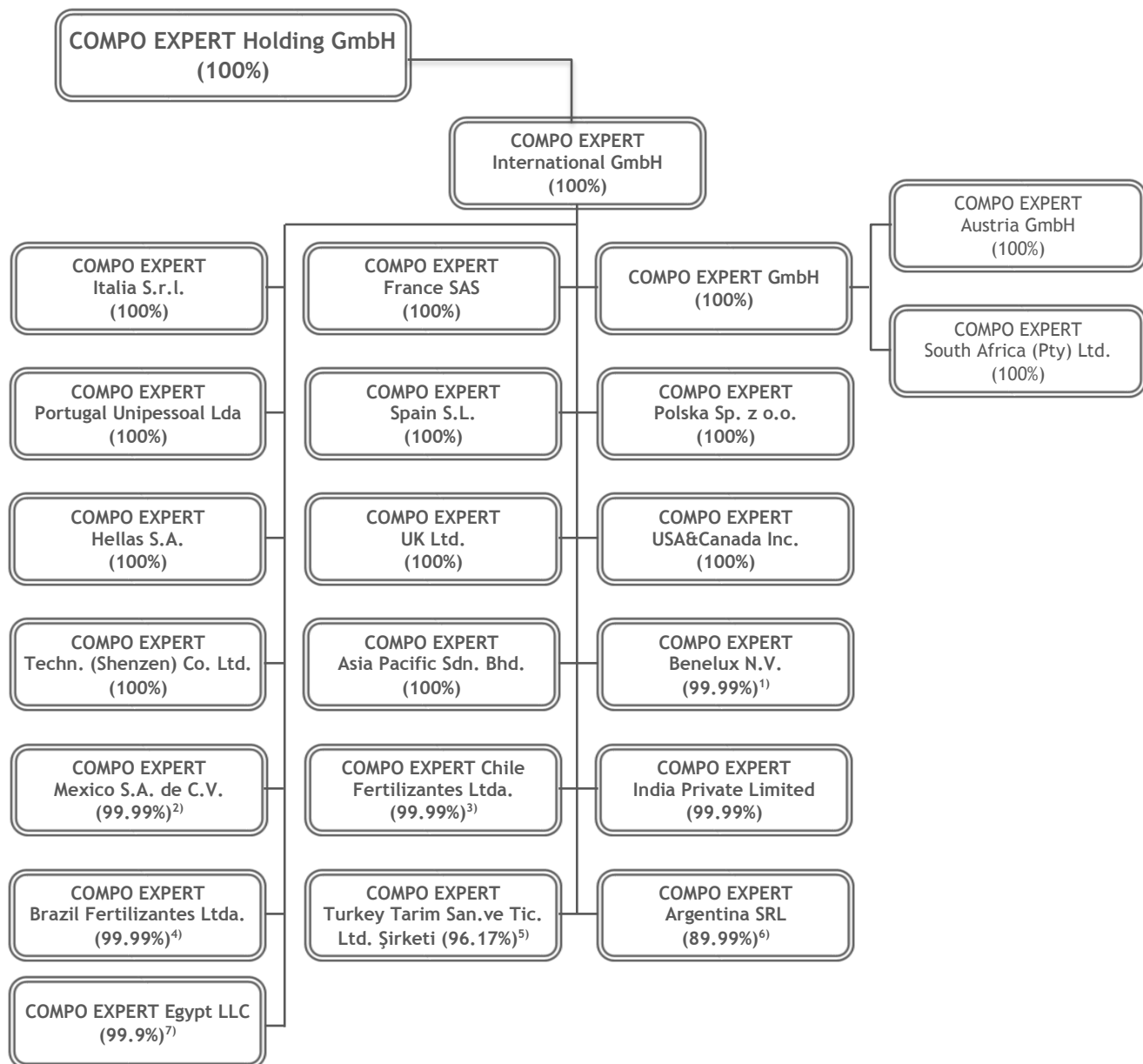
<sup>1)</sup> Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. holds 12% of the shares in EKOTAR Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy).

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

Legend:

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

**Structure of the COMPO EXPERT Group as at September 30th 2020**



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

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

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

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

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

<sup>6)</sup> COMPO EXPERT Argentina SRL - COMPO EXPERT GmbH holds 10.000024% of the shares.

<sup>7)</sup> COMPO EXPERT Egypt LLC - COMPO EXPERT GmbH holds 0.1% of the shares.

Legend:

 Fully-consolidated entities

 Equity-accounted entities

 Non-consolidated entities



## 1.2. Changes in the Group's structure

Changes in the Group's structure in the period July 1st-September 30th 2020:

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

In the period July 1st-September 30th 2020, 42 shares in Remzap Sp. z o.o., previously held by its former employees, were cancelled. As a result, the percentage of total voting rights at the General Meeting of Remzap Sp. z o.o. held by Grupa Azoty PUŁAWY increased from 96.89% to 97.05%.

### Registration of share capital increase at Grupa Azoty POLYOLEFINS

On August 3rd 2020, the District Court for Szczecin-Centrum in Szczecin, 13th Commercial Division of the National Court Register, registered an increase in the share capital of Grupa Azoty POLYOLEFINS from PLN 467,339,000.00 to PLN 599,283,310.00, by way of acquisition of Series F shares by the then existing shareholders. The percentage interests in Grupa Azoty POLYOLEFINS' share capital held by its existing shareholders (the Parent and Grupa Azoty POLICE) remained unchanged at 47% and 53%, respectively. The company is pursuing the Grupa Azoty Group's strategic investment project - 'Polimery Police'.

### Registration of COMPO EXPERT Egypt LLC

On August 10th 2020, a new company under the name of COMPO EXPERT Egypt LLC was registered (with a share capital of EGP 100,000.00 owned in 99.9% by COMPO EXPERT International GmbH, and in 0.1% - by COMPO EXPERT GmbH). The company's objects are to strengthen the presence on the Egyptian market and protect intellectual property.

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

### 2.1. Statement of compliance and general basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements of the Group cover the three and nine months ended September 30th 2020 and contain comparative data for the three and nine months ended September 30th 2019 and as at December 31st 2019.

Interim condensed consolidated financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31st 2019, which were authorised for issue on April 7th 2020.

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

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

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

For information on the impact of the COVID-19 pandemic on the Group companies' business, see Note 3.11 to these interim condensed consolidated financial statements.

#### a) Changes in International Financial Reporting Standards

The amendments to International Financial Reporting Standards ("IFRSs") presented below have been applied in these interim condensed consolidated financial statements as of their effective dates, however, they had no material effect on the disclosed data:

- *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* (issued on October 22nd 2018) - effective for annual periods beginning on or after January 1st 2020;
- *Amendments to IAS 1 and IAS 8: Definition of materiality* (published on October 31st 2018) - effective for annual periods beginning on or after January 1st 2020;
- *Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform* (published on September 26th 2019) - effective for annual periods beginning on or after January 1st 2020;

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

The following standards and interpretations have been issued by the International Accounting Standards Board, but are not yet effective:

- 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) - effective for annual periods beginning on or after January 1st 2021;
- Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current* (issued on January 23rd 2020) - expected to be effective for periods beginning on or after January 1st 2022.
- Amendment to IFRS 16 *Leases: Covid-19-Related Rent Concessions* (issued on May 28th 2020), effective as of June 1st 2020. The amendment to IFRS 16 introduces a practical expedient permitting a lease modification not to be recognised e.g. in the event of any changes in lease payments occurring as a consequence of the Covid-19 pandemic.
- Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements to IFRS Standards 2018-2020. The amendments were issued on May 14th 2020, and are effective for annual periods beginning on or after January 1st 2022. One of the amendments prohibits deducting from the cost of property, plant and equipment of any proceeds from selling items produced while the entity is developing/preparing the asset for its intended use.

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

The Group does not expect the proposed amendments to IFRSs to have a material effect on its financial reporting.

### **2.2. Corrections of errors or comparative data presentation**

In the three months ended September 30th 2020, the Group did not identify any new errors or need to change the presentation of comparative data. The corrections presented in these interim consolidated financial statements result from corrections identified in the interim consolidated financial statements for the six months ended June 30th 2020 and relate to the following areas:

#### **a) Correction to accounting for CO<sub>2</sub> emission allowances received free of charge**

In previous periods, grants in the form of CO<sub>2</sub> emission allowances allocated free of charge at the subsidiary Grupa Azoty PUŁAWY were accounted for and recognised in interim reporting periods based on actual emissions in a given period until the grant resulting from CO<sub>2</sub> emission allowances allocated free of charge for a given year was exhausted. In the Q3 2020 report, the grant received by Grupa Azoty PUŁAWY was accounted for in accordance with the Group’s accounting policy, i.e. the CO<sub>2</sub> emission allowances allocated free of charge for 2020 were accounted for by reference to actual emissions from installations for which the allowances (grant) were allocated, pro rata to emissions planned from these installations for the entire year. Irrespective of the change, grants are accounted for as a deduction from expenses. The change in accounting for grants will not affect the Group’s full-year results, as it relates to accounting for the allocation during a year.

Accordingly, the comparative data was corrected.

The change in accounting for grants with respect to comparative data was presented as Correction 1.

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

Following a change in the presentation of reverse factoring in the 2019 statement of cash flows, the comparative data for Q3 2019 was restated accordingly.

In connection with the change, the entry into reverse factoring arrangements disclosed under operating activities was transferred from 'Other adjustments' to 'Change in trade and other payables'.

Under financing activities, a separate item was disclosed showing the amount repaid under reverse factoring in the reporting period.

Both before and after the change, reverse factoring is accounted for separately, i.e. the entry into a reverse factoring arrangement is recorded under operating cash flows, while its repayment - as a financing outflow.

The change in presentation of reverse factoring with respect to comparative data was presented as Correction 2.

The effect of the above corrections and presentation changes on the results for the respective reporting periods and comparative data is presented below.

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Statement of profit or loss and other comprehensive income for the period Jan 1–Sep 30 2019

	for the period Jan 1– Sep 30 2019 <i>unaudited</i>	Correction 1 (accounting for grants - CO <sub>2</sub> emission allowances received free of charge)	for the period Jan 1– Sep 30 2019 <i>unaudited (restated)</i>
<b>Profit/loss</b>			
Revenue	8,666,404	-	8,666,404
Cost of sales	(6,686,873)	(49,421)	(6,736,294)
<b>Gross profit</b>	<b>1,979,531</b>	<b>(49,421)</b>	<b>1,930,110</b>
Selling expenses	(668,228)	-	(668,228)
Administrative expenses	(636,660)	-	(636,660)
Other income	43,119	-	43,119
Other expenses	(76,645)	-	(76,645)
<b>Operating profit/(loss)</b>	<b>641,117</b>	<b>(49,421)</b>	<b>591,696</b>
Finance income	14,508	-	14,508
Finance costs	(70,856)	-	(70,856)
<b>Net finance costs</b>	<b>(56,348)</b>	<b>-</b>	<b>(56,348)</b>
Share of profit of equity-accounted investees	9,286	-	9,286
<b>Profit before tax</b>	<b>594,055</b>	<b>(49,421)</b>	<b>544,634</b>
Income tax	(138,130)	9,390	(128,740)
<b>Net profit/(loss)</b>	<b>455,925</b>	<b>(40,031)</b>	<b>415,894</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial losses from defined benefit plans	(12,249)	-	(12,249)
Tax on items that will not be reclassified to profit or loss	2,328	-	2,328
	<b>(9,921)</b>	<b>-</b>	<b>(9,921)</b>
<b>Items that are or may be reclassified to profit or loss</b>			
Cash flow hedging - effective portion of fair value changes	(18,537)	-	(18,537)
Exchange differences on translating foreign operations	19,228	-	19,228
Income tax relating to items that are or will be reclassified to profit or loss	3,521	-	3,521
	<b>4,212</b>	<b>-</b>	<b>4,212</b>
<b>Total other comprehensive income</b>	<b>(5,709)</b>	<b>-</b>	<b>(5,709)</b>
<b>Comprehensive income for the period</b>	<b>450,216</b>	<b>(40,031)</b>	<b>410,185</b>
<b>Net profit attributable to:</b>			
Owners of the Parent	422,483	(38,422)	384,061
Non-controlling interests	33,442	(1,609)	31,833
<b>Comprehensive income for the period attributable to:</b>			
Owners of the Parent	417,473	(38,422)	379,051
Non-controlling interests	32,743	(1,609)	31,134
<b>Earnings per share:</b>			

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Basic (PLN)	4.26	(0.39)	3.87
Diluted (PLN)	4.26	(0.39)	3.87

Statement of cash flows for the period Jan 1–Sep 30 2019

	for the period Jan 1– Sep 30 2019  <i>unaudited</i>	Correction 1 (accounting for grants)	Correction 2 (presentation of reverse factoring)	for the period Jan 1– Sep 30 2019  <i>unaudited (restated)</i>
<b>Cash flows from operating activities</b>				
Profit before tax	594,055	(49,421)	-	544,634
<i>Adjustments for:</i>	701,749	-	-	701,749
Depreciation and amortisation	616,147	-	-	616,147
Impairment losses	23,189	-	-	23,189
Loss on investing activities	1,237	-	-	1,237
Gain on disposal of financial assets	(478)	-	-	(478)
Share of profit of equity-accounted investees	(9,286)	-	-	(9,286)
Interest, foreign exchange gains or losses	67,976	-	-	67,976
Dividends	(159)	-	-	(159)
Fair value loss on financial assets at fair value	3,123	-	-	3,123
	<b>1,295,804</b>	<b>(49,421)</b>	-	<b>1,246,383</b>
Increase in trade and other receivables	(13,951)	-	-	(13,951)
Increase in inventories and property rights	(129,361)	-	-	(129,361)
Decrease in trade and other payables	(551,528)	-	363,984	(187,544)
Increase in provisions, accruals and government grants	236,878	49,421	-	286,299
Other adjustments	376,300	-	(363,984)	12,316
<b>Cash generated from operating activities</b>	<b>1,214,142</b>	-	-	<b>1,214,142</b>
Income tax paid	(35,872)	-	-	(35,872)
<b>Net cash from operating activities</b>	<b>1,178,270</b>	-	-	<b>1,178,270</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of property, plant and equipment, intangible assets and investment property	6,525	-	-	6,525
Purchase of property, plant and equipment, intangible assets and investment property	(748,694)	-	-	(748,694)
Dividend received	11	-	-	11
Acquisition of financial assets	(415,252)	-	-	(415,252)
Proceeds from sale of financial assets	101,564	-	-	101,564
Interest received	16,858	-	-	16,858
Government grants received	754	-	-	754
Repayments of loans advanced	82	-	-	82
Other disbursements	(1,652)	-	-	(1,652)

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Net cash from investing activities

(1,039,804)	-	(1,039,804)
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	for the period Jan 1– Sep 30 2019	Correction 1 (accounting for grants)	Correction 2 (presentation of reverse factoring)	for the period Jan 1– Sep 30 2019 <i>unaudited (restated)</i>
	<i>unaudited</i>			
<b>Cash flows from financing activities</b>				
Dividends paid	(2,717)	-	-	(2,717)
Proceeds from borrowings	383,668	-	-	383,668
Repayment of borrowings	(171,084)	-	-	(171,084)
Interest paid	(74,797)	-	-	(74,797)
Payment of lease liabilities	(52,269)	-	-	(52,269)
Repayment of reverse factoring	-	-	(499,109)	(499,109)
Other cash provided by financing activities	-	-	6,394	6,394
Other cash used in financing activities	(527,840)	-	492,715	(35,125)
<b>Net cash from financing activities</b>	<b>(445,039)</b>	<b>-</b>	<b>-</b>	<b>(445,039)</b>
<b>Total net cash flows</b>	<b>(306,573)</b>	<b>-</b>	<b>-</b>	<b>(306,573)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>846,532</b>	<b>-</b>	<b>-</b>	<b>846,532</b>
Effect of exchange rate fluctuations on cash held	12,031	-	-	12,031
<b>Cash and cash equivalents at end of period</b>	<b>551,990</b>	<b>-</b>	<b>-</b>	<b>551,990</b>

Statement of profit or loss and other comprehensive income for the period Jul 1– Sep 30 2019

	for the period Jul 1– Sep 30 2019	Correction 1 (accounting for grants - CO <sub>2</sub> emission allowances received free of charge)	for the period Jul 1– Sep 30 2019
	<i>unaudited</i>		<i>unaudited (restated)</i>
<b>Profit/loss</b>			
Revenue	2,563,895	-	2,563,895
Cost of sales	(2,036,968)	15,480	(2,021,488)
<b>Gross profit</b>	<b>526,927</b>	<b>15,480</b>	<b>542,407</b>
Selling expenses	(210,685)	-	(210,685)
Administrative expenses	(209,758)	-	(209,758)
Other income	14,462	-	14,462
Other expenses	(15,317)	-	(15,317)
<b>Operating profit/(loss)</b>	<b>105,629</b>	<b>15,480</b>	<b>121,109</b>
Finance income	1,207	-	1,207
Finance costs	(27,115)	-	(27,115)
<b>Net finance costs</b>	<b>(25,908)</b>	<b>-</b>	<b>(25,908)</b>
Share of profit of equity-accounted investees	3,159	-	3,159
<b>Profit before tax</b>	<b>82,880</b>	<b>15,480</b>	<b>98,360</b>
Income tax	(21,909)	(2,941)	(24,850)
<b>Net profit/(loss)</b>	<b>60,971</b>	<b>12,539</b>	<b>73,510</b>

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	for the period Jul 1– Sep 30 2019	Correction 1 (accounting for grants - CO <sub>2</sub> emission allowances received free of charge)	for the period Jul 1– Sep 30 2019
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial losses from defined benefit plans	739	-	739
Tax on items that will not be reclassified to profit or loss	(140)	-	(140)
	<b>599</b>	-	<b>599</b>
<b>Items that are or may be reclassified to profit or loss</b>			
Cash flow hedging - effective portion of fair value changes	(26,604)	-	(26,604)
Exchange differences on translating foreign operations	30,167	-	30,167
Income tax relating to items that are or will be reclassified to profit or loss	5,054	-	5,054
	<b>8,617</b>	-	<b>8,617</b>
<b>Total other comprehensive income</b>	<b>9,216</b>	-	<b>9,216</b>
<b>Comprehensive income for the period</b>	<b>70,187</b>	<b>12 53</b>	<b>82,726</b>
<b>Net profit attributable to:</b>			
Owners of the parent	59,701	12,035	71,736
Non-controlling interests	1,270	504	1,774
<b>Comprehensive income for the period attributable to:</b>			
Owners of the parent	68,873	12,035	80,908
Non-controlling interests	1,314	504	1,818
<b>Earnings per share:</b>			
Basic (PLN)	0.60	0.12	0.72
Diluted (PLN)	0.60	0.12	0.72



## 2.3. Judgements and estimates

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

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

The key judgements and estimates made by the Management Board in preparing these interim condensed consolidated financial statements, especially with respect to amortisation/depreciation periods, analysis of impairment and provisions, were not materially different from those made in preparing the consolidated financial statements for the financial year ended December 31st 2019.

## 3. Selected notes and supplementary information

### 3.1. Business segment reporting

#### Operating segments

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

Operations of the Company's 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 (Slow-Release Fertilizers) and CRF (Controlled Release 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: 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 and heat) 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:

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- Research and Development Centre,
- laboratory services,
- Catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts),
- rental of real estate, and
- other activities not allocated to any of the segments specified above.

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## Operating segments

### Operating segments' revenue, expenses and financial results for the nine months ended September 30th 2020 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	4,769,173	836,727	1,827,799	179,905	175,059	7,788,663
Intersegment revenue	1,419,491	231,042	577,140	1,904,765	654,155	4,786,593
<b>Total revenue</b>	<b>6,188,664</b>	<b>1,067,769</b>	<b>2,404,939</b>	<b>2,084,670</b>	<b>829,214</b>	<b>12,575,256</b>
Operating expenses, including: (-)	(5,824,770)	(1,152,223)	(2,313,675)	(2,105,451)	(831,951)	(12,228,070)
<i>selling expenses (-)</i>	(524,089)	(46,324)	(111,435)	(148)	(1,071)	(683,067)
<i>administrative expenses (-)</i>	(290,286)	(91,396)	(131,196)	(14,229)	(58,552)	(585,659)
Other income	55,359	11,000	32,115	12,840	15,959	127,273
Other expenses (-)	(8,823)	(1,154)	(1,488)	(12,637)	(16,391)	(40,493)
<b>Segment's EBIT**</b>	<b>410,430</b>	<b>(74,608)</b>	<b>121,891</b>	<b>(20,578)</b>	<b>(3,169)</b>	<b>433,966</b>
Finance income	-	-	-	-	-	11,653
Finance costs (-)	-	-	-	-	-	(85,100)
Share of profit of equity-accounted investees	-	-	-	-	-	11,298
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>371,817</b>
Income tax	-	-	-	-	-	(108,732)
<b>Net profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>263,085</b>
EBIT*	410,430	(74,608)	121,891	(20,578)	(3,169)	433,966
Depreciation and amortisation	242,240	54,608	80,909	82,470	84,094	544,321
Unallocated depreciation and amortisation	-	-	-	-	-	24,611
<b>EBITDA**</b>	<b>652,670</b>	<b>(20,000)</b>	<b>202,800</b>	<b>61,892</b>	<b>80,925</b>	<b>1,002,898</b>

\* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.

\*\* EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

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

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	5,190,674	1,129,130	2,008,064	206,228	132,308	8,666,404
Intersegment revenue	1,522,191	270,690	638,727	2,017,058	667,506	5,116,172
<b>Total revenue</b>	<b>6,712,865</b>	<b>1,399,820</b>	<b>2,646,791</b>	<b>2,223,286</b>	<b>799,814</b>	<b>13,782,576</b>
Operating expenses, including: (-)	(6,169,172)	(1,371,173)	(2,538,595)	(2,224,611)	(853,803)	(13,157,354)
<i>selling expenses (-)</i>	(491,658)	(49,250)	(125,683)	(359)	(1,278)	(668,228)
<i>administrative expenses (-)</i>	(288,207)	(103,205)	(136,846)	(13,792)	(94,610)	(636,660)
Other income	14,473	2,140	4,409	8,576	13,521	43,119
Other expenses (-)	(8,360)	(2,647)	(15,833)	(19,363)	(30,442)	(76,645)
<b>Segment's EBIT**</b>	<b>549,806</b>	<b>28,140</b>	<b>96,772</b>	<b>(12,112)</b>	<b>(70,910)</b>	<b>591,696</b>
Finance income	-	-	-	-	-	14,508
Finance costs (-)	-	-	-	-	-	(70,856)
Share of profit of equity-accounted investees	-	-	-	-	-	9,286
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>544,634</b>
Income tax	-	-	-	-	-	(128,740)
<b>Net profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>415,894</b>
EBIT**	549,806	28,140	96,772	(12,112)	(70,910)	591,696
Depreciation and amortisation	252,027	48,958	85,367	84,504	80,715	551,571
Unallocated depreciation and amortisation	-	-	-	-	-	64,576
<b>EBITDA***</b>	<b>801,833</b>	<b>77,098</b>	<b>182,139</b>	<b>72,392</b>	<b>9,805</b>	<b>1,207,843</b>

\* as described in Section 2.2.

\*\* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.

\*\*\* EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

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**Operating segments' revenue, expenses and financial results for the three months ended September 30th 2020 (unaudited)**

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,441,281	245,259	611,681	56,195	61,629	2,416,045
Intersegment revenue	446,367	70,993	161,502	591,406	223,129	1,493,397
<b>Total revenue</b>	<b>1,887,648</b>	<b>316,252</b>	<b>773,183</b>	<b>647,601</b>	<b>284,758</b>	<b>3,909,442</b>
Operating expenses, including: (-)	(1,771,888)	(343,305)	(802,972)	(653,719)	(282,015)	(3,853,899)
<i>selling expenses (-)</i>	(140,332)	(14,506)	(48,016)	(52)	(37)	(202,943)
<i>administrative expenses (-)</i>	(87,896)	(24,373)	(43,270)	(3,747)	(19,389)	(178,675)
Other income	7,643	1,143	2,904	2,791	4,490	18,971
Other expenses (-)	(4,495)	(186)	-	(5,472)	(2,762)	(12,915)
<b>Segment's EBIT**</b>	<b>118,908</b>	<b>(26,096)</b>	<b>(26,885)</b>	<b>(8,799)</b>	<b>4,471</b>	<b>61,599</b>
Finance income	-	-	-	-	-	2,121
Finance costs (-)	-	-	-	-	-	(13,126)
Share of profit of equity-accounted investees	-	-	-	-	-	4,218
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,812</b>
Income tax	-	-	-	-	-	(13,832)
<b>Net profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,980</b>
EBIT*	118,908	(26,096)	(26,885)	(8,799)	4,471	61,599
Depreciation and amortisation	79,971	17,945	27,383	27,524	28,568	181,391
Unallocated depreciation and amortisation	-	-	-	-	-	7,117
<b>EBITDA**</b>	<b>198,879</b>	<b>(8,151)</b>	<b>498</b>	<b>18,725</b>	<b>33,039</b>	<b>250,107</b>

\* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.

\*\* EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

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

	<b>Agro Fertilizers</b>	<b>Plastics</b>	<b>Chemicals</b>	<b>Energy</b>	<b>Other Activities</b>	<b>Total</b>
External revenue	1,521,682	338,568	573,944	80,622	49,079	2,563,895
Intersegment revenue	386,103	83,079	146,955	559,668	235,344	1,411,149
<b>Total revenue</b>	<b>1,907,785</b>	<b>421,647</b>	<b>720,899</b>	<b>640,290</b>	<b>284,423</b>	<b>3,975,044</b>
Operating expenses, including: (-)	(1,782,296)	(431,380)	(717,826)	(628,410)	(293,168)	(3,853,080)
<i>selling expenses (-)</i>	(154,039)	(15,215)	(40,735)	(31)	(665)	(210,685)
<i>administrative expenses (-)</i>	(98,253)	(31,319)	(44,355)	(4,756)	(31,075)	(209,758)
Other income	3,403	1,443	2,088	2,698	4,830	14,462
Other expenses (-)	(4,426)	(1,165)	(484)	(4,184)	(5,058)	(15,317)
<b>Segment's EBIT**</b>	<b>124,466</b>	<b>(9,455)</b>	<b>4,677</b>	<b>10,394</b>	<b>(8,973)</b>	<b>121,109</b>
Finance income	-	-	-	-	-	1,207
Finance costs (-)	-	-	-	-	-	(27,115)
Share of profit of equity-accounted investees	-	-	-	-	-	3,159
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98,360</b>
Income tax	-	-	-	-	-	(24,850)
<b>Net profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73,510</b>
EBIT**	124,466	(9,455)	4,677	10,394	(8,973)	121,109
Depreciation and amortisation	90,092	15,913	29,160	28,079	28,451	191,695
Unallocated depreciation and amortisation	-	-	-	-	-	19,003
<b>EBITDA***</b>	<b>214,558</b>	<b>6,458</b>	<b>33,837</b>	<b>38,473</b>	<b>19,478</b>	<b>331,807</b>

\* as described in Section 2.2.

\*\* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.

\*\*\* EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

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**Operating segments' assets and liabilities as at September 30th 2020 (unaudited)**

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	6,368,762	1,362,773	1,530,760	1,950,793	3,507,770	14,720,858
Unallocated assets	-	-	-	-	-	1,667,190
Investments in associates	-	-	-	-	-	87,910
<b>Total assets</b>	<b>6,368,762</b>	<b>1,362,773</b>	<b>1,530,760</b>	<b>1,950,793</b>	<b>3,507,770</b>	<b>16,475,958</b>
Segment's liabilities	2,768,560	332,100	283,886	977,097	1,385,512	5,747,155
Unallocated liabilities	-	-	-	-	-	2,581,659
<b>Total liabilities</b>	<b>2,768,560</b>	<b>332,100</b>	<b>283,886</b>	<b>977,097</b>	<b>1,385,512</b>	<b>8,328,814</b>

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

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	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
<b>Total assets</b>	<b>6,477,774</b>	<b>1,414,573</b>	<b>1,524,812</b>	<b>1,855,654</b>	<b>1,945,846</b>	<b>15,478,691</b>
Segment's liabilities	2,589,279	332,759	333,591	793,075	758,895	4,807,599
Unallocated liabilities	-	-	-	-	-	2,977,145
<b>Total liabilities</b>	<b>2,589,279</b>	<b>332,759</b>	<b>333,591</b>	<b>793,075</b>	<b>758,895</b>	<b>7,784,744</b>

## Geographical areas

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

## Revenue

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019	for the period Jul 1 – Sep 30 2020	for the period Jul 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Poland	3,784,246	4,242,994	1,240,335	1,300,316
Germany	594,960	717,926	189,295	239,367
Other EU countries	2,010,439	2,411,979	534,670	660,654
Asia	303,067	328,778	106,673	84,911
South America	199,818	238,599	94,077	86,316
Other countries	896,133	726,128	250,995	192,331
<b>Total</b>	<b>7,788,663</b>	<b>8,666,404</b>	<b>2,416,045</b>	<b>2,563,895</b>

No single trading partner accounted for more than 10% of revenue in the three months ended September 30th 2020 and 2019.

## 3.2. Impairment testing

As at September 30th 2020, one of the triggers listed in paragraph 12d of IAS 36 *Impairment of Assets* occurred in respect of all of the Group's non-current assets - the carrying amount of the Group's net assets was higher than the market capitalisation of the Parent. Therefore, the Parent and the key subsidiaries analysed the validity of the assumptions adopted for the previous impairment tests as at December 31st 2019, and the results of those tests. The analysis showed that:

- the adopted operating strategy and the key assumptions did not change,
- the definition of cash generating units (CGUs) within the Group and the value of assets of each CGU did not change materially relative to the respective amounts as at December 31st 2019, with the exception of expenditure on the Polimery Police project, analysed separately,
- the Group's EBITDA and cash flows for the nine months to September 30th 2020 with respect to the major part of the tested CGUs did not differ significantly from those assumed in the impairment tests as at the end of 2019, with some CGUs recording higher figures and some - lower figures,
- the projected financial results for 2020 for the majority of the Group's CGUs did not differ significantly from the assumed results for the period underlying the impairment tests at the end of 2019,
- the macroeconomic prospects and market conditions had deteriorated, in particular as a result of the COVID-19 coronavirus pandemic, mainly in the case of plastics for the automotive industry; however, the situation of the Plastics and other segments should improve in the long term,
- the risk-free interest rate (yield on 10-year Treasury bonds) fell from 2.11% at the end of 2019 to 1.30% at the end of September 2020, and the NBP's reference rate was reduced over the period from 1.5% to 0.1%. The result was a decrease in the weighted average cost of capital for the Grupa Azoty Group.

Given the above, it was concluded that the recoverable amount estimates resulting from the previous tests remained valid as at September 30th 2020, and therefore no additional impairment losses needed to be recognised and no indicators existed that any impairment losses on assets recognised in prior periods should be reversed.

It should be noted that the impact of COVID-19 will be far-reaching and will affect all business areas, although it is still impossible to accurately estimate its consequences for the future business and condition of the Grupa Azoty Group companies. For information on risks related to the consequences of COVID-19 and preventive actions taken by the Group companies, see Note 3.11 to these interim condensed consolidated financial statements.



For detailed information on the impairment tests and their results, see Note 10 to the consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2019. Concurrently, work is under way at the Group companies to develop capital budgets for 2021 and the following years. Based on the results of that work, the impairment tests will be updated at the end of 2020.

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

The subsidiary reviews the need to update the key model assumptions and parameters on an ongoing basis. The scope of revisions made in the first half of 2020 covered primarily selected aspects of financial assumptions, including those agreed during ongoing discussions with the syndicate of financing institutions and the process of obtaining corporate approvals to meet the conditions precedent laid down by the project co-sponsors and financing institutions. In the third quarter of 2020, the agreed terms and conditions of the annex to the EPC Contract, signed on October 9th 2020, were factored into the model, including a EUR 33.2m increase in the amount payable to the General Contractor and extension of the project schedule by three months.

For an overview of the status of the Polimery Police project, see the Management's discussion and analysis of Grupa Azoty S.A.'s performance. The analysis performed, taking account of the risks involved in these newly emerged circumstances, identified no need to recognised impairment losses. Accordingly, as at September 30th 2020, the conclusions of the analysis performed at the end of 2019, which indicated that no impairment of the Group's assets related to the implementation of the Polimery Police project needed to be recognised, were upheld.

### 3.3. Other material changes in the statement of financial position

The PLN 503,295 thousand increase in long-term **other receivables** was attributable mainly to an increase in prepaid deliveries of non-current assets in relation to the strategic capex project Polimery Police implemented by Grupa Azoty POLYOLEFINS.

The PLN 302,215 thousand decrease in **Inventories** resulted from lower purchase prices of key feedstocks (gas, petroleum-derived raw materials) and a seasonal drop in the inventories of Fertilizer products, accompanied by lower output of Plastics and Chemicals.

The PLN 171,647 thousand decrease in **Trade and other receivables** was mainly an effect of accounting for the subscription by the Parent for new shares in the subsidiary Grupa Azoty POLICE (PLN 291m), coupled with a drop in trade receivables due to the lower prices and a decline in the sales of Plastics, a post-season decline in the sales of Fertilizers, as well as an effect of the recognition of compensation for energy-intensive businesses estimated as receivable for the nine months ended September 30th 2020.

The PLN 193,950 thousand decrease in **Cash and cash equivalents** was mainly attributable to their use to finance the Polimery Police project and other investment projects, as well as the results of the Group's overall operations.

The PLN 659,181 thousand increase in **borrowings** was mainly attributable to the disbursement of long-term credit facilities granted to finance the Polimery Police project.

The PLN 315,068 thousand decrease in **Other financial liabilities** was attributable to lower usage of reverse factoring due to a decrease in total trade payables subject to deferred payment terms.

The PLN 130,512 thousand increase in **Grants** reflected mainly the receipt of free-of-charge CO<sub>2</sub> emission allowances. The grant will be accounted for pro rata to the emissions until the end of 2020.

### 3.4. Contingent liabilities, contingent assets, sureties and guarantees

#### Contingent assets

	as at Sep 30 2020	as at Dec 31 2019
	<i>unaudited</i>	<i>audited</i>
Contingent receivables	30,617	114,213

As at the reporting date, contingent receivables comprised primarily receivables related to the claim raised against Ciech S.A. for payment of PLN 18,864 thousand for breach of the warranties made by Ciech S.A. in the agreement for purchase of shares in GZNF Fosfory Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY). On October 30th 2012, Grupa Azoty PUŁAWY filed a suit with the Regional Court in Warsaw. The case is pending.

As at December 31st 2019, contingent receivables included the compensation for energy-intensive businesses of PLN 83,399 thousand estimated as receivable for 2019. The eligible Group companies received the compensation in August 2020. Therefore, as at September 30th 2020, the item was not recognised.

#### Contingent liabilities and guarantees/sureties

	as at Sep 30 2020	as at Dec 31 2019
	<i>unaudited</i>	<i>audited</i>
Other contingent liabilities, including guarantees	30,222	31,651

Other contingent liabilities, including guarantees, were mainly attributable to a claim filed on February 12th 2013 by Ciech S.A. with the Regional Court of Gdańsk for payment of PLN 18,884 thousand by Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY) as compensation for damage suffered by Ciech S.A. as a result of untrue representations made by the defendant as to the legal status and financial position of the defendant and its subsidiaries, together with statutory interest accrued from the claim filing date to the payment date, and legal costs, including costs of legal representation.

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

#### Support loan provision guarantee agreement

On May 31st 2020, in connection with the credit facilities agreement for financing the Polimery Police project, executed on that day by Grupa Azoty POLYOLEFINS with a syndicate of financial institutions ("Credit Facilities Agreement"), the Parent and Grupa Azoty POLICE entered into a support loan provision guarantee agreement with Grupa Azoty POLYOLEFINS and Bank Polska Kasa Opieki S.A. (acting as the facility agent and security agent) for up to EUR 105m in the form of a subordinated loan, the main objective of which is to cover a potential liquidity deficit, construction cost overruns, operating costs and debt service costs in the operation phase of the Polimery Police project.

Use of the guarantee will be possible upon fulfilment of the conditions precedent under the Credit Facilities Agreement. As at the date of authorisation of these interim consolidated financial statements, the conditions were not fulfilled and therefore the guarantee availability period did not commence.

### 3.5. Related-party transactions

Significant related-party transactions

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

In the three and nine months ended September 30th 2020, the Grupa Azoty Group did not execute any related-party transactions on non-arm's length terms.

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

During the three and nine months ended September 30th 2020, the Grupa Azoty Group did not grant any advances, loans, guarantees or sureties to members of its management or supervisory personnel or persons closely related to them, nor did it enter into any agreements whereby such persons are required to provide benefits to the Group companies.

### 3.6. Investment commitments

In the period ended September 30th 2020, the Group signed contracts for new investment projects and for continuation of ongoing projects. The projects involve mainly the provision of chemical, construction, mechanical and electrical services, design services, and project supervision. As at September 30th 2020, contractual investment commitments were estimated at PLN 4,880,446 thousand (December 31st 2019: PLN 5,537,548 thousand).

The largest investment commitments were as follows:

	as at Sep 30 2020	as at Dec 31 2019
PDH and polypropylene unit at Grupa Azoty POLICE	3,311,062	3,868,889
Construction of CHP plant at Grupa Azoty PUŁAWY	986,251	1,159,900
Construction of nitric acid units at Grupa Azoty PUŁAWY	112,535	144,243

### 3.7. Accounting estimates and assumptions

Changes in impairment losses on property, plant and equipment

	for the period Jan 1 – Sep 30 2020 <i>unaudited</i>	for the period Jan 1 – Sep 30 2019 <i>unaudited</i>	for the period Jul 1 – Sep 30 2020 <i>unaudited</i>	for the period Jul 1 – Sep 30 2019 <i>unaudited</i>
<b>At beginning of period</b>	<b>333,085</b>	<b>351,730</b>	<b>332,884</b>	<b>353,096</b>
Recognised	1,023	4,506	12	78
Reversed (-)	(348)	(9)	(135)	(9)
Used (-)	(1,250)	(3,213)	(251)	(151)
<b>At end of period</b>	<b>332,510</b>	<b>353,014</b>	<b>332,510</b>	<b>353,014</b>

#### Changes in inventory write-downs

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019	for the period Jul 1 – Sep 30 2020	for the period Jul 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
<b>At beginning of period</b>	<b>59,731</b>	<b>48,739</b>	<b>63,334</b>	<b>46,012</b>
Recognised	34,573	36,713	12,078	22,514
Reversed (-)	(10,740)	(9,133)	(5,825)	(5,256)
Used (-)	(24,017)	(20,276)	(9,712)	(7,247)
Exchange differences	446	211	118	231
<b>At end of period</b>	<b>59,993</b>	<b>56,254</b>	<b>59,993</b>	<b>56,254</b>

#### Changes in impairment losses on receivables

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019	for the period Jul 1 – Sep 30 2020	for the period Jul 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
<b>At beginning of period</b>	<b>84,477</b>	<b>82,290</b>	<b>90,223</b>	<b>95,441</b>
Recognised	14,021	21,765	1,758	1,476
Reversed (-)	(6,094)	(5,890)	(2,256)	(1,537)
Used (-)	(2,862)	(7,239)	(759)	(4,368)
Exchange differences	887	122	1,463	36
<b>At end of period</b>	<b>90,429</b>	<b>91,048</b>	<b>90,429</b>	<b>91,048</b>

### 3.8. Financial instruments

#### Forward contracts entered into by Grupa Azoty POLYOLEFINS

In the nine months to September 30th 2020, Grupa Azoty POLYOLEFINS entered into forward contracts for the purchase of EUR 242,622 thousand for PLN and EUR 90,844 thousand for USD, hedging expected payments in EUR under the contract for turnkey execution of the Polimery Police project, which are to be made through the PLN contributions from the Parent and Grupa Azoty POLICE in the form of a share capital increase and subordinated loans.

In the nine months ended September 30th 2020, Grupa Azoty POLYOLEFINS also acquired FX options to purchase EUR 169,603 thousand for PLN in respect of the Polimery Police co-sponsors' planned contribution in PLN and options to purchase EUR 300,500 thousand for USD in respect of the Polimery Police co-sponsors' planned contribution in USD, and partly for the USD-denominated senior facility. The transactions allow the company to hedge the Polimery Police project's budget in accordance with its financial model.

In the reporting period, the amount purchased under currency forward contracts was EUR 137,250 thousand. In addition, the EUR/PLN FX options for EUR 127,675 thousand expired without being exercised and the EUR/USD FX option for EUR 112,500 thousand was exercised. Forward contracts for the purchase of EUR 90,844 thousand for USD were executed for a part of the notional amount of the expired options.

As at September 30th 2020, the total notional value of currency forward contracts was EUR 196,053 thousand, while that of EUR/PLN and EUR/USD FX options was EUR 41,928 thousand and EUR 188,000 thousand, respectively. The instruments are due to be settled in the fourth quarter of 2020.

As at September 30th 2020, the net fair value of outstanding forward contracts and options executed by Grupa Azoty POLYOLEFINS was PLN 21,579 thousand (including forward contracts: PLN 7,884 thousand, and a call option: PLN 13,696 thousand). The fair value of outstanding currency derivatives entered into by Grupa Azoty POLYOLEFINS was determined based on the valuation models used with respect to financial instruments by the banks with which the contracts had been executed. As at September 30th 2020, Grupa Azoty POLYOLEFINS did not apply hedge accounting.

### 3.9. Dividend

On June 29th 2020, the Company's Annual General Meeting passed a resolution to allocate the entire amount of the Parent's net profit for the financial year 2019, of PLN 58,249 thousand, to the Company's reserve funds.

### 3.10. Seasonality of operations

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

#### Mineral fertilizers

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

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

#### Titanium white market

The main target application of titanium white (TiO<sub>2</sub>) is the manufacture of paints and varnishes. Titanium white is a seasonal product, linked closely to structural construction. The demand for titanium white depends on the situation on the application markets, especially the construction market. It usually starts to rise at the end of the first quarter and falls as the construction season ends in autumn. The first quarter is typically classified as a low season, a run-up to the slow beginning of a high season. The fourth quarter is usually a low season for the main sector of paints and coatings.

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

### 3.11. Information on the effects of the COVID-19 pandemic

In connection with the Act of March 2nd 2020 on special arrangements to prevent, counteract and combat the COVID-19 infectious disease, other infectious diseases and crisis situations caused by them (Dz.U. of 2020, item 374, as amended) 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 response by relevant units. 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,
- reducing the number of meetings as well as domestic and foreign business travel, and using teleconferencing, videoconferencing and instant messengers as much as 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 at all locations where the companies are present.

All the introduced restrictions remain in force due to the second wave of the coronavirus epidemic.

### Plastics

The Grupa Azoty Group's operations in the Plastics segment are directly related to the electrical engineering and automotive industries, where the effects of the pandemic have been the strongest. In the third quarter, the pandemic-related situation improved and so the administrative restrictions imposed at the end of March 2020 were eased. The market situation on the demand side was also better, with a slight recovery on both the feedstock and product markets. Despite the improvement seen on the market over the reporting period, revenue was down 27.6% year on year. Situation in the Plastics segment is still being affected by the generally tough economic climate prevailing in countries which are the main markets for its products and depends on further implementation of measures to contain the spread of COVID-19 infections.

### Agro Fertilizers

The COVID-19 pandemic had no material effect on the implementation of contract sale schedules in the third quarter of 2020. In the third quarter of 2020, revenue fell by approximately 5.3% year on year despite higher sales volumes, due to lower prices.

### Chemicals

In the OXO product business, the prices of propylene and propylene based products rebounded after a downward trend. Although summer is a time of natural slowdown, demand was good, generated by supply factors in Europe and America, and by customers replenishing their stocks. Revenue from OXO alcohols for the third quarter of 2020 was up 25.6% on the corresponding period of the previous year.

Deteriorated demand and price levels were seen in the melamine market. In the third quarter of 2020, revenue from melamine sales was 21.8% lower year on year.

In the titanium white area, no significant impact of COVID-19 was identified in relation to the scale of the Grupa Azoty Group's business. Demand was estimated at a level comparable to that recorded in the corresponding period last year.

The Grupa Azoty Group is taking steps to minimise the impact of the COVID-19 pandemic on the Group's operations, for instance by using solutions available on the market to support working capital management, optimise the costs of feedstock procurement and adjust the production volumes to sales opportunities. Having recorded revenue declines, the Parent and some of its subsidiaries took steps to benefit from the wage subsidy scheme under the Guaranteed Employee Benefits Fund. The amount of support for the Grupa Azoty Group was approximately PLN 65m, and the funds were received by the Group companies mostly in the third quarter of 2020.

It should be noted that the Group's financial condition is stable. The Group has additional sources of liquidity, namely cash held, whose amount as at September 30th 2020 was PLN 576m (including cash held as bank deposits), undrawn credit facilities, whose amount as at September 30th 2020 was PLN 2,484m, and available reverse factoring limit of PLN 461m, adding up to a total of PLN 3,521m. As at October 31st 2020, the amount of cash held was PLN 551m, the amount of available credit limits was PLN 2,269m, and the available limit of the reverse factoring facility was PLN 465m, adding up to a total of PLN 3,285m.

The decrease in the Group's total cash and available limits after the reporting date was largely attributable to the financing of expenditure on the Polimery Police and Puławy Power Plant projects.

In the opinion of the Parent's Management Board, the preventive measures taken have mitigated the risk to business continuity, but the observed impacts of the COVID-19 pandemic are bound to have a materially adverse short- and medium-term effect on the operations of the Grupa Azoty Group, especially in the Plastics and Chemicals segment. However, these effects will not jeopardise the Group's market position, its liquidity or ability to pursue strategic investment projects.

Furthermore, on November 3rd 2020, the Prime Minister of Poland, acting pursuant to Art. 11h.3 and 4 of the Act on Special Measures to Prevent, Counteract and Combat COVID-19, Other Infectious Diseases and Related Crisis Situations of March 2nd 2020 (Dz. U. of 2020, item 374), in conjunction with Art. 104 of the Code of Administrative Procedure of June 14th 1960 (Dz. U. of 2020, item 256, as amended), issued a decision (the "Decision") ordering Grupa Azoty S.A. to take immediate actions for the prevention of COVID-19, i.e. to select a location, in consultation with the relevant province governor, promptly organise and establish a temporary hospital in the Province of Kraków, in accordance with the guidelines provided by the hospital designated as appropriate for the location, and maintain the hospital's operation.

Actions taken to implement the Decision will be financed out of the COVID-19 Prevention Fund, as referred to in Art. 65 of the Act Amending the Act on Special Measures to Prevent, Counteract and Combat COVID-19, Other Infectious Diseases and Related Crisis Situations, and Certain Other Acts, dated March 31st 2020 (Dz. U. item 568, as amended, the "Fund"), under an agreement concluded between the State Treasury - Minister of State Assets and the Parent.

As at the date of authorisation of these interim condensed consolidated financial statements for issue, the arrangements regarding the location, construction and provision of equipment for the temporary hospital, as well as agreements related to the implementation of the Decision, including the agreement with the State Treasury represented by the Minister of State Assets to cover the costs of implementing the Decision, were still in progress. In the opinion of the Parent's Management Board, implementation of the actions ordered under the Decision will not result in any significant costs and expenditures that could not be reimbursed out of the Fund. Moreover, the Parent's involvement in the construction of the temporary hospital will help mitigate the effects of the COVID-19 pandemic and is in line with the Group's corporate social responsibility policy.

### 3.12. Financing of the Polimery Police project

#### Full contributions from the Parent and Grupa Azoty POLICE to Grupa Azoty POLYOLEFINS

In July 2020, the Parent and Grupa Azoty POLICE contributed final tranches of equity to Grupa Azoty POLYOLEFINS in connection with the issue of Series F shares. On August 3rd 2020, the District Court for Szczecin-Centrum of Szczecin, 13th Commercial Division of the National Court Register, registered an increase in the share capital of Grupa Azoty POLYOLEFINS. Consequently, the share capital of Grupa Azoty POLYOLEFINS was increased from PLN 467,339,000 to PLN 599,283,310. In total, Grupa Azoty POLYOLEFINS' equity was increased by PLN 525,558,305.24, of which PLN 247,012,420.59 was contributed by the Parent and PLN 278,545,884.65 by Grupa Azoty POLICE. The shareholding structure of Grupa Azoty POLYOLEFINS did not change, with the Parent holding directly 47% of the share capital of Grupa Azoty POLYOLEFINS, and the other shareholder of Grupa Azoty POLYOLEFINS - Grupa Azoty POLICE - holding a 53% interest. Further changes in the share capital and statutory reserve funds of Grupa Azoty POLYOLEFINS were caused by the equity closing and acquisition of the new issue shares by Hyundai Engineering Co., Ltd. ("HEC"), Korea Overseas Infrastructure & Urban Development Corporation ("KIND") and Grupa LOTOS S.A., as described below.

In August 2020, the Parent and Grupa Azoty POLICE also disbursed subordinated loans to Grupa Azoty POLYOLEFINS, of PLN 239,283,008.09 and PLN 269,829,740.20, respectively. These payments were used, among other things, to settle Grupa Azoty POLYOLEFINS' debt towards the Parent under cash pooling. As of the end of August 2020, Grupa Azoty POLYOLEFINS was excluded from the Group's cash pooling arrangement.

The balances of the subordinated loans were disbursed by the Parent and Grupa Azoty POLICE to Grupa Azoty POLYOLEFINS in the amounts of PLN 105,180,729.91 and PLN 118,608,041.80, respectively, in early October 2020. Following the transactions, the Parent and Grupa Azoty POLICE completed their contributions of funds to Grupa Azoty POLYOLEFINS. The next phases of the Polimery Police project will be financed by co-sponsors, i.e. HEC, KIND and Grupa LOTOS S.A., and subsequently with bank loans.

#### Agreement between the creditors of GA POLYOLEFINS

In order to implement Polimery Police, an investment project of strategic importance to the Grupa Azoty Group, after the reporting date, on October 7th 2020, an intercreditor agreement (the "Intercreditor Agreement") was concluded between the Parent, Grupa Azoty POLICE, Grupa Azoty POLYOLEFINS S.A., a syndicate of financial institutions comprising: Alior Bank S.A., Bank Gospodarstwa Krajowego, Bank Ochrony Środowiska S.A., Bank Polska Kasa Opieki S.A. ("Bank Pekao"), BNP Paribas Bank Polska S.A., the European Bank for Reconstruction and Development, Industrial and Commercial Bank of China (Europe) S.A. Poland Branch, mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Powszechny Zakład Ubezpieczeń S.A., Powszechny Zakład Ubezpieczeń na Życie S.A., PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 and Santander Bank Polska S.A. (the "Syndicate"), as well as ICBC Standard Bank PLC (as an original security participant), HEC, KIND, and Grupa LOTOS S.A.

The conclusion of the Intercreditor Agreement was among the conditions of the availability of senior debt financing for the implementation of the Polimery Police project (the “**Project**”) on a project finance basis. Debt financing for the implementation of the Project in the form of: (i) a EUR-denominated term facility of up to EUR 487,800,000; (ii) a USD-denominated term facility of up to USD 537,700,000; (iii) a VAT facility of up to PLN 150,000,000, and (iv) a working capital facility of up to USD 180,000,000 to be made available to Grupa Azoty POLYOLEFINS was granted by the Syndicate under the credit facilities agreement of May 31st 2020 (the “**Credit Facilities Agreement**”).

#### **Security under the Credit Facilities Agreement for the Polimery Police project**

Other conditions precedent to the Syndicate’s disbursement of funds include conclusion of relevant security documents as provided for in the Credit Facilities Agreement. Accordingly, to perform the relevant provisions of the Credit Facilities Agreement, on October 7th 2020 Grupa Azoty POLYOLEFINS and certain other obligors (including the Parent and Grupa Azoty POLICE) executed agreements and other documents providing, among other things, for the creation of the following security interests for the benefit of the Syndicate:

- i. registered and financial pledges over all shares in Grupa Azoty POLYOLEFINS held by the Parent and Grupa Azoty POLICE;
- ii. registered floating charges over a pool of movables and property rights forming part of the business of the subsidiary Grupa Azoty POLYOLEFINS;
- iii. registered and financial pledges over receivables from bank accounts held by Grupa Azoty POLYOLEFINS;
- iv. power of attorney over bank accounts held by Grupa Azoty POLYOLEFINS;
- v. contractual mortgage over real property;
- vi. execution by Grupa Azoty POLYOLEFINS, the Parent and Grupa Azoty POLICE of notarial deeds on submission to enforcement;
- vii. security assignments of rights and claims under insurance and other relevant contracts of Grupa Azoty POLYOLEFINS; and
- viii. security assignments of rights and claims under subordinated loans advanced to Grupa Azoty POLYOLEFINS (including subordinated loans from the Parent and Grupa Azoty POLICE) and the support loan provision guarantee agreement between the Parent, Grupa Azoty POLICE, the subsidiary Grupa Azoty POLYOLEFINS and Bank Pekao).

All of the above security interests have been created in favour of Bank Pekao, which acts as the security agent. The relevant documents related to the creation of the security were deposited with Bank Pekao or are subject to successive registration in the relevant court registers.

#### **Equity Closing of the Polimery Police project**

On November 16th 2020, the Extraordinary General Meeting of Grupa Azoty POLYOLEFINS passed resolutions to increase the share capital of Grupa Azoty POLYOLEFINS through the issue of Series G ordinary shares and to fully waive the shareholders’ pre-emptive rights to all Series G shares.

The share capital of Grupa Azoty POLYOLEFINS was increased by PLN 323,684,990.00 through the issue of 32,368,499 new Series G registered shares with a par value of PLN 10 per share, to PLN 922,968,300.00.

In the performance of their obligations, on November 16th 2020 the co-sponsors concluded subscription agreements with Grupa Azoty POLYOLEFINS under which:

- HEC subscribed for 15,348,963 Series G shares,
- KIND subscribed for 1,052,184 Series G shares, and
- Grupa LOTOS S.A. subscribed for 15,967,352 Series G shares.

Following the execution of the subscription agreements, the co-sponsors made cash contributions to cover the new shares in Grupa Azoty POLYOLEFINS:

- HEC paid USD 73m (corresponding to the issue price of PLN 275,808.6 thousand),
- KIND paid USD 5m (corresponding to the issue price of PLN 18,891 thousand),
- Grupa LOTOS S.A. paid PLN 300,000 thousand (corresponding to the issue price).

The total share premium of PLN 271,014.6 thousand, net of issue costs, will be allocated to increase Grupa Azoty POLYOLEFINS’ statutory reserve funds.

Consequently, following registration of the share capital increase, the shareholding structure of Grupa Azoty POLYOLEFINS will be as follows:

- the Parent will directly hold 30.52% of the shares,
- Grupa Azoty POLICE will hold 34.41% of the shares,



Consolidated interim report of the Grupa Azoty Group for Q3 2020  
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of the Grupa Azoty Group  
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(all amounts in PLN '000 unless indicated otherwise)

- Grupa LOTOS S.A. will hold 17.3% of the shares,
- HEC will hold 16.63% of the shares, and
- KIND will hold 1.14% of the shares.

The above percentages represent both the respective ownership interests and shares in total voting rights at the General Meeting of Grupa Azoty POLYOLEFINS.

For information on the status of the Polimery Police project, see Section 3.1 of the Management Board's discussion and analysis of Grupa Azoty Spółka Akcyjna's performance in Q3 2020.

### **3.13. Events after the reporting date**

Except for matters related to the financing of the Polimery Police project described in Note 3.12 above, no other material events occurred after the reporting date.



Interim condensed separate financial statements  
of Grupa Azoty Spółka Akcyjna  
interim condensed separate financial statements for  
the three and nine months ended  
September 30th 2020

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

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019	for the period Jul 1 – Sep 30 2020	for the period Jul 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
<b>Profit/loss</b>				
Revenue	1,207,548	1,511,188	382,392	494,745
Cost of sales	(984,238)	(1,199,705)	(314,638)	(398,534)
<b>Gross profit</b>	<b>223,310</b>	<b>311,483</b>	<b>67,754</b>	<b>96,211</b>
Selling expenses	(74,862)	(78,062)	(26,176)	(27,544)
Administrative expenses	(127,829)	(132,635)	(40,112)	(46,645)
Other income	21,679	10,818	4,390	3,481
Other expenses	(14,024)	(18,602)	(3,256)	(5,708)
<b>Operating profit/(loss)</b>	<b>28,274</b>	<b>93,002</b>	<b>2,600</b>	<b>19,795</b>
Finance income	204,401	105,701	13,712	45,214
Finance costs	(102,210)	(56,444)	(29,875)	(22,813)
<b>Net finance income</b>	<b>102,191</b>	<b>49,257</b>	<b>(16,163)</b>	<b>22,401</b>
<b>Profit before tax</b>	<b>130,465</b>	<b>142,259</b>	<b>(13,563)</b>	<b>42,196</b>
Income tax	(13,667)	(21,686)	743	(3,912)
<b>Net profit</b>	<b>116,798</b>	<b>120,573</b>	<b>(12,820)</b>	<b>38,284</b>
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial (losses) from defined benefit plans	(2,052)	(6,054)	5	-
Tax on items that will not be reclassified to profit or loss	390	1,151	(1)	-
	<b>(1,662)</b>	<b>(4,903)</b>	<b>4</b>	<b>-</b>

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

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

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019	for the period Jul 1 – Sep 30 2020	for the period Jul 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
<b>Items that are or may be reclassified to profit or loss</b>				
Cash flow hedging - effective portion of fair value changes	(51,757)	(18,537)	(11,601)	(26,604)
Income tax relating to items that are or will be reclassified to profit or loss	9,834	3,521	2,204	5,054
	<b>(41,923)</b>	<b>(15,016)</b>	<b>(9,397)</b>	<b>(21,550)</b>
<b>Total other comprehensive income</b>	<b>(43,585)</b>	<b>(19,919)</b>	<b>(9,393)</b>	<b>(21,550)</b>
<b>Comprehensive income for the period</b>	<b>73,213</b>	<b>100,654</b>	<b>(22,213)</b>	<b>16,734</b>
<b>Earnings per share:</b>				
Basic (PLN)	1.18	1.22	(0.13)	0.39
Diluted (PLN)	1.18	1.22	(0.13)	0.39

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

## Interim condensed separate statement of financial position

	as at Sep 30 2020	as at Dec 31 2019
	<i>unaudited</i>	<i>audited</i>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,641,899	1,661,561
Right-of-use assets	43,216	47,411
Intangible assets	50,764	50,838
Investment property	21,841	23,049
Shares	5,707,689	5,410,006
Other financial assets	795,142	292,001
Other receivables	13,604	5,855
Deferred tax assets	3,485	-
<b>Total non-current assets</b>	<b>8,277,640</b>	<b>7,490,721</b>
<b>Current assets</b>		
Inventories	187,459	251,022
Property rights	60,291	45,513
Derivative financial instruments	-	1,025
Other financial assets	84,149	61,409
Current tax assets	850	-
Trade and other receivables	222,102	232,229
Cash and cash equivalents	1,046,703	1,158,379
Assets held for sale	95	95
<b>Total current assets</b>	<b>1,601,649</b>	<b>1,749,672</b>
<b>Total assets</b>	<b>9,879,289</b>	<b>9,240,393</b>

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

## Interim condensed separate statement of financial position (continued)

	as at Sep 30 2020	as at Dec 31 2019
	<i>unaudited</i>	<i>audited</i>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	(36,051)	5,872
Retained earnings, including:	2,035,647	1,920,511
<i>Net profit for the period</i>	<i>116,798</i>	<i>58,249</i>
<b>Total equity</b>	<b>4,913,843</b>	<b>4,840,630</b>
<b>Liabilities</b>		
Borrowings	2,885,225	2,413,532
Lease liabilities	34,149	38,962
Other financial liabilities	15,966	19,042
Employee benefit obligations	67,922	64,080
Trade and other payables	-	32
Provisions	31,259	31,619
Government grants received	45,687	47,048
Deferred tax liabilities	-	1,426
<b>Total non-current liabilities</b>	<b>3,080,208</b>	<b>2,615,741</b>
Borrowings	1,399,551	1,118,985
Lease liabilities	13,249	13,199
Derivative financial instruments	1,848	-
Other financial liabilities	190,230	262,879
Employee benefit obligations	4,719	4,678
Current tax liabilities	-	1,168
Trade and other payables	253,636	378,443
Provisions	2,606	2,251
Government grants received	19,399	2,419
<b>Total current liabilities</b>	<b>1,885,238</b>	<b>1,784,022</b>
<b>Total liabilities</b>	<b>4,965,446</b>	<b>4,399,763</b>
<b>Total equity and liabilities</b>	<b>9,879,289</b>	<b>9,240,393</b>

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

## Interim condensed separate statement of changes in equity

For the period ended September 30th 2020

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at Jan 1 2020	495,977	2,418,270	5,872	1,920,511	4,840,630
<i>Profit or loss and other comprehensive income</i>					
Net profit	-	-	-	116,798	116,798
Other comprehensive income	-	-	(41,923)	(1,662)	(43,585)
Comprehensive income for the period	-	-	(41,923)	115,136	73,213
Balance as at Sep 30 2020 (unaudited)	495,977	2,418,270	(36,051)	2,035,647	4,913,843

For the period ended September 30th 2019

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

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

## Interim condensed separate statement of cash flows

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited restated*</i>
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>130,465</b>	<b>142,259</b>
<i>Adjustments for:</i>	<i>10,503</i>	<i>46,357</i>
Depreciation and amortisation	103,248	96,238
Impairment losses	1,026	764
Loss on investing activities	1,486	1,114
Interest, foreign exchange gains or losses	82,579	34,906
Dividends	(182,116)	(87,267)
Fair value loss on financial assets at fair value	4,280	602
	<b>140,968</b>	<b>188,616</b>
Increase in trade and other receivables	13,151	(54,343)
Increase in inventories and property rights	48,786	(3,457)
(Decrease)/Increase in trade and other payables	186,694	169,510
Increase/(Decrease) in provisions, accruals and government grants	(26,150)	29,956
Other adjustments	(3,500)	(3,500)
<b>Cash generated from operating activities</b>	<b>359,949</b>	<b>326,782</b>
Income tax paid	(10,373)	(21,654)
<b>Net cash from operating activities</b>	<b>349,576</b>	<b>305,128</b>

\* as described in Section 1.2.

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



## Interim condensed separate statement of cash flows (continued)

	for the period Jan 1 – Sep 30 2020	for the period Jan 1– Sep 30 2019
	<i>unaudited</i>	<i>unaudited restated*</i>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	4,598	647
Purchase of property, plant and equipment, intangible assets and investment property	(100,869)	(119,619)
Dividend received	179,108	87,267
Purchase of other financial assets	(297,712)	(107,543)
Proceeds from sale of other financial assets	30	-
Interest received	14,169	12,976
Loans	(573,400)	(40,260)
Repayments of loans	45,013	36,737
Other disbursements	(2,042)	(1,510)
<b>Net cash from investing activities</b>	<b>(731,105)</b>	<b>(131,305)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	742,117	313,750
Repayment of borrowings	(88,047)	(50,151)
Interest paid	(53,737)	(41,909)
Payment of lease liabilities	(9,950)	(4,054)
Repayment of reverse factoring	(314,271)	(260,816)
Other cash provided by financing activities	1,307	5,830
Other cash used in financing activities	(9,256)	(33,426)
<b>Net cash from financing activities</b>	<b>268,163</b>	<b>(70,776)</b>
<b>Total net cash flows</b>	<b>(113,366)</b>	<b>103,047</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,158,379</b>	<b>1,000,980</b>
Effect of exchange rate fluctuations on cash held	1,690	9,649
<b>Cash and cash equivalents at end of period</b>	<b>1,046,703</b>	<b>1,113,676</b>

\* as described in Section 1.2.

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

## Supplementary information to the interim condensed separate financial statements

### 1. Basis of preparation of the interim condensed separate financial statements

#### 1.1. Statement of compliance and general basis of preparation

Grupa Azoty S.A. (“the Company”) is a joint stock company with its registered office at ul. Kwiatkowskiego 8, 33-101 Tarnów, Poland. The Company shares are publicly traded on the Warsaw Stock Exchange.

These interim condensed separate financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed separate financial statements of the Company cover the three and nine months ended September 30th 2020 and contain comparative data for the three and nine months ended September 30th 2019 and as at December 31st 2019.

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

The Company has been established for an indefinite term.

Grupa Azoty’s business includes in particular:

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

These interim condensed separate financial statements of the Company for the three and nine months ended September 30th 2020 were authorised for issue by the Management Board on November 12th 2020.

The Company has also prepared interim condensed consolidated financial statements for the three and nine months ended September 30th 2020, which were authorised for issue by the Management Board on November 12th 2020.

These interim condensed financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the Company’s financial statements for the year ended December 31st 2019, which were authorised for issue on April 7th 2020.

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

All amounts in these interim condensed separate financial statements are presented in thousands of złoty.

These interim condensed separate financial statements have been prepared on the assumption that the Company will continue as a going concern for the foreseeable future. As at the date of authorisation of these financial statements, no circumstances were identified which would indicate any threat to the Company continuing as a going concern. For information on the impact of the COVID-19 pandemic on the Company’s business, see Note 3.11 to the interim condensed consolidated financial statements of the of the Grupa Azoty Group for the three and nine months ended September 30th 2020.

#### 1.2. Accounting policies and computation methods

The accounting policies applied to prepare these interim condensed separate financial statements are consistent with those applied to draw up the Company’s full-year financial statements for the year ended December 31st 2019.

#### a) Changes in International Financial Reporting Standards

The amendments to International Financial Reporting Standards (“IFRSs”) presented below have been applied in these interim condensed separate financial statements as of their effective dates, however, they had no material effect on the disclosed data:

- *Amendments to 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* (issued on October 22nd 2018) - effective for annual periods beginning on or after January 1st 2020;
- Amendments to IAS 1 and IAS 8: *Definition of materiality* (published on October 31st 2018) - effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 9, IAS 39 and IFRS 7: *Interest rate benchmark reform* (published on September 26th 2019) - effective for annual periods beginning on or after January 1st 2020;

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

The following standards and interpretations have been issued by the International Accounting Standards Board, but are not yet effective:

- 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) - effective for annual periods beginning on or after January 1st 2021;
- Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current* (issued on January 23rd 2020) - expected to be effective for periods beginning on or after January 1st 2022.
- Amendment to IFRS 16 *Leases: Covid-19-Related Rent Concessions* (issued on May 28th 2020), effective as of June 1st 2020. The amendment to IFRS 16 introduces a practical expedient permitting a lease modification not to be recognised e.g. in the event of any changes in lease payments occurring as a consequence of the Covid-19 pandemic.
- Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements to IFRS Standards 2018-2020. The amendments were issued on May 14th 2020, and are effective for annual periods beginning on or after January 1st 2022. One of the amendments prohibits deducting from the cost of property, plant and equipment of any proceeds from selling items produced while the entity is developing/preparing the asset for its intended use.

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

The Company does not expect the proposed amendments to IFRSs to have a material effect on its financial reporting.

#### c) Judgements and estimates

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

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

The key judgements and estimates made by the Management Board in preparing these interim condensed separate financial statements were the same as those made in preparing the separate financial statements for the financial year ended December 31st 2019.

**d) Change in comparative data presentation**

Following a change in the presentation of reverse factoring in the 2019 statement of cash flows, the comparative data for Q3 2019 was restated accordingly.

In connection with the change, the entry into reverse factoring arrangements disclosed under operating activities was transferred from 'Other adjustments' to 'Change in trade and other payables'.

Under financing activities, a separate item was disclosed showing the amount repaid under reverse factoring in the reporting period.

Both before and after the change, reverse factoring is accounted for separately, i.e. the entry into a reverse factoring arrangement is recorded under operating cash flows, while its repayment - as a financing outflow.

Consolidated interim report of the Grupa Azoty Group for Q3 2020  
Interim condensed consolidated financial statements of the Grupa Azoty Group  
for the three and nine months ended September 30th 2020  
(all amounts in PLN '000 unless indicated otherwise)

Statement of cash flows for the period Jan 1–Sep 30 2019

	for the period Jan 1– Sep 30 2019	Adjustments for:	for the period Jan 1– Sep 30 2019
	<i>unaudited</i>		<i>unaudited restated*</i>
<b>Cash flows from operating activities</b>			
<b>Profit before tax</b>	<b>142,259</b>	-	<b>142,259</b>
<i>Adjustments for:</i>	46,357	-	46,357
Depreciation and amortisation	96,238	-	96,238
Impairment losses	764	-	764
Loss on investing activities	1,114	-	1,114
Interest, foreign exchange gains or losses	34,906	-	34,906
Dividends	(87,267)	-	(87,267)
Fair value loss on financial assets at fair value	602	-	602
	<b>188,616</b>	-	<b>188,616</b>
Increase in trade and other receivables	(54,343)	-	(54,343)
Increase in inventories and property rights	(3,457)	-	(3,457)
(Decrease)/Increase in trade and other payables	(44,930)	214,440	169,510
Increase in provisions, accruals and government grants	29,956	-	29,956
Other adjustments	210,940	(214,440)	(3,500)
<b>Cash generated from operating activities</b>	<b>326,782</b>	-	<b>326,782</b>
Income tax paid	(21,654)	-	(21,654)
<b>Net cash from operating activities</b>	<b>305,128</b>	-	<b>305,128</b>

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	for the period Jan 1– Sep 30 2019	Adjustments for:	for the period Jan 1– Sep 30 2019
	<i>unaudited</i>		<i>unaudited restated*</i>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment, intangible assets and investment property	647	-	647
Purchase of property, plant and equipment, intangible assets and investment property	(119,619)	-	(119,619)
Dividend received	87,267		87,267
Acquisition of financial assets	(107,543)	-	(107,543)
Interest received	12,976	-	12,976
Loans	(40,260)	-	(40,260)
Repayments of loans	36,737	-	36,737
Other disbursements	(1,510)	-	(1,510)
<b>Net cash from investing activities</b>	<b>(131,305)</b>	<b>-</b>	<b>(131,305)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	313,750	-	313,750
Repayment of borrowings	(50,151)		(50,151)
Interest paid	(41,909)	-	(41,909)
Payment of lease liabilities	(4,054)	-	(4,054)
Repayment of reverse factoring	-	(260,816)	(260,816)
Other cash provided by financing activities	-	5,830	5,830
Other cash used in financing activities	(288,412)	254,986	(33,426)
<b>Net cash from financing activities</b>	<b>(70,776)</b>	<b>-</b>	<b>(70,776)</b>
<b>Total net cash flows</b>	<b>103,047</b>	<b>-</b>	<b>103,047</b>
		-	
<b>Cash and cash equivalents at beginning of period</b>	<b>1,000,980</b>	<b>-</b>	<b>1,000,980</b>
Effect of exchange rate fluctuations on cash held	9,649	-	9,649
<b>Cash and cash equivalents at end of period</b>	<b>1,113,676</b>	<b>-</b>	<b>1,113,676</b>

## 2. Supplementary information

### 2.1. Impairment testing

As at September 30th 2020, one of the triggers listed in paragraph 12d of IAS 36 *Impairment of Assets* occurred in respect of all of the Company's non-current assets - the carrying amount of the Company's net assets was higher than its market capitalisation. Therefore, the Company analysed the validity of the assumptions adopted for the previous impairment tests as at December 31st 2019, and the results of those tests. The analysis showed that:

- the adopted operating strategy and the key assumptions did not change,
- the definition of cash generating units (CGUs) at the Company and the value of assets of each CGU did not change materially relative to the respective amounts as at December 31st 2019,
- the Company's EBITDA and cash flows for the nine months to September 30th 2020 for the tested CGUs (Fertilizers, Plastics) were higher than those assumed in the impairment tests as at the end of 2019,
- the forecast financial results for 2020 for the Company's CGUs differed from those assumed in the impairment tests as at the end of 2019; however, their analysis must take account of the fact that the nature of the Company's activities is largely difficult to foresee during the pandemic,
- the macroeconomic prospects and market conditions had deteriorated, in particular as a result of the COVID-19 pandemic, mainly in the segment of plastics for the automotive industry; however, the segment's situation should improve in the long term,
- the risk-free interest rate (yield on 10-year Treasury bonds) fell from 2.11% at the end of 2019 to 1.30% at the end of September 2020, and the NBP's reference rate was reduced over the period from 1.5% to 0.1%. The result was a decrease in the weighted average cost of capital for the Grupa Azoty Group.

Given the above, it was concluded that the recoverable amount estimates resulting from the previous tests in respect of non-current assets and shares held in subsidiaries remained valid as at September 30th 2020, and therefore no additional impairment losses needed to be recognised and no indicators existed that any impairment losses on assets recognised in prior periods should be reversed.

As at September 30th 2020, there were no indications for reversal of the impairment loss on the assets of the Tarnoform cash-generating unit, initially recognised in the financial statements as at December 31st 2013.

It should be noted that the impact of COVID-19 will be far-reaching and will affect all business areas, although it is still impossible to fully estimate its consequences for the future business and condition of the Company and the other Grupa Azoty Group companies. For information on risks related to the consequences of COVID-19 and remedial actions taken by the Group companies, see Note 3.11 to these interim condensed consolidated financial statements.

For detailed information on the impairment tests and their results, including sensitivity analyses, see Note 10 to the separate financial statements of Grupa Azoty Spółka Akcyjna for the 12 months ended December 31st 2019. Concurrently, work is under way at the Company to develop capital budgets for 2021 and the following years. Based on the results of that work, the impairment tests will be updated at the end of 2020.

### 2.2. Information on the effects of the COVID-19 pandemic

For information on the effects of the COVID-19 pandemic on the Company and the Group, see Note 3.11 to the interim condensed consolidated financial statements of the of the Grupa Azoty Group for the three and nine months ended September 30th 2020.

### 2.3. Dividend

On June 29th 2020, the Company's Annual General Meeting passed a resolution to allocate the entire amount of the Company's net profit for the financial year 2019, of PLN 58,249 thousand, to the Company's reserve funds.

## 2.4. Additional information

For information on the Company's financial commitment to the Polimery Police project, see Note 3.12 to the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2020.

Moreover in August 2020, the Company disbursed a PLN 249,046,984.87 loan to Grupa Azoty POLICE to finance the company's contribution to the Polimery Police project. The balance of the loan of PLN 48,953,015.13 was disbursed to Grupa Azoty POLICE in October 2020. The total amount of the loan advanced to Grupa Azoty POLICE is PLN 298m. Therefore, as at the date of authorisation of these financial statements for issue, the Company had no liabilities related directly or indirectly to the Polimery Police project, except for the contingent liability resulting from the provision, jointly with Grupa Azoty POLICE, of an up to EUR 105m support loan provision guarantee to Grupa Azoty POLYOLEFINS.

For information on the status of the Polimery Police project, see Section 3.1 of the Management Board's discussion and analysis of Grupa Azoty Spółka Akcyjna's performance in Q3 2020.





Management's discussion and analysis  
of Grupa Azoty Spółka Akcyjna's  
performance in Q3 2020

## 1. General information on the Grupa Azoty Group

### 1.1. Organisation and structure

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

Grupa Azoty has brought together companies with different traditions and complementary business profiles, seeking to leverage their potential to deliver a common strategy.

This has led to the creation of Poland's largest chemical group and a major industry player in Europe. Thanks to its carefully designed structure, the Group offers a diverse product mix, ranging from nitrogen and compound fertilizers, engineering plastics, to OXO products and melamine.

As at September 30th 2020, the Grupa Azoty Group comprised Grupa Azoty S.A. (the Parent) and ten direct subsidiaries together with entities included in their respective groups.

#### Parent

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

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

The Company's registered office is located at ul. Eugeniusza Kwiatkowskiego 8, Tarnów, Poland. Since April 22nd 2013, the Company has been trading under the name Grupa Azoty Spółka Akcyjna. Its history goes back to 1927, when Państwowa Fabryka Związków Azotowych was established in Mościce, a township later incorporated into Tarnów. The plant's construction was one of the largest investment projects undertaken in the Republic of Poland after it regained independence in 1918.

#### Parent's subsidiaries

##### Grupa Azoty PUŁAWY

The company's registered office is located in Puławy.

Grupa Azoty PUŁAWY (full name: Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna) specialises in the production of nitrogen fertilizers and is also one of the largest melamine manufacturers in the world.

##### Grupa Azoty POLICE

The company's registered office is located in Police.

Grupa Azoty POLICE (full name: Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna) is a major producer of compound fertilizers, nitrogen fertilizers and titanium white.

##### Grupa Azoty KĘDZIERZYN

The company's registered office is located in Kędzierzyn-Koźle.

The business of Grupa Azoty KĘDZIERZYN (full name: Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna) is based on two pillars: nitrogen fertilizers and OXO products (OXO alcohols and plasticizers).

##### COMPO EXPERT

The company's registered office is located in Münster, Germany. The company (full name: COMPO EXPERT Holding GmbH) is a holding company for a group of subsidiaries, including the main operating company COMPO EXPERT GmbH, one of the world's largest manufacturers of speciality fertilizers for professional customers. The group's products are sold in many countries in Europe, Asia, Africa, as well as North and South Americas.

##### Grupa Azoty ATT Polymers GmbH

The company's registered office is located in Guben, Germany. It manufactures polyamide 6 (PA6).

##### Grupa Azoty PKCh Sp. z o.o.

The company's registered office is located in Tarnów. The services of Grupa Azoty PKCh Sp. z o.o. (full name: Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością) encompass comprehensive design support for investment projects in the chemical industry – from study and concept work to engineering design, building permit design and working plans, to services provided during the construction, commissioning and operation of process units.

##### Grupa Azoty KOLTAR Sp. z o.o.

The company's registered office is located in Tarnów.

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

#### Grupa Azoty SIARKOPOL

The company's registered office is located in Grzybów.

Grupa Azoty SIARKOPOL (full name: Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna) is Poland's largest producer of liquid sulfur.

#### Grupa Azoty Compounding Sp. z o.o.

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

The company manufactures and sells modified plastics.

#### Grupa Azoty Folie Sp. z o.o. w likwidacji (in liquidation)

On December 31st 2019, the Extraordinary General Meeting passed resolutions to dissolve Grupa Azoty Folie Sp. z o.o. and to put the company into liquidation, remove the company's Management Board members and appoint a Liquidator.

#### Parent's shareholdings in subsidiaries as at September 30th 2020

<i>(in relevant currency)</i>			
Company	Registered office/address	Share capital	Equity interest (%)
COMPO EXPERT	Krögerweg 10 48155, Münster, Germany	EUR 25,000	100.00
Grupa Azoty ATT Polymers GmbH	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
Grupa Azoty Compounding Sp. z o.o.	Chemiczna 118 33-101 Tarnów, Poland	PLN 72,007,700	100.00
Grupa Azoty Folie Sp. z o.o. w likwidacji (in liquidation)	Chemiczna 118 33-101 Tarnów, Poland	PLN 5,500,000	100.00
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów, Poland	PLN 60,620,090	99.56
Grupa Azoty PUŁAWY	al. Tysiąclecia Państwa Polskiego 13 24-110 Puławy, Poland	PLN 191,150,000	95.98
Grupa Azoty KĘDZIERZYN	ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn-Koźle, Poland	PLN 285,064,300	93.48
Grupa Azoty PKCh Sp. z o.o.	Kwiatkowskiego 7 33-101 Tarnów, Poland	PLN 85,630,550	63.27
Grupa Azoty POLICE	ul. Kuźnicka 1 72-010 Police, Poland	PLN 1,241,757,680	62.86
Grupa Azoty KOLTAR Sp. z o.o.	Kwiatkowskiego 8 33-101 Tarnów, Poland	PLN 54,600,000	60.00

The Parent and its subsidiaries as at September 30th 2020



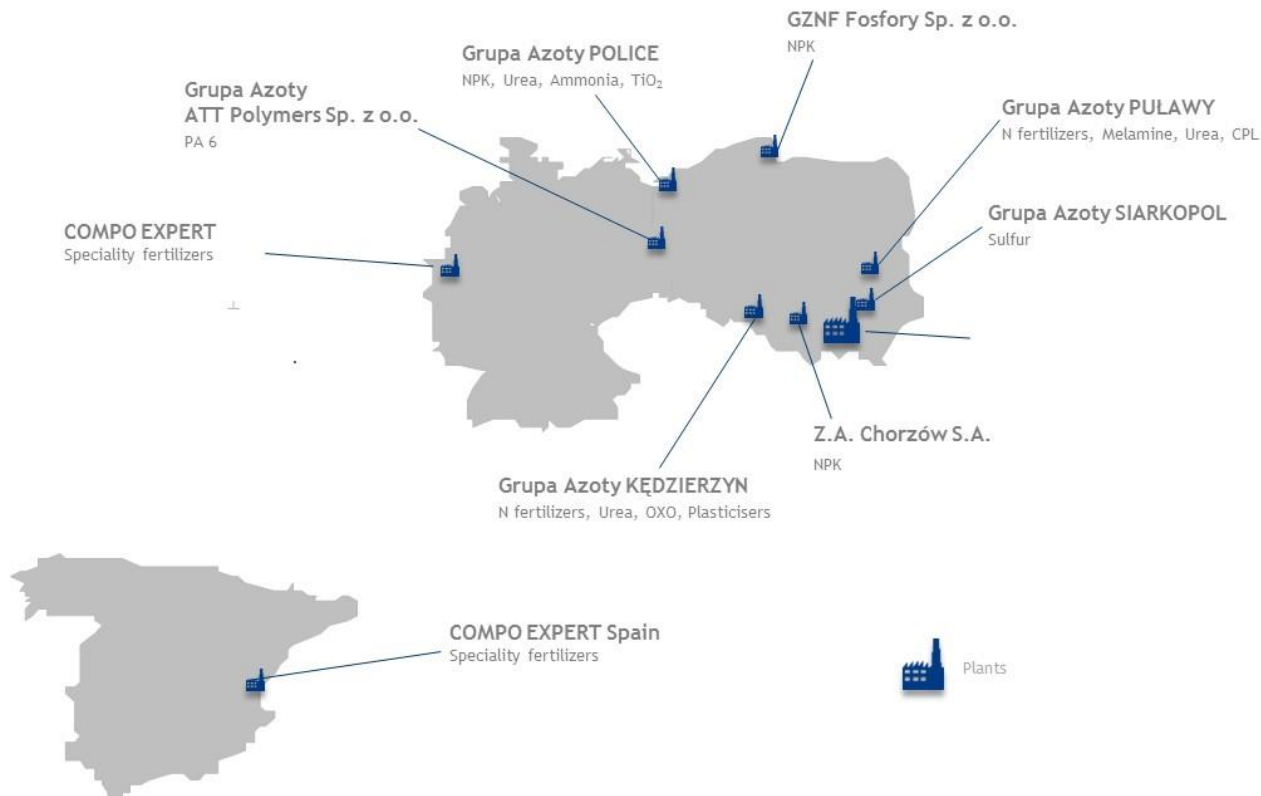
<b>1</b>	<b>Parent</b> Grupa Azoty „Compounding” Sp. z o.o. <b>100%</b> Grupa Azoty „Folie” Sp. z o.o. w likwidacji <b>100%</b> Grupa Azoty KOLTAR Sp. z o.o. <b>60%</b> Grupa Azoty PKCh Sp. z o.o. <b>63.27%</b>	<b>2</b> Grupa Azoty PUŁAWY <b>95.98%</b>	<b>5</b> Grupa Azoty SIARKOPOL <b>99.56%</b>
	<b>3</b> Grupa Azoty POLICE <b>62.86%</b>	<b>6</b> Grupa Azoty ATT Polymers GmbH <b>100%</b>	
	<b>4</b> Grupa Azoty KĘDZIERZYN <b>93.48%</b>	<b>7</b> COMPO EXPERT Holding GmbH <b>100%</b>	

Source: Company data

## 1.2. Business segments

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

### Grupa Azoty - core business areas



Source: Company data.

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

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

### Agro Fertilizers

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

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

### Plastics

The segment's key products are engineering plastics (polyamide 6 (PA6) and modified plastics) as well as auxiliary and intermediate products, such as caprolactam and other chemicals. They are manufactured by four companies – the Parent and Grupa Azoty Compounding – in Tarnów, Puławy and Guben (Germany). The Group is the leading manufacturer of PA6 in Poland and the third largest producer of this polyamide in the European Union.

## Chemicals

The Chemicals segment is an important part of the Group's business, comprising OXO alcohols, plasticizers, melamine, technical grade urea, titanium white, sulfur, AdBlue<sup>®</sup>, and other products. They are manufactured in Kędzierzyn, Puławy, Police, and Grzybów. The Group is a major manufacturer of melamine globally and the third largest in the European Union. As regards OXO products, the Group is the only manufacturer of OXO alcohols in Poland and the fifth largest in the European Union. The Group is Poland's only producer of titanium white.

## Energy

Electricity and heat generated by the Energy segment are used primarily for the Group's own production needs, with small volumes sold locally, in the immediate vicinity of the Group companies. The segment's key customers are companies of the Group. Outside the Group, the segment's products are sold on the electricity and hot water markets to customers connected to local heat and electricity distribution networks. The Group companies operate their own energy distribution networks.

## Other Activities

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

### 1.3. Overview of key products

#### AGRO FERTILIZERS

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

#### Nitrogen fertilizers

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

#### Urea

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

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

#### Nitrate fertilizers

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

### **Nitrogen-sulfur fertilizers**

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

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

### **Compound fertilizers (NPK, NP)**

NPK and NP compound fertilizers are universal fertilizers which, depending on composition, can be applied to various types of crops and soil. Aside from the primary components – nitrogen (N), phosphorous (P) and potassium (K), these fertilizers contain secondary nutrients such as magnesium, sulfur or calcium, and may contain microelements such as boron or zinc.

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

### **Speciality fertilizers**

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

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

Currently, they are marketed under a number of trade names, including Blaukorn®, NovaTec®, Hakaphos®, Basfoliar®, Easygreen®, DuraTec®, Basacote® and Floranid®<sup>Twin</sup>.

### **Ammonia**

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

## **PLASTICS**

### **Engineering plastics**

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

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

### **Polyamide 6 (PA 6)**

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

## Caprolactam

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

## CHEMICALS

### OXO products

**OXO alcohols** manufactured by the Grupa Azoty Group: 2-ethylhexanol (2-EH) and butanols (n-butanol, isobutanol). The key product in this group is 2-EH.

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

**Plasticizers** manufactured by the Grupa Azoty Group:

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

### Sulfur

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

### Melamine

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

### Titanium white

Titanium white (titanium dioxide) is the most widespread category of inorganic pigments characterised by the highest refractive index. Its other properties include the capacity to strongly absorb harmful ultraviolet radiation. The pure form is a colourless, crystalline, non-volatile, non-flammable, insoluble and thermally stable solid. Industrial applications of titanium white include the manufacture of paints and varnishes, plastics, paper, synthetic fibres, ceramics, rubber, cosmetics, pharmaceuticals and food products.

The Group sells titanium white under the Tytanpol® brand. Several titanium white grades are regularly manufactured, including universal pigments: R-001, R-003, R-210, and speciality pigments: R-002, R-211, R-213, RD-5, RS, R-310).

## SOURCES OF STRATEGIC RAW MATERIALS

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



### **Ammonia**

The procurement strategy is based primarily on the optimisation of intragroup supplies. Intragroup supplies are transacted on arm's length terms. The Grupa Azoty Group is the largest ammonia manufacturer in Poland and a major one in CEE, operating several ammonia units. It is also one of the largest consumers of ammonia in the region, with a significant potential in logistics.

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

### **Benzene**

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

### **Electricity**

The Group purchases electricity from major Polish suppliers trading with large accounts. Following a number of tenders for 2020, the Group companies signed electricity supply contracts under their existing framework agreements. Thanks to the joint procurement strategy for electricity supplies, they secured competitive prices and favourable terms of the contracts. Given the volatility of the electricity market and its changing legal framework, the Group's policy is to purchase electricity under forward contracts concluded for various periods and on the SPOT market, including on the Polish Power Exchange.

### **Phenol**

The procurement strategy is based primarily on supplies from the domestic and the EU markets, with deliveries from outside Europe covering deficit. The Group secures phenol supplies for its own needs under long-term contracts concluded directly with Europe's largest producers. In 2019, the Grupa Azoty Group increased its internal storage capacities, thus optimising the phenol supply chain.

### **Phosphate rock**

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

### **Natural gas**

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

### **Propylene**

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

### **Sulfur**

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

### **Potassium chloride**

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

## Coal

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

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

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

## 2. Financial position of the Group

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

#### Impact of COVID-19 pandemic on Grupa Azoty Group's business

Having recorded declines in revenue due the COVID-19 pandemic, the Parent and some of its subsidiaries took steps to avail themselves of the financial support mechanisms under the Act on Interest Subvention for Bank Loans Granted to Businesses Affected by COVID-19 and on Simplified Procedure for Approving Arrangements with Creditors in Connection with the Occurrence of COVID-19 of June 19th 2020.

In the third quarter of 2020, the Parent and its subsidiaries received wage and social security contribution subsidies under Shield 4.0, totalling PLN 59m.

For other information on the impact of the COVID-19 pandemic on the Grupa Azoty Group's business, see Note 3.11 to the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2020.

#### Exchange rates

Factors and events with bearing on the Group's financial performance in the third quarter of 2020 include mainly the current situation on financial markets, linked to the economic impact of the second wave of COVID-19.

In the third quarter of 2020, the Polish zloty weakened relative to the euro by approximately 1.4% (and by as much as 6.3% in the nine months to September 30th 2020), and strengthened against the US dollar by about 2.9%. The average PLN/EUR exchange rate strengthened only slightly in the third quarter of 2020, by approximately 1.8%, while the average PLN/USD rate went up by about 3.8%.

The considerable weakening of PLN relative to EUR as at September 30th 2020 compared with December 31st 2019 had a negative impact on the value of Grupa Azoty's foreign currency bank loans denominated in EUR. However, that did not affect the Group's liquidity position as the loan maturity dates are usually far in the future (until 2028) and the Group does not expect to repay the debt at the currently prevailing high EUR/PLN exchange rates. In addition, the Group repays its foreign currency loans with surplus cash in the respective currencies generated from sales to foreign markets, which naturally hedges its currency risk.

The magnitude of the second wave of the pandemic is expected to have a considerable adverse impact on the global economy throughout 2020 and 2021 at the very least.

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

In the third quarter of 2020, the Group additionally extended the range of hedging instruments to include zero-cost collars with a symmetric risk profile maturing in 2021. A zero-cost collar is a combination of two options: a put option and a call option with the same notional value and maturity date, with such clearing prices of the purchased and written option that the transaction is cost-free at the time of its execution.

The structure of the Grupa Azoty Group's physical cash pooling in the euro allows the Group companies to use the Group's global liquidity limit in that currency, which further reduces their exposure to the currency risk in the euro by correcting potential mismatches in revenue and expenditure over time.

In the third quarter of 2020, the Group's hedging tools were EUR and USD forward swaps, executed in the periods of depreciation of the Polish złoty to supplement forward hedges for the sale of EUR and USD as well as EUR/USD currency pair contracts (Grupa Azoty POLICE to hedge the purchase of USD), reflecting its planned net exposure in both currencies.

The Group's net result on hedging transactions settled in the third quarter of 2020 was a loss of PLN (2,144) thousand (PLN (5,143) thousand YTD), with a negative net result on remeasurement of hedging instruments at PLN (1,490) thousand in the third quarter (PLN (11,462) thousand YTD).

The Group's overall net result on the settlement of hedging transactions and remeasurement of hedging instruments in the third quarter of 2020 was negative at PLN (3,634) thousand (PLN (16,606) thousand YTD).

Furthermore, in the third quarter of 2020 Grupa Azoty POLYOLEFINS entered into forward transactions for purchase of EUR to hedge the expected expenditure of Grupa Azoty POLYOLEFINS in EUR under contractual payments for the Polimery Police project, to be covered by equity contributions from the Group companies in PLN.

As at September 30th 2020, Grupa Azoty POLYOLEFINS had outstanding FX options to swap approximately PLN 200m for EUR (in respect of expenditure to be covered by the planned contribution from Grupa LOTOS S.A. to the Polimery Police project) and FX options to swap ca. USD 220m for EUR (in respect of expenditure to be covered by the planned equity contribution and subordinated loans from KIND and HEC and in respect of the senior loan to the extent disbursable in USD), locking in the exchange rate used in the Polimery Police financial model.

In addition, as at September 30th 2020, Grupa Azoty POLYOLEFINS had forward transactions to swap approximately PLN 464m for EUR and forward transactions to swap approximately USD 108m for EUR (hedging the expenditure to be covered by the outstanding amounts of subordinated loans from the Parent and Grupa Azoty POLICE, and the outstanding amounts of equity contributions and subordinated loans from HEC, KIND and Grupa LOTOS S.A.)

As at September 30th 2020, the total result on the measurement of open FX forwards and FX options acquired by Grupa Azoty POLYOLEFINS, including the cost of option premiums, was PLN 8,473 thousand. As at September 30<sup>th</sup> 2020, Grupa Azoty POLYOLEFINS did not apply 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 October 2020 to September 2028. The hedging covers currency risk. The hedge are two euro-denominated credit facilities of:

- EUR 90,810 thousand as at September 30th 2020, repayable in the period from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each;
- EUR 100,000 thousand as at September 30th 2020, repayable from March 2021 to September 2028 in 15 equal half-yearly instalments of EUR 3,333 thousand each.

The carrying amount of both facilities as at September 30th 2020 was PLN 863,271 thousand. In the third quarter of 2020, the hedging reserve included PLN 44,507 thousand on account of the effective hedge.

In the third quarter of 2020, the Group did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

#### **Prices of CO<sub>2</sub> emission allowances**

In the third quarter of 2020, the prices of EUA emission allowances traded on the exchange market were high and highly volatile, ranging from EUR 24.8 to EUR 30.7. On July 13th, the price of EUA allowances hit a record high of EUR 30.75, a level unseen for many years. After that, the price entered a month-long downward trend, bringing it down to nearly EUR 25. Then, another upward wave buoyed the price back to its July peak. According to Refinitiv's current market forecasts (with the highest and lowest prices disregarded), the average prices of allowances are to remain at EUR 30.15/t in the fourth quarter of 2020 versus the average of EUR 27.41/t in the third quarter of 2020.

In the third quarter of 2020, allowances for this year and for 2021-2022 continued to be purchased based on the Grupa Azoty Group's corporate management model for CO<sub>2</sub> emission allowances and an approved procurement plan.

As at the end of the third quarter, the Group's requirement for CO<sub>2</sub> emission allowances for 2020 was covered in approximately 99% (the allowances had been purchased for the weighted average price that was significantly lower than current market prices).

## 2.2. Market overview

### AGRO FERTILIZERS

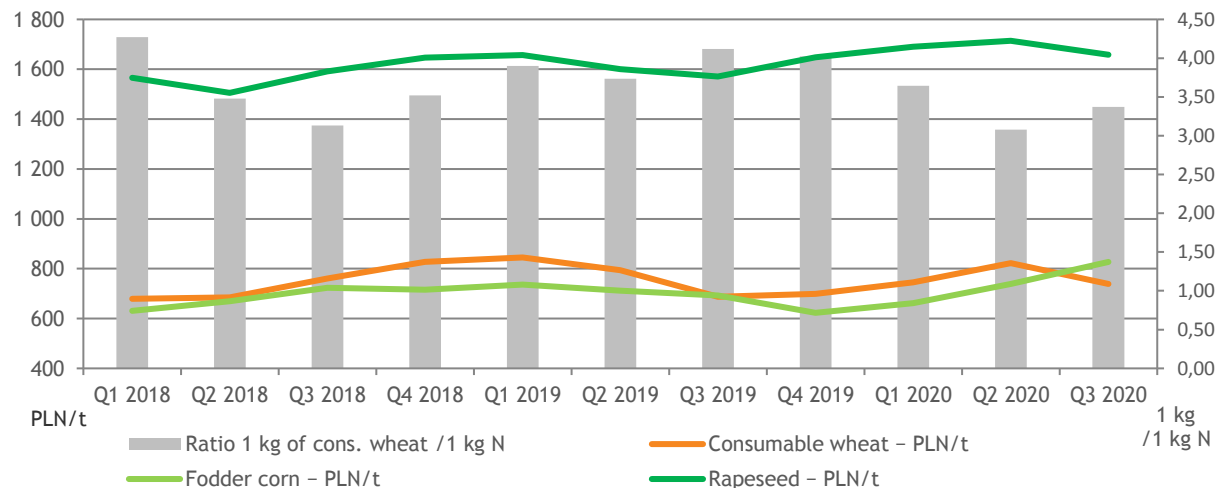
#### Economic conditions in agriculture

In the third quarter of 2020, the prices of key agricultural produce were higher year on year. The largest difference was recorded for maize, whose average price oscillated around PLN 827, having increased by as much as 19.3% year on year. The prices of wheat (PLN 739/tonne) and rapeseed (PLN 1,658/tonne) rose less year on year, by +7.5% and +5.6%, respectively. The main reason behind such sharp year-on-year increase in the prices of maize was the uncertainty surrounding its yield in the current season. The key price driver in the near term will be the weather.

Due to the two years of drought, economic conditions in the Polish agricultural sector in the third quarter of 2020 continued to be viewed as relatively poor. The economic conditions in agriculture slightly deteriorated - the average synthetic economic index for agricultural production (SWKR) was 100.0pp, down 0.2pp year on year. Despite a slight improvement in grain yields in Poland compared with the previous year, estimated by Statistics Poland (GUS) at 33.3 million tonnes (a year-on-year increase of +15%) (data as at September 30th 2020), the lack of improvement in the economic conditions was attributable to the prices of agricultural produce in the third quarter of the year, which delayed the sale of grains by the agricultural sector in the period under review. Higher prices of agricultural produce expected in the coming months (especially in view of poor grain yields in the EU) may lead to destocking and partly offset the losses. Experts believe that the economic conditions in agriculture are likely to remain unchanged or slightly deteriorate in the coming months, due mainly to the high supply of grains on global markets and the second wave of coronavirus infections. According to Stratégie Grains data of October 15th 2020, the total grain production in the EU is estimated at 296.1 million tonnes, 5.1% less than the year before, chiefly on account of a significant, 11.3% decline in wheat production in the EU, from 154.2 million tonnes in 2019 to 136.7 million tonnes. However, the drop in grain yields in Europe will be offset by an increase elsewhere in the world, including Australia (up by almost 62%, following extreme drought in the previous season) and North America (up by 8.6%). The International Grains Council (IGC) forecasts record high grain yields globally, of 2,227 million tonnes, a 2.1% increase year on year.

At the end of September 2020, the amount of direct payments for the current year was set at PLN 15.5bn due to the high EUR/PLN exchange rate. 70% of that amount is to be credited to applicant farmers' accounts by the end of November, while the balance will be paid out between December 2020 and June 2021.

#### Prices of wheat, maize and rapeseed



Source: Ministry of Agriculture and Rural Development.

### Average prices of wheat, maize and rapeseed

	Average Q3 2019	Average Q3 2020	y/y	Sep 2020	MIN 2020	MAX 2020
	PLN/t	PLN/t	%	PLN/t	PLN/t	PLN/t
Milling wheat	687	739	7.5	739	704	829
Maize	693	827	19.3	856	654	856
Rapeseed	1,570	1,658	5.6	1,667	1,630	1,719

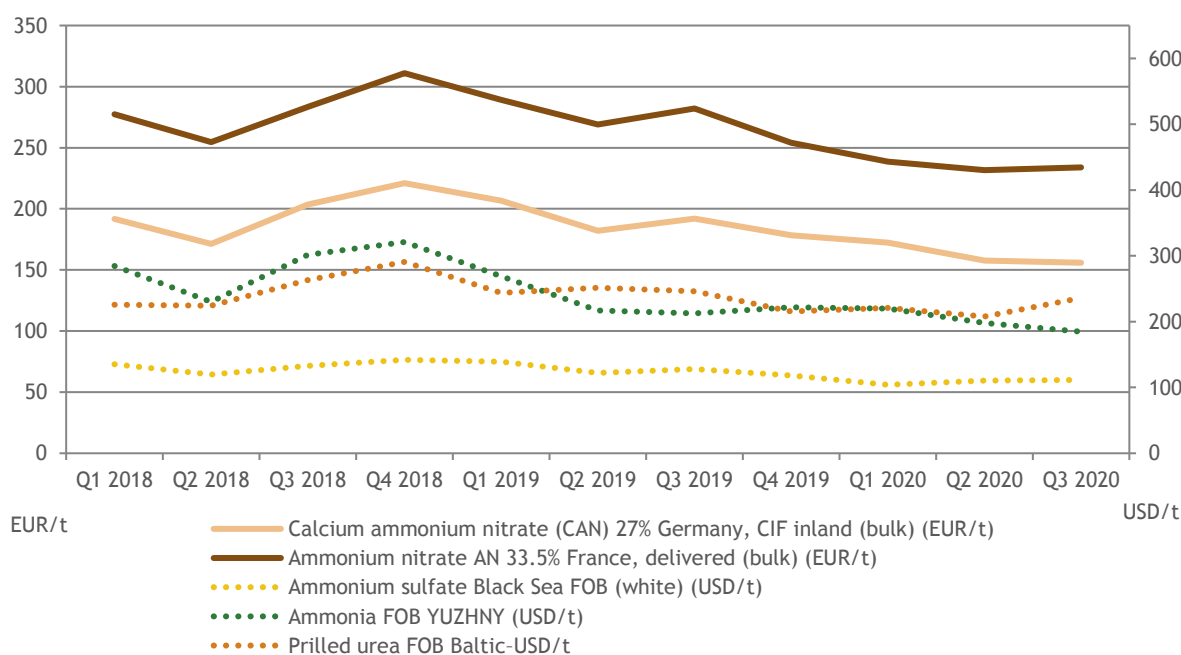
Source: Ministry of Agriculture and Rural Development.

### Market of nitrogen fertilizers

In the third quarter of 2020, the prices of nitrate fertilizers on the markets under review were lower year on year. The average CAN price on the German market fluctuated around EUR 156/tonne CIF Inland, down 18.8% year on year. A year-on-year decrease in prices was also seen in the case of AN on the French market, with the average price at EUR 234/tonne CPT, down 17.1% year on year. The main reason for the year-on-year decline in nitrogen fertilizer prices was cheaper natural gas, as the main feedstock for their production, which allowed fertilizer manufacturers to better align their prices with the market conditions prevailing in the period.

Due to the harvest season, demand for nitrogen fertilizers, especially in the first half of the third quarter, was at the year's lowest level. A slight increase in demand, limited to covering the current requirement, was only seen later in the period, mainly for winter crops sown at that time. Weather conditions were another key factor, determining when particular agricultural treatments involving fertilizer application were performed. In the third quarter of 2020, demand was hampered by the continued weak economic situation of the Polish agricultural sector, eroding its purchasing power, sufficient supply of the product on the market, and delayed purchases of nitrogen fertilizers in anticipation of price drops. Another important factor was a decrease in demand for nitrogen fertilizers in autumn relative to spring, attributable to the nature of agricultural production technologies. According to forecasts for the fourth quarter of 2020, demand for nitrogen fertilizers may go up ahead of their first application in spring. The amount of advance direct payments to the agricultural sector, the pricing policy of market players going forward and the weather conditions affecting the growth and condition of winter crops will be crucial in this regard. In the third quarter of 2020, a downturn in the segment of nitrate fertilizers was also seen in the EU market. The ongoing harvest season and excessive, in the agricultural sector's opinion, prices of fertilizer products made customers postpone purchases and buy fertilizers only in volumes covering the current requirement.

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



Source: ICIS, Argus FMB, Profercy.

In the third quarter of 2020, urea prices on the markets under review continued on a downward trend. The average urea prices in the period under review fell 4.2% year on year, to USD 236/tonne FOB Baltic.

The market was mainly focused on the 'procurement campaigns' in India, where approximately 3.6 million tonnes of urea were purchased. A recovery was seen in early August, with price hikes of USD 20/t a week, after India surprised the market with its fourth consecutive procurement campaign within two months. Demand from India in the third quarter was much stronger than expected, except for September, when, due to the delayed announcement of a campaign, the previous growth in procurement slowed down. Demand is forecast to stay strong until the end of the year. The European urea market decelerated. In the period under review, the market's focus was on harvest, affected by extreme weather conditions. For this reason, demand for urea in some parts of Europe is expected to decline. Buyers are postponing purchases in anticipation of price drops.

Ammonia prices in the third quarter of 2020 amounted to USD 185/t FOB Yuzhny, having decreased 13.1% year on year. The beginning of the third quarter saw no major changes on the international ammonia market, with price stabilisation in the east and a downward trend in the west.

Shutdowns of and reduced output from ammonia units worldwide in early August, as well as limited demand and moderate oversupply in the key regions, led to slight changes in the ammonia prices and reduced sales.

Market sentiment improved in late August compared with the previous months, but demand from the industrial sector remained subdued. Both scheduled and unscheduled shutdowns of production units pushed up the prices of ammonia supplied in September. News of the indefinite suspension of ammonia production at one plant (with a capacity of 600 thousand tonnes per year) in Trinidad was important for the market. The main reason behind the production cut were the prices of ammonia, which, in the producer's opinion, were excessively low. A decision to resume production will depend on future developments in the ammonia prices.

In the Middle East, the market situation remained largely unchanged in the third quarter of 2020, with the availability of ammonia viewed as relatively low.

#### Average prices of nitrogen fertilizers

	Average Q3 2019	Average Q3 2020	y/y	Sep 2020	MIN 2020	MAX 2020
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
CAN 27% Germany CIF inland (bulk)	192	156	18.8↓	163	148	174
AN 33.5% France, delivered (bulk)	282	234	17.1↓	240	228	243
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ammonia (FOB Yuzhny)	213	185	13.1↓	192	181	221
Urea (FOB Baltic)	246	236	4.2↓	210	198	233
AS (Black Sea FOB white)	128	111	13.1↓	114	99	117

Source: ICIS, Argus FMB, Profercy.

#### Market of compound fertilizers

At the beginning of the third quarter of 2020, demand for DAP and MAP from India and Brazil grew on global markets amid limited availability of the products, strengthening market benchmark prices in the reporting period. The prices also rose supported by growing demand in Russia and an expected increase in demand in Europe. The initiation by the US of an anti-dumping procedure (AD) against Russian and Moroccan importers of phosphate fertilizers also played a part. This in turn led to a decline in import volumes and, consequently, higher prices on the US market. An official position on the future course of the procedure is still awaited. The procedure is expected to end in the first quarter of 2021.

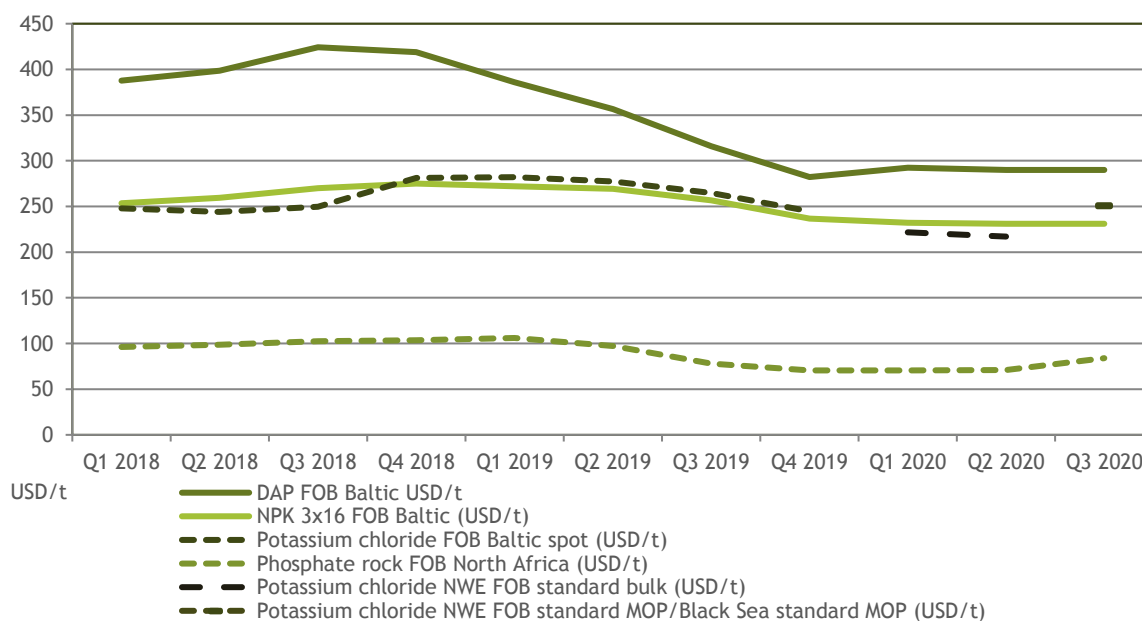
As predicted, in the third quarter of 2020 demand for phosphate fertilizers in Europe did not grow and their prices remained stable. After a downward trend halted, the DAP prices have been on the rebound since the beginning of 2020, and are now close to the previous year's levels.

In the third quarter of 2020, the market for compound fertilizers (NPK) remained stable, showing signs of a slight weakening. Market benchmark prices remained largely flat on the previous quarter, but fell 11% year on year. The limited availability of DAP/MAP phosphate fertilizers led to the need to supplement their application with NPK fertilizers. An increase in cultivated land translated into higher demand. As agrometeorological conditions in Europe were unstable, there was no increase in demand. In the reporting period, field work involving harvesting and preparation of fields for new crops was an additional factor undermining the market.

In the coming quarter, as the prices of raw materials are on the rise, it is possible that the pressure on price rises will grow in anticipation of an improvement in producers' margins. On the other hand, the seasonally declining demand may cool down the market. The main reason for the decline are the existing legal restrictions which permit nitrogen fertilizers to be applied on arable land in autumn until October 20th. The need to cover future demand for fertilizers for their spring application will be an exception here, driven by the commercial policies of market players going forward, the product availability and the weather conditions affecting winter crops and, consequently, future demand for fertilizers come spring.

Another factor worth mentioning is the uncertainty surrounding the unfolding COVID-19 pandemic in the fourth quarter of 2020 and in subsequent periods. Although the impact of this factor on the overall functioning of both the Polish and EU fertilizer segments has so far been considered low, it cannot be ruled out that other indirect factors will emerge with a more significant impact, including partial or full lockdown restrictions on domestic and international logistics. As the pandemic is continuing to spread, it is not possible at the moment to identify any specific factors affecting the market.

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



Source: WFM, FERTECON, Profercy.

In the third quarter of 2020, the potassium chloride market was relatively stable, with all markets adapting to the prices of new contracts for China for 2020/2021, currently standing at USD 220/tonne CFR. As in past periods, the China contracts keep setting the trend for the rest of the market. In September, the stocks of potassium chloride in Chinese ports amounted to approximately 3.7 million tonnes, which worked against price strengthening in the region. In September, the prices on the US NOLA and Brazilian markets increased, with imports of potassium chloride down. In September alone, imports were down approximately 30% year on year, due mainly to production and logistic constraints in Belarus.

The prices quoted to European and Asian customers are expected to rise from the fourth quarter of 2020. The main factor with a major impact on the potassium chloride market will be the developments related to the coronavirus pandemic and the autumn wave of infections. If implemented, new restrictions and market lockdowns, as well as maritime logistics and internal transport constraints, may cause demand to dwindle in the fourth quarter of 2020. The situation in Belarus may also affect the availability of potassium chloride. According to recent reports, production in Belarus is not threatened for the time being and shipments are continuing without disruption. The position of

Belarus in the potassium chloride market is important enough to make the market susceptible to demand-supply imbalances and price increases in the event of any production cuts in that country. Global prices of phosphate fertilizers were in an uptrend for much of the third quarter of 2020. The prices of DAP and MAP phosphate fertilizers rebounded after sharp declines in the second half of 2019. In some markets (Tampa-US) DAP, the prices fell to a 13-year low. The phosphate rock market has remained stable since the beginning of 2020, and no events were reported during the third quarter that would cause major suppliers to shut down production.

The rising phosphate fertilizer prices spurred a rise in phosphoric acid prices. At the end of September, a Moroccan producer agreed on phosphoric acid contract prices for the fourth quarter of 2020 with its Indian trade partners. This has led to an increase of USD 64/tonne in phosphoric acid prices relative to the third quarter of 2020. The major price growth points to a strengthening phosphate fertilizers market and low utilisation rates of phosphate fertilizer capacities in India, currently at around 40-45%. India imports the finished DAP product instead of relying on local production (based on phosphoric acid from Morocco).

Given the significant increases in phosphoric acid prices recorded since the beginning of the year (just under USD 100/tonne), phosphate rock prices may start to rise before the fourth quarter of 2020 ends. The phosphate fertilizer prices are expected to strengthen further, driven mainly by considerable demand from the Americas. The coronavirus pandemic and related restrictions implemented by individual countries may also play a role. The situation that took place in spring this year showed that any logistic constraints may affect supply and demand across global markets.

#### Average prices of compound fertilizers and raw materials for their production

	Average Q3 2019	Average Q3 2020	y/y	Sep 2020	MIN 2020	MAX 2020
	USD/t	USD/t	%	USD/t	USD/t	USD/t
DAP (FOB Baltic)	317	308	3↓	321	275	321
NPK3x16 (FOB Baltic)	258	231	10.8↓	230	224	237
Potassium chloride (NWE MOP FOB standard bulk)*		251		251	249	252
Phosphate rock (FOB North Africa)**		84		83	83	86

\* change of base

\*\*change of the source of quotations

Source: ICIS, Argus FMB, Profercy.

## PLASTICS

### Polyamide 6 chain

In the third quarter, as in the previous periods of 2020, the market situation for the entire product chain was strongly affected by demand and supply forces on the end-user markets and by fluctuations in crude oil prices, which translated into changes in the prices of petrochemical feedstocks. Global markets remain strongly affected by the unfolding COVID-19 pandemic.

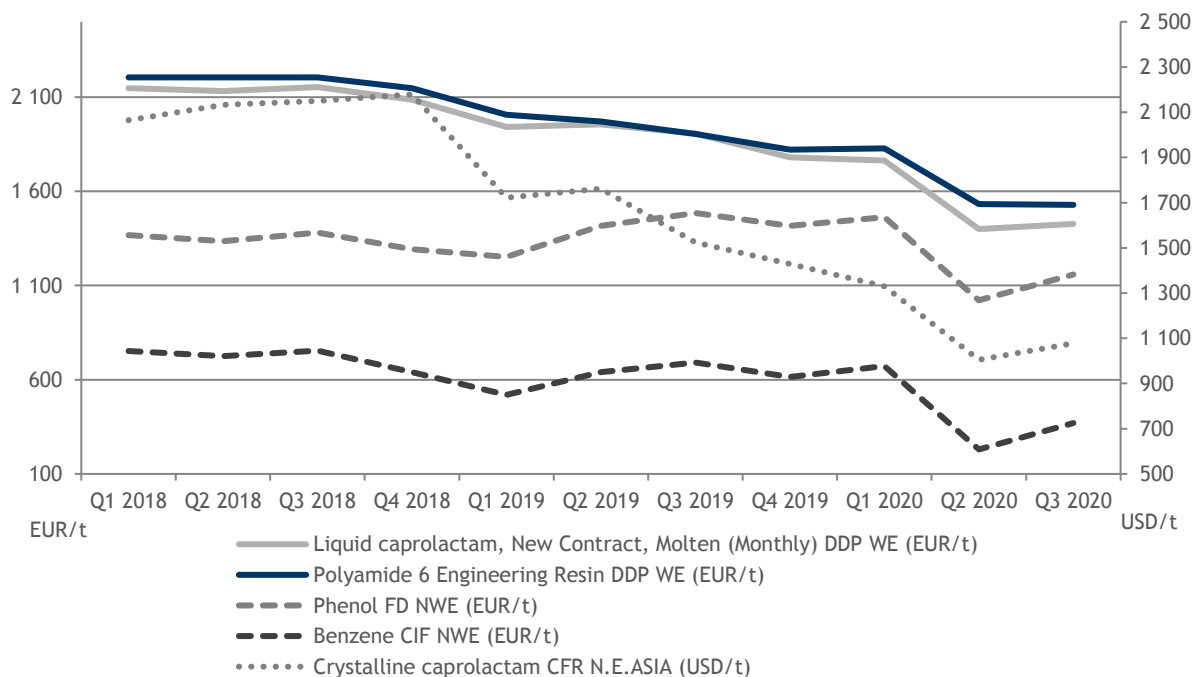
The prices of feedstocks (benzene and phenol) in Europe hit historical lows at the beginning of the second quarter of 2020, rebounded into an uptrend in May through August, to decline slightly in September. The growing feedstock prices only slightly offset the record-high price drop recorded in April 2020. For comparison, the August contract price of benzene (the third quarter of 2020 high) was over EUR 360/tonne lower than the February price (YTD high). Relative to the third quarter of 2019, the average quarterly prices of benzene in Europe were 46.5% (CIF NWE) lower, with phenol prices down 21.9%.

After sharp declines in April and May, the prices of liquid caprolactam in Europe recovered in June, supported by higher feedstock prices. Despite the uptrend, the average quarterly contract prices of European caprolactam (Liq. DDP WE) were 25.2% lower relative to the same quarter of 2019. The average quarterly price of caprolactam in Asia (CFR NE Asia) was 29.3% lower than in the third quarter of 2019.

After steep drops in April and May, the prices of polyamide 6 remained stable until August. Producers failed to implement price rises at the beginning of the third quarter of 2020 as demand on end-use markets remained weak and uncertain prospects for a demand recovery in the near term outweighed the rising feedstock prices. The contract prices of polyamide 6 did not increase until September. The average quarterly polyamide 6 contract prices (PA6, Engineering Resin Virgin, DDP WE) in Europe fell by 19.8% on the third quarter of 2019.



### Prices of PA6, caprolactam, benzene and phenol



Source: TECNON, ICIS.

After a period of restrictions and lockdown measures related to the COVID-19 pandemic, demand from end-use markets gradually increased over the third quarter of 2020 (particularly in September). Government programmes stimulating the economies did much to improve market sentiment. However, the slow recovery proceeded off a low base and so overall demand remained far below the consumption levels reported before the pandemic outbreak and year on year.

The rate of recovery of European consumption has varied by region and producer. Automotive production has not yet returned to pre-pandemic levels, and a significant year-on-year drop in global sales of light cars is expected in 2020 as sales and production have been disrupted by the pandemic. Fibre consumption by the textile and carpet industries is also improving. Demand for food packaging films remains high, yet still below the peak of April and May 2020. According to some market participants, buyers were clearly more interested in making purchases in September, which probably is a sign of their replenishing stocks after a seasonal slowdown in summer months. Supply is considered good despite maintenance work performed on several PA6 and CPL units.

Low demand on global CPL and PA6 markets with high stock levels prompted some Asian producers to use the period of production cuts to perform maintenance and upgrade work on their units. At the end of the quarter, demand was in an uptrend, also in the US automotive and engineering industries.

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

	Average Q3 2019	Average Q3 2020	y/y	Sep 2020	MIN 2020	MAX 2020
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Benzene (CIF, NWE)	692	370	46.5↓	366	171	742
Phenol (FD, NWE)	1,485	1,159	21.9↓	1,155	963	1,534
Caprolactam (Liq., DDP, WE)	1,907	1,427	25.2↓	1,437	1,377	1,807
Polyamide 6 (PA 6) (DDP, WE)	1,905	1,528	19.8↓	1,555	1,515	1,865
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Caprolactam (CFR, NE Asia)	1,524	1,078	29.3↓	1,060	950	1,383
	USD/bbl	USD/bbl	%	USD/bbl	USD/bbl	USD/bbl
Crude oil (BRENT)	62.38	43.32	30.6↓	42.07	28.89	63.60

Source: ICIS, Tecnon, Rzeczpospolita.

During the coming period, product and feedstock prices in the segment will continue to be driven by supply and demand in the plastics converting sector, which will reflect mainly the COVID-19 pandemic situation. Another factor with bearing on the segment's market are prices of petrochemical feedstocks, putting pressure on price movements along the entire product chain.

Overall, short-term market sentiment is positive, yet cautious. PA6 suppliers expect that at least at the beginning of the fourth quarter of the year demand will continue to recover or will remain stable relative to September. Demand forecasts for the following months are unclear given the rising numbers of new coronavirus infections in Europe and possible new restrictions imposed by governments across the region. The period right before the end of a year is usually marked by a seasonal fall in demand (Christmas, end-of-year destocking).

Real concerns about the second wave of the coronavirus pandemic and reintroduction of regional lockdown measures may hinder recovery in demand as consumers remain cautious amid the dynamic environment.

## CHEMICALS

### OXO product chain

In the third quarter of 2020, the prices of 2-EH went down 17.5% year on year, reflecting mainly lower prices of raw materials used in its production and a year-on-year fall in demand attributable to the ongoing coronavirus pandemic.

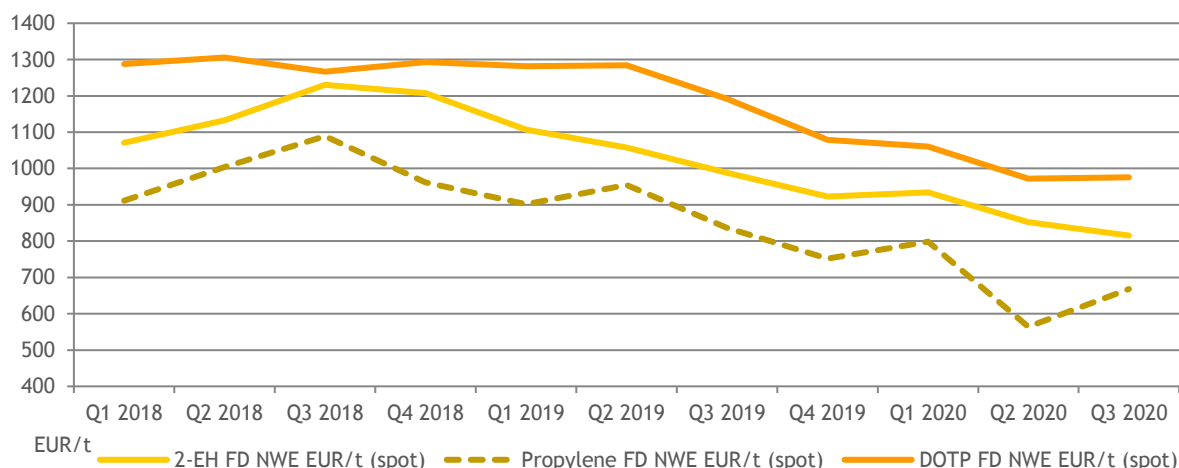
In the second quarter of 2020, the availability of OXO alcohols was considered very good, although there were reports of 2-EH alcohol shortages when producers undertook their scheduled maintenance shutdowns. Imports of OXO alcohols into Europe remained relatively low. Also, demand for OXO alcohols remained relatively low during summer holidays due to maintenance shutdowns implemented within the OXO processing industry. Demand began to rise steadily at the beginning of September.

In the third quarter of 2020, DOTP prices were down 18.1% year on year.

The availability of plasticizers in Europe was considered good despite maintenance shutdowns implemented by some producers in the first months of the third quarter. Demand rose over the quarter, particularly in the segment of engineering plastics and health protection products.

Both the OXO alcohol and plasticizer markets faced serious concerns over a second wave of the coronavirus pandemic and related restrictions across Europe. Such restrictions could lead to sharp declines in orders and to logistic problems affecting feedstock and product supplies (as was the case at the beginning of 2020).

### Prices of 2-EH, DOTP and propylene



Source: ICIS.

In the third quarter of 2020, spot prices of propylene were down 20.1% year on year, while contract prices fell by around 19%.

In the case of propylene, supply and demand remained fairly stable. Feedstock availability deteriorated in the middle of the third quarter of 2020 as a result of maintenance shutdowns and equipment failures experienced by some producers as well as high air temperatures in Europe, which necessitated load reductions on process units. In September, the propylene availability improved significantly and was considered sufficient to cover demand. Propylene demand remained relatively strong, particularly in the food packaging sector and the broad sector of health protection products. The propylene prices are expected to hold their ground in the coming months, with no major fluctuations, supported mainly by stable forecasts of crude oil and kerosene prices. However, the market is marred by serious concerns over possible restrictions that may be introduced by countries battling the coronavirus pandemic, likely leading to softer propylene demand and transport problems.

### Average prices of 2-EH, DOTP and propylene

	Average Q3 2019 EUR/t	Average Q3 2020 EUR/t	y/y %	Sep 2020 EUR/t	MIN 2020 EUR/t	MAX 2020 EUR/t
2-EH (FD NWE spot)	988	815	17.5↓	850	791	968
DOTP (FD NWE spot)	1,191	976	18.1↓	1,000	943	1,073
Propylene (FD NWE spot)	837	668	20.1↓	681	522	808

Source: ICIS.

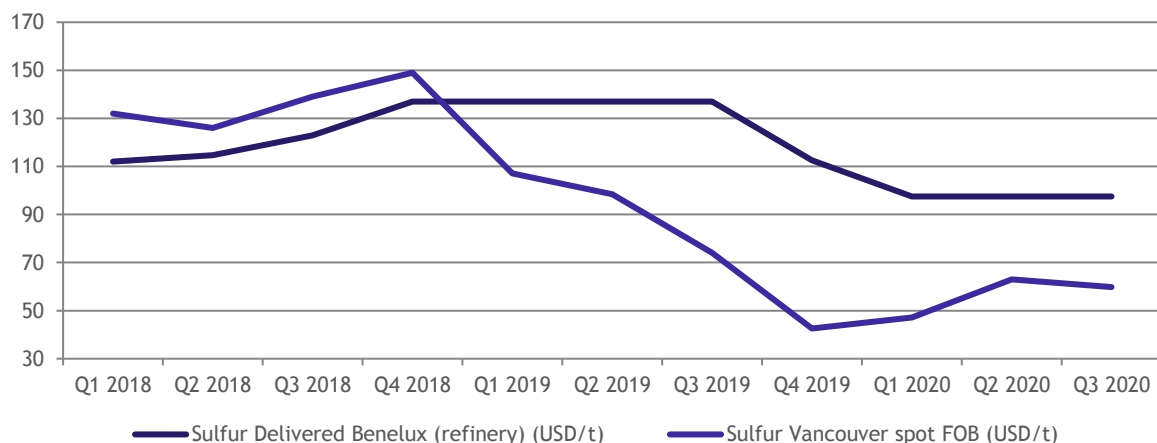
### Sulfur

The significant weakening of the phosphate fertilizers market in late 2019 and early 2020 depressed the market for sulfur, which is primarily used in the production of DAP, MAP and NPK fertilizers.

In the third quarter of 2020, the prices of prilled sulfur (Vancouver SPOT FOB) fell by about 19% year on year. The third quarter of 2020 was slightly better than preceding quarters, with prilled sulfur prices rebounding across all pricing bases.

Price declines on the European market for liquid sulfur were slightly larger. Year on year, the average price of liquid sulfur (Benelux Delivered) was approximately 29% lower. Despite resistance from manufacturers (refineries, gas plants), the price of liquid sulfur had to follow the global prices of the prilled product. No major movements were reported on the European market in the third quarter of 2020, and the prices of liquid sulfur remained at levels recorded in the first half of 2020. Despite tough supply conditions, sulfur producers had no arguments to raise the prices. This changed in the third quarter of 2020 due to an uptick in the phosphate fertilizers market and prilled sulfur prices rising across the board.

## Sulfur prices



Source: FERTECON.

A short-term forecast for the sulfur market predicts that both prilled and liquid sulfur prices may go up slightly. Global sulfur demand remains closely correlated with conditions on the phosphate fertilizers market. The price rises currently reported on the DAP and MAP market might buoy prilled sulfur prices in the fourth quarter of 2020 and first quarter of 2021.

## Average prices of sulfur

	Average Q3 2019	Average Q3 2020	y/y	Sep 2020	MIN 2020	MAX 2020
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Sulfur (Delivered Benelux refinery)	137	98	28.8↓	98	98	98
Sulfur (Vancouver spot FOB)	74	60	19.3↓	62	42	63

Source: FERTECON.

## Pigment chain

In the third quarter of 2020, titanium white prices in Europe fell 6% year on year. During the period, the market remained adequately supplied, with demand varying depending on the end-use industry. The current situation in Europe (competing imports from China, strong supply, weaker demand and coronavirus impacts) has led to a drop in contract prices on the continent. The price declines are especially profound in the case of TiO<sub>2</sub> produced in the sulfate process, and it is the sulfate-method TiO<sub>2</sub> originating in China that is available on the European market at competitive prices.

In the quarter under review, activity in the industries hit by COVID-19 started to improve after restrictions had been eased. However, buyers adopted a cautious stance due to concerns over the second wave of the pandemic.

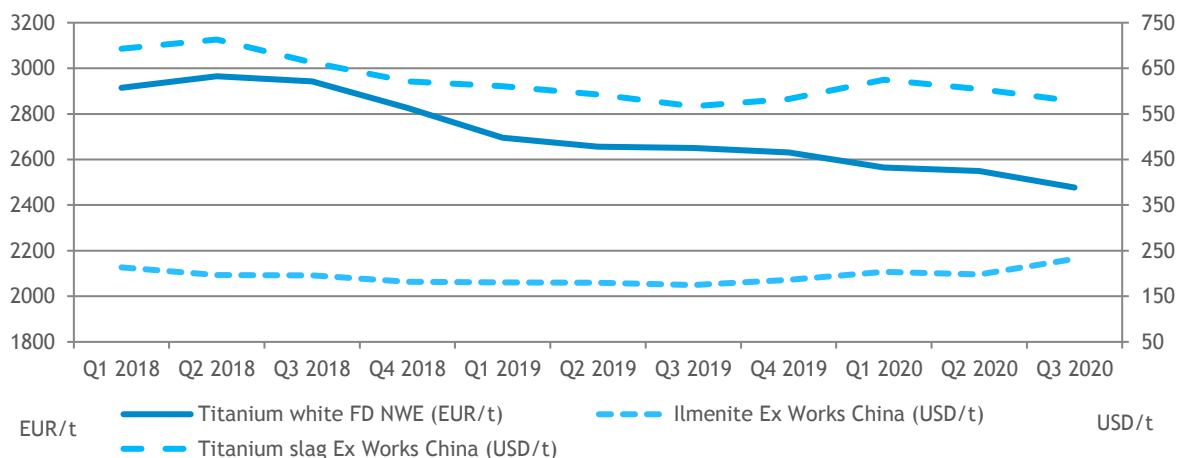
The construction industry is slowly recovering, with some projects under way, although future investments in new projects are uncertain given the lockdown restrictions and social distancing rules. As the pandemic kept people at home, they could devote more time to making necessary home repairs, which fuelled demand from the DIY industry. DIY demand in Europe rose in spring and summer, in some cases having surpassed peak-season expectations. The automotive, industrial and aviation sectors were seriously affected, with recovery likely to be slow. At the same time, the threat of a no-deal Brexit that would result in the UK falling back on WTO trade rules is adding more pressure on the already complex business environment. The no-deal Brexit scenario would entail the introduction of customs duties on goods, border controls, etc.

A significant EU recovery package should stimulate demand to some extent, although positive impacts of such measures would not be seen on the coating market until the next season (that is the second quarter of 2021). The Asian export market is being closely watched due to growing volumes of imports brought into Europe and price increases on that market.

In addition to seasonal factors, high unemployment and continuing uncertainty related to the growing number of coronavirus cases may affect consumer confidence and spending in the coming months. Uncertain recovery in demand, given mainly the coronavirus spread across Europe, the upcoming low season and well-covered market are likely to be the key talking points in price negotiations concerning

the fourth quarter of 2020. As the low season, typically coinciding with the final months of a year, is approaching, the prospects for TiO<sub>2</sub> remain uncertain.

#### Prices of titanium white, ilmenite and titanium slag



Source: ICIS, CCM.

Ilmenite prices have remained stable and strong since the beginning of 2020. However, as a result of the escalating global impacts of the coronavirus pandemic, there has been significant pressure on producers to reduce the prices of titanium-bearing minerals given a decline in demand for titanium white. Due to the growing demand for ilmenite from China, there is not much room for correction, with the average ilmenite prices in China having risen 18.3% year on year in the first nine months of 2020.

Titanium slag is produced by smelting ilmenite with coke. As no investments are made in new furnaces, the titanium slag market is undersupplied, especially with respect to 74%-76% titanium slag used in the sulfate-based production of titanium white. Some of the manufacturers discontinued the production of titanium slag with a lower titanium content and switched to producing slags with a 90% or higher TiO<sub>2</sub> content, due to higher sales margins achieved in chlorine-based production of titanium white. Thus, despite the falling prices of titanium white, the global price of titanium slag remains high. In the first nine months of 2020, the average price of titanium slag used in the sulfate process on the representative Chinese market was 2.1% higher than in the same period of 2019.

#### Average prices of titanium white and raw materials for its production

	Average Q3 2019	Average Q3 2020	y/y	Sep 2020	MIN 2020	MAX 2020
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Titanium white FD, NWE	2,650	2,477	6.5↓	2,425	2,425	2,595
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ilmenite ex Works China	175	232	32.8	250	190	250
Titanium slag ex Works China	567	578	1.9	613	545	642

Source: ICIS, CCM.

Developments on the markets of both titanium-bearing materials are difficult to predict amid the ongoing coronavirus pandemic. The pace of market changes will depend on how quickly global economies are able to pull out of the pandemic-driven recession. According to current forecasts, the prices of titanium-bearing materials will remain high.

#### Melamine

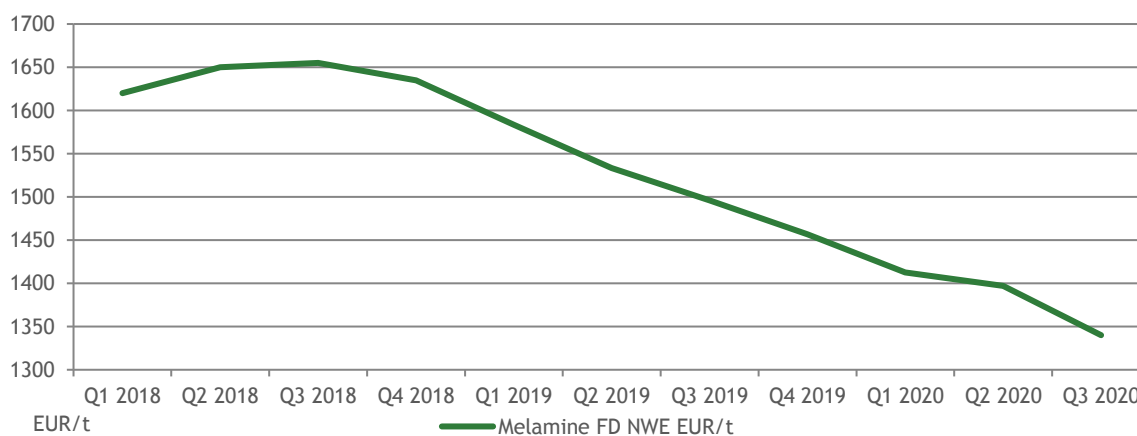
In the third quarter of 2020, the global melamine market remained strongly affected by the spreading coronavirus pandemic. On the US market, demand for melamine remained weak, which portends further attempts by buyers to obtain lower prices despite an uptick in demand from the construction and automotive industries. Producers made attempts to increase prices, which buyers failed to accept and which came as a big surprise given the current market conditions. In the third quarter of 2020, supply of melamine in the US market rose, due mainly to increased imports from the Netherlands, and from Trinidad and Tobago. In the US, the prices of melamine went down by USD 73/tonne. In the

last quarter of 2020, a maintenance shutdown is planned on a key melamine unit in the US scheduled to take four to five weeks, which may weaken supply in winter months.

Spot prices in Asia rose by USD 63/tonne FOB China. The utilisation rates of melamine capacities were low because of subdued demand (as customers relied on accumulated melamine stocks), unfavourable sales margins, and planned maintenance shutdowns. The holidays in China at the end of September 2020 reduced interest in buying melamine in the region. In India, countrywide lockdown measures were reintroduced in mid-July 2020 in response to the pandemic. International trade was resumed in August, which increased interest in melamine from Europe, China and Japan. In the third quarter of 2020, several Chinese melamine producers performed maintenance work on their units. There is no information available about when the unplanned shutdown of Eurochem's unit in Russia, continuing since August 2020 with a disruptive effect on production, will end. Another Russian producer Metafrax is implementing an ammonia-urea-melamine project, which includes a melamine unit with a capacity of 40,000 tonnes per year.

In the third quarter of 2020, demand for DIY products, floors, furniture, paints and garden products was on the rise in Europe. However, despite positive market information, uncertainty about the melamine market in the coming months remains, given the pressure of a rising rate of coronavirus infections.

### Prices of melamine



Source: ICIS, Global Bleaching Chemicals.

In the third quarter of 2020, the average contract prices of melamine in Europe fell by 10.4% year on year. The spot prices also dropped, by 17% year on year.

### Average prices of melamine

	Average Q3 2019	Average Q3 2020	y/y	Sep 2020	MIN 2020	MAX 2020
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Melamine	1,496	1,340	10.4↓	1,330	1,330	1,428

Source: ICIS, Global Bleaching Chemicals.

Given the prevailing market conditions, melamine prices are likely to remain unchanged or increase next quarter due to margin pressures felt by producers on rising feedstock prices. However, all will depend on the global pandemic situation.

## ENERGY

### Natural gas

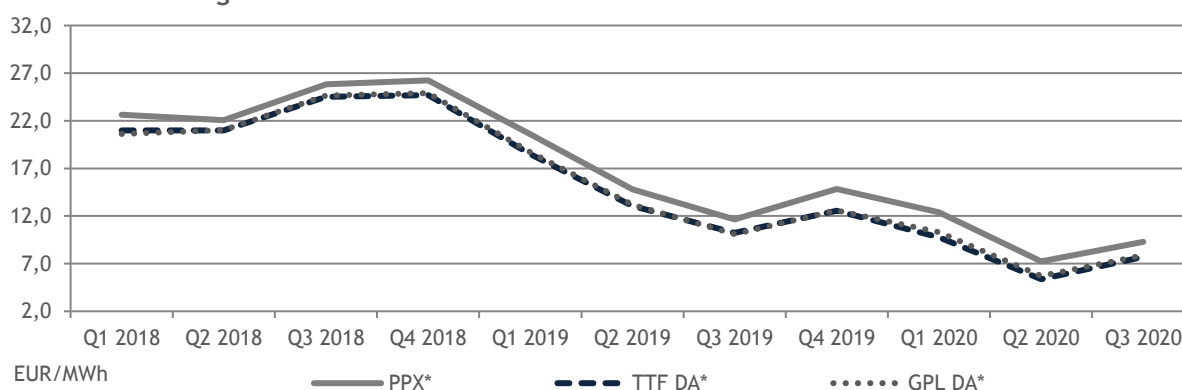
After a downtrend seen in the first half of 2020 and a period of historical lows in gas prices reported in late May and early June, the market conditions changed in the third quarter of 2020. In July, the spot prices on European gas exchanges trended sideways in the range of EUR 4.5-6.0/MWh, without a clear trend or correlation between markets. Strong daily fluctuations were due to expected LNG supplies, intermittent generation from renewable energy sources and an unexpectedly large increase in gas stocks that occurred despite maintenance shutdowns on Yamal and Nord Stream.

In August 2020, the spot prices of natural gas almost doubled, driven by a number of factors, of which the most important ones included a sharp drop in LNG supplies, which coincided with an infrastructure maintenance period in Norway, and rising demand driven by a heat wave, problems with cooling

nuclear reactors, and low wind speeds. The market prices of natural gas were below the break-even point, which led to production cuts and a reduction in LNG exports from the US by two-thirds. Russia also significantly reduced unprofitable exports. As a result, the rate of gas injection into storage in the EU fell strongly. The prices were also driven up by rising prices of the other energy carriers as well as gas prices in Asia, where LNG prices on the JKM (Japan Korea Marker) also doubled during the month.

In September, the gas price grew further by a half. Key drivers of the increase included suspension of LNG supplies from the US as a result of further hurricanes in the Gulf of Mexico, a reduction of Norwegian gas supplies due to a shutdown of the largest Troll field and strikes on drilling rigs, as well as the increase in gas demand resulting from a heat wave at the beginning of the month and strong cooling thereafter. In addition, demand increased during a period of low energy production from nuclear sources. In France, almost half of the reactors were shut down due to maintenance delays caused by the coronavirus epidemic, turning France from a major energy exporter into a net importer. Moreover, in an attempt to remain competitive and attract larger deliveries of spot LNG, European market players raised their prices in response to a continued strong increase in the prices of liquefied gas in Asia. As a result, the end of the third quarter saw the gas prices on European exchanges at around EUR 13/MWh.

### Prices of natural gas



\* Excluding transmission.

Source: PGNiG tariff, ICIS.

In the coming months, a further, albeit slower and less pronounced price increase is expected, with the winter approaching. Apart from the second wave of the pandemic, which will translate into a decline in gas demand from industry, the prices will be stabilised by high gas inventory levels and increased supplies thanks to price levels guaranteeing profitable production. In winter, gas prices will depend to a larger extent on weather conditions and the level of gas consumption for municipal heating, as well as on the pace of stock depletion.

### Average prices of natural gas

	Average Q3 2019	Average Q3 2020	y/y	Sep 2020	MIN 2020	MAX 2020
	EUR/MWh	EUR/MWh	%	EUR/MWh	EUR/MWh	EUR/MWh
TTF DA*	10.3	7.7	24.7↓	11.1	4.6	11.3
GPL DA*	10.1	7.9	22.1↓	11.2	5.1	11.8
PPX*	11.7	9.3	20.3↓	12.5	6.3	14.0

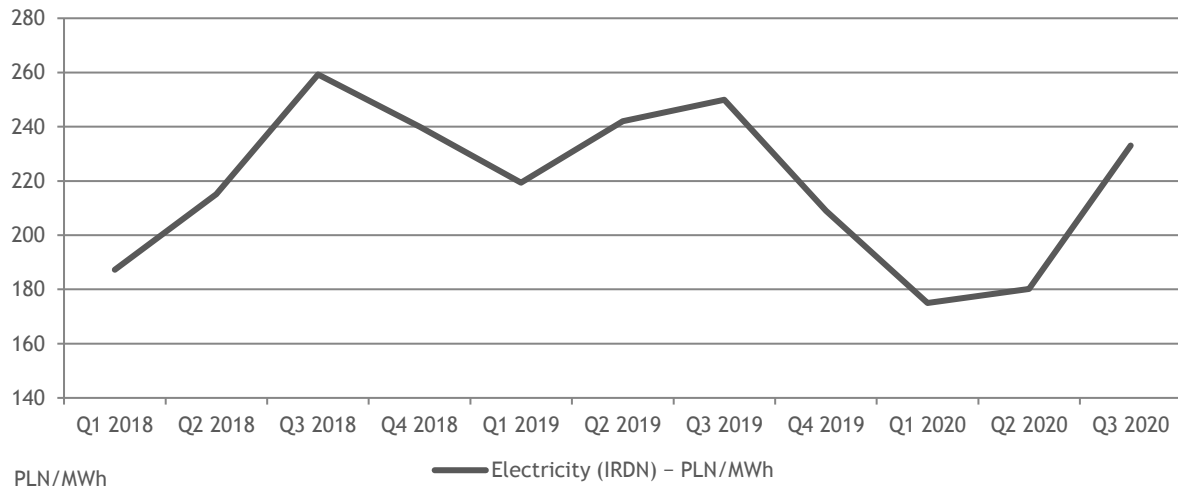
\* Excluding transmission.

Source: PGNiG tariff, ICIS.

### Electricity

In the period under review, the average electricity prices fell by almost 7% year on year and rose more than 29% quarter on quarter. The Polish market is largely affected by climate regulations, the legal regime, as well as the need to upgrade generation capacities (low emission standards - BAT) and maintain the operating capacity reserve (effect on production costs).

## Prices of electricity



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

Source: The Polish Power Exchange.

Electricity prices will be driven by the following factors:

- Situation related to COVID-19 in Poland and globally, pushing the demand for electricity down as manufacturing and services are restricted;
- Price fluctuations on other commodity markets;
- Changes to the RES support system;
- Sensitivity of electricity prices to prices of CO<sub>2</sub> emission allowances, which just in the third quarter of 2020 reached their highs.

## Average prices of electricity

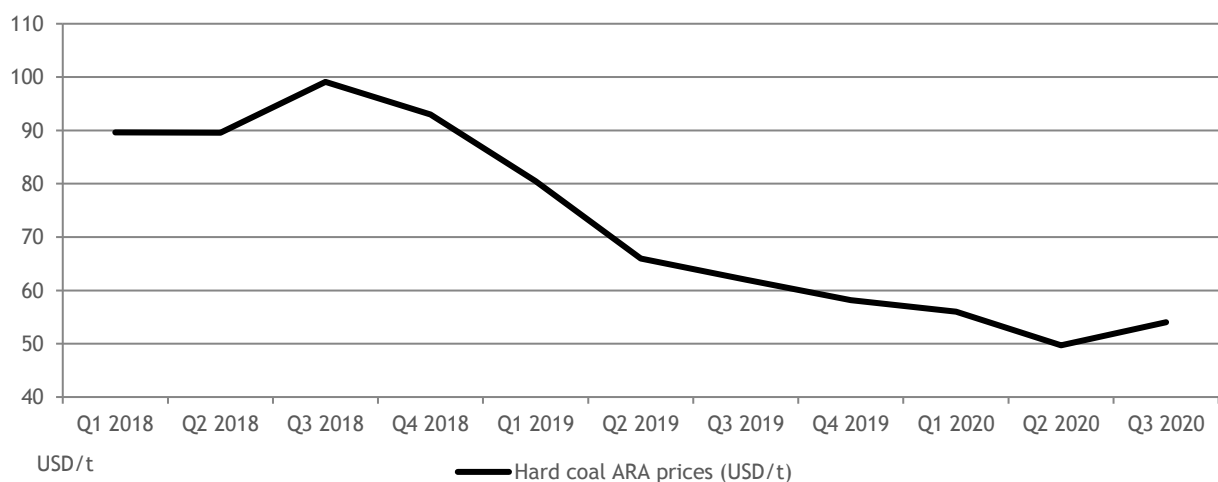
	Average Q3 2019	Average Q3 2020	y/y	Sep 2020	MIN 2020	MAX 2020
	PLN/MWh	PLN/MWh	%	PLN/MWh	PLN/MWh	PLN/MWh
Electricity	250	233	6.8↓	243.90	76.86	335.66

Source: The Polish Power Exchange.

## Coal

The third quarter of 2020 saw a slight reversal of the two-year long downward trend. Compared with the corresponding period of the previous year, the decline was almost 13%, whereas compared with the previous quarter, an increase of more than 8% was recorded.

## Prices of hard coal



Source: ARA prices.



The current situation on the international coal market is described as highly volatile. The coal prices are under downward pressure, which will be driven by:

- coronavirus pandemic leading to limitation or discontinuation of production and service activities;
- weak forecasts of demand for coal in Europe;
- European policy aimed at reducing coal consumption in favour of green mix;
- price fluctuations in other commodity markets.

Analysts expect the average ARA prices to remain below USD 60 per tonne in 2020.

**Average prices of hard coal**

	Average Q3 2019	Average Q3 2020	y/y	Sep 2020	MIN 2020	MAX 2020
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Coal	62	54	12.9↓	55.38	47.49	63.10

Source: ARA prices.

## 2.3. Key financial and economic data

### 2.3.1. Consolidated financial information

Item	Q3 2020	Q3 2019*	change	% change
Revenue	2,416,045	2,563,895	(147,850)	(5.8)
Cost of sales	(1,978,884)	(2,021,488)	42,604	(2.1)
<b>Gross profit</b>	<b>437,161</b>	<b>542,407</b>	<b>(105,246)</b>	<b>(19.4)</b>
Selling expenses	(202,943)	(210,685)	7,742	3.7
Administrative expenses	(178,675)	(209,758)	31,083	(14.8)
<b>Profit on sales</b>	<b>55,543</b>	<b>121,964</b>	<b>(66,421)</b>	<b>(54.5)</b>
Net other income/(expenses)	6,056	(855)	6,911	(808.3)
<b>Operating profit</b>	<b>61,599</b>	<b>121,109</b>	<b>(59,510)</b>	<b>(49.1)</b>
Net finance costs	(11,005)	(25,908)	14,903	(57.5)
Share of profit of equity-accounted investees	4,218	3,159	1,059	33.5
<b>Profit before tax</b>	<b>54,812</b>	<b>98,360</b>	<b>(43,548)</b>	<b>(44.3)</b>
Income tax	(13,832)	(24,850)	11,018	(44.3)
<b>Net profit</b>	<b>40,980</b>	<b>73,510</b>	<b>(32,530)</b>	<b>(44.3)</b>
<b>EBIT</b>	<b>61,599</b>	<b>121,109</b>	<b>(59,510)</b>	<b>(49.1)</b>
Depreciation and amortisation	188,508	210,698	(22,190)	(10.5)
<b>EBITDA</b>	<b>250,107</b>	<b>331,807</b>	<b>(81,700)</b>	<b>(24.6)</b>

\* Financial data restated as described in Section 2.2 of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2020.

Source: Company data.

### 2.3.2. Segment results

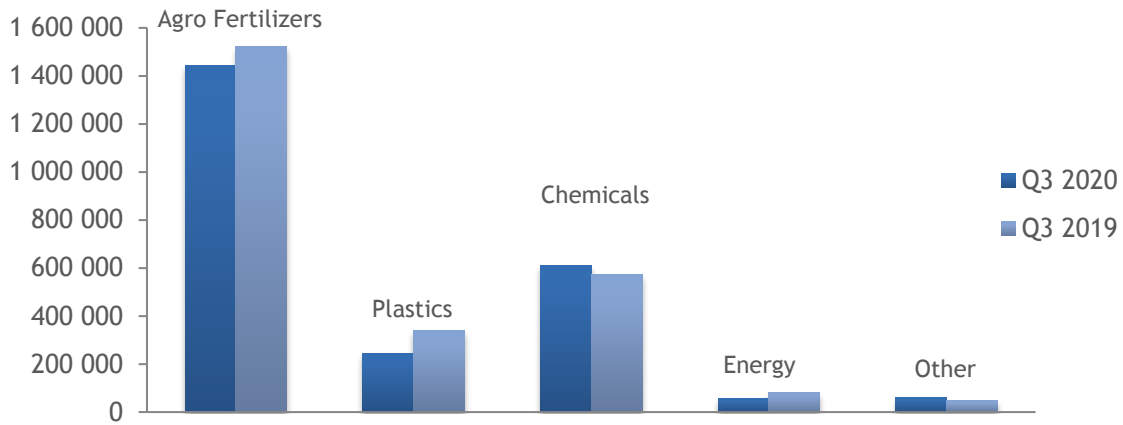
#### EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities
External revenue	1,441,281	245,259	611,681	56,195	61,629
Profit/(loss) on sales	115,760	(27,053)	(29,789)	(6,118)	2,743
<b>EBIT</b>	<b>118,908</b>	<b>(26,096)</b>	<b>(26,885)</b>	<b>(8,799)</b>	<b>4,471</b>

Source: Company data.

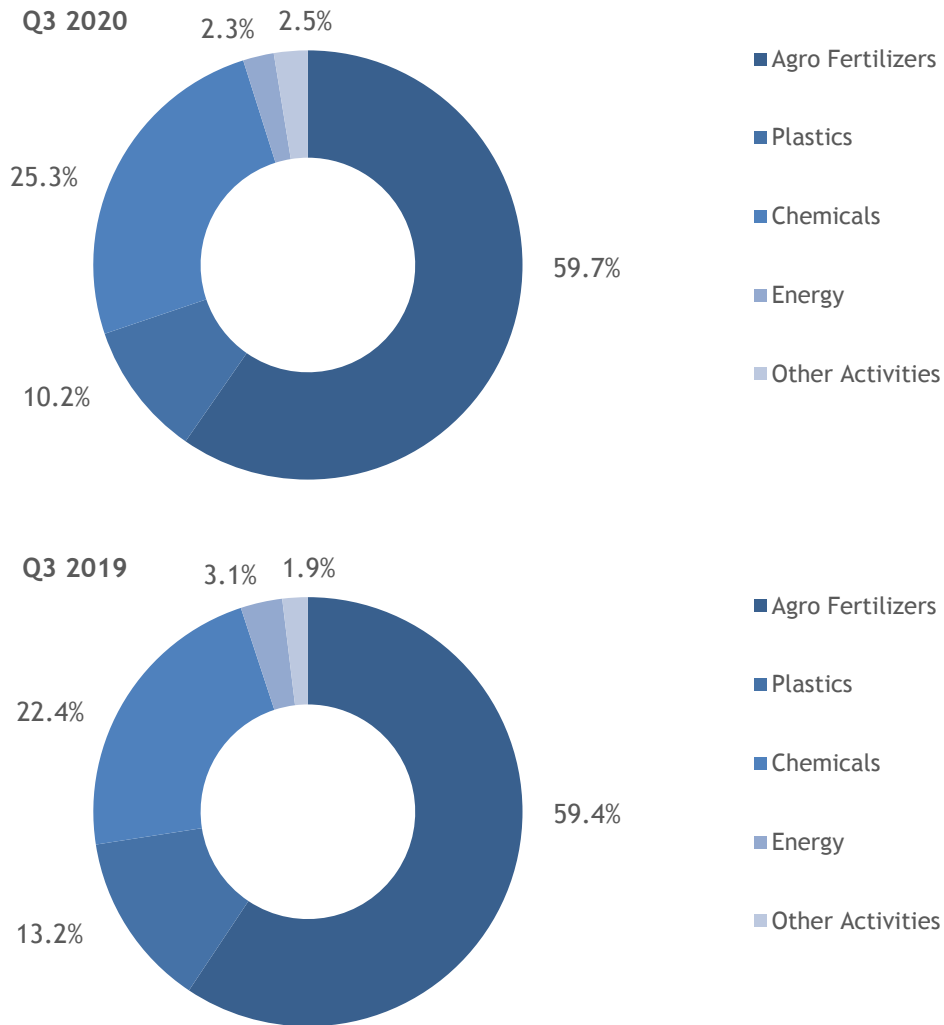
**Revenue by segment**

Source:



Company data.

**Revenue by segment**



Source: Company data.

**Agro Fertilizers**

In Q3 2020, revenue in the Agro Fertilizers segment was PLN 1,441,281 thousand, accounting for 59.7% of the Group's total revenue. The segment's revenue went down 5.3% year on year, with an increased share of revenue generated from Agro Fertilizers in the Group's total revenue.

The Agro Fertilizers segment reported a profit on sales and positive EBIT of PLN 118,908 thousand. Sales on the domestic market accounted for approximately 57.7% of the segment's revenue.

### Plastics

In the third quarter of 2020, revenue in the Plastics segment was PLN 245,259 thousand and accounted for 10.2% of the Group's total. Year on year, the segment's revenue decreased by 27.6%. The segment also reported a loss on sales and negative EBIT.

More than 83.6% of the segment's revenue was derived from sales on foreign markets.

### Chemicals

In the third quarter of 2020, revenue in the Chemicals segment amounted to PLN 611,681 thousand, having increased 6.6% year on year. The segment's revenue accounted for 25.3% of the Group's total revenue. The segment also reported a loss on sales and negative EBIT.

Sales on foreign markets accounted for approximately 57.9% of the Chemicals segment's revenue.

### Energy

In the third quarter of 2020, revenue in the Energy segment was PLN 56,195 thousand and accounted for approximately 2.3% of the Group's total. Year on year, the segment's revenue decreased by 30.3%. Its EBIT was negative.

### Other Activities

In the third quarter of 2020, the Other Activities segment reported revenue of PLN 61,629 thousand, up 25.6% year on year, accounting for 2.5% of the Group's total revenue. The segment's operations generated a profit on sales and positive EBIT of PLN 4,471 thousand.

## 2.3.3. Structure of operating expenses

### Operating expenses by nature of expense

	Q3 2020	Q3 2019*	change	% change
Depreciation and amortisation	187,072	209,570	(22,498)	(10.7)
Raw materials and consumables used	1,144,613	1,311,608	(166,995)	12.7
Services	290,413	269,685	20,728	7.7
Salaries and wages, including surcharges, and other benefits	392,160	419,862	(27,702)	(6.6)
Taxes and charges	122,782	108,348	14,434	13.3
Other expenses	29,609	33,636	(4,027)	(12.0)
<b>Total</b>	<b>2,166,649</b>	<b>2,352,709</b>	<b>(186,060)</b>	<b>(7.9)</b>

\* Financial data restated as described in Section 2.2 of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2020.

Source: Company data.

### Structure of operating expenses [%]

	Q3 2020	Q3 2019*
Depreciation and amortisation	8.6	8.9
Raw materials and consumables used	52.8	55.7
Services	13.4	11.5
Salaries and wages, including surcharges, and other benefits	18.1	17.8
Taxes and charges	5.7	4.6
Other expenses	1.4	1.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\* Financial data restated as described in Section 2.2 of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2020.

Source: Company data.

### 2.3.4. Assets, equity and liabilities

#### Structure of assets

	Q3 2020	Q3 2019*	change	% change
<b>Non-current assets, including:</b>	<b>12,521,870</b>	<b>10,553,717</b>	<b>1,968,153</b>	<b>18.6</b>
Property, plant and equipment	9,454,357	7,854,025	1,600,332	20.4
Intangible assets	1,011,951	1,020,382	(8,431)	(0.8)
Right-of-use assets	817,834	873,248	(55,414)	(6.3)
Other receivables	660,162	250,878	409,284	163.1
Goodwill	325,977	316,352	9,625	3.0
<b>Current assets, including:</b>	<b>3,954,088</b>	<b>4,317,553</b>	<b>(363,465)</b>	<b>(8.4)</b>
Trade and other receivables	1,443,839	1,488,462	(44,623)	(3.0)
Inventories	1,367,594	1,440,696	(73,102)	(5.1)
Cash and cash equivalents	576,137	551,990	24,147	4.4
Property rights	499,975	457,665	42,310	9.2
<b>Total assets</b>	<b>16,475,958</b>	<b>14,871,270</b>	<b>1,604,688</b>	<b>10.8</b>

\* Financial data restated as described in Section 2.2 of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2020.

Source: Company data.

## Structure of equity and liabilities

	Q3 2020	Q3 2019*	change	% change
<b>Equity</b>	<b>8,147,144</b>	<b>7,729,473</b>	<b>417,671</b>	<b>5.4</b>
<b>Non-current liabilities, including:</b>	<b>4,756,788</b>	<b>4,315,011</b>	<b>441,777</b>	<b>10.2</b>
Borrowings	2,957,075	2,650,811	306,264	11.6
Employee benefit obligations	503,020	426,783	76,237	17.9
Deferred tax liabilities	500,717	475,050	25,667	5.4
Lease liabilities	347,544	381,837	(34,293)	(9.0)
Provisions	211,325	157,982	53,343	33.8
Government grants received	193,296	197,030	(3,734)	(1.9)
<b>Current liabilities, including:</b>	<b>3,572,026</b>	<b>2,826,786</b>	<b>745,240</b>	<b>26.4</b>
Trade and other payables	2,510,928	2,025,084	485,844	24.0
Borrowings	454,017	460,873	(6,856)	(1.5)
Other financial liabilities	242,182	23,835	218,347	916.1
Government grants received	144,659	129,183	15,476	12.0
			<b>1,604,68</b>	
<b>Total equity and liabilities</b>	<b>16,475,958</b>	<b>14,871,270</b>	<b>8</b>	<b>10.8</b>

\* Financial data restated as described in Section 2.2 of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2020.

Source: Company data.

## 2.3.5. Financial ratios

### Profitability ratios [%]

	Q3 2020	Q3 2019*
Gross profit margin	18.1	21.2
EBIT margin	2.5	4.7
EBITDA margin	10.4	12.9
Net profit margin	1.7	2.9
ROA	0.2	0.5
ROCE	0.5	1.0
ROE	0.5	1.0
Return on non-current assets	0.3	0.7

\* Financial data restated as described in Section 2.2 of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2020.

Source: Company data.

#### Ratio formulas:

*Gross profit margin = gross profit (loss) / revenue (statement of comprehensive income by function)*

*EBIT margin = EBIT / revenue*

*EBITDA margin = EBITDA / net revenue*

*Net profit margin = net profit (loss) / revenue*

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

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

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

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

## Liquidity ratios

	Q3 2020	Q3 2019*
Current ratio	1.1	1.5
Quick ratio	0.7	1.0
Cash ratio	0.3	0.4

\* Financial data restated as described in Section 2.2 of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2020.

Source: Company data.

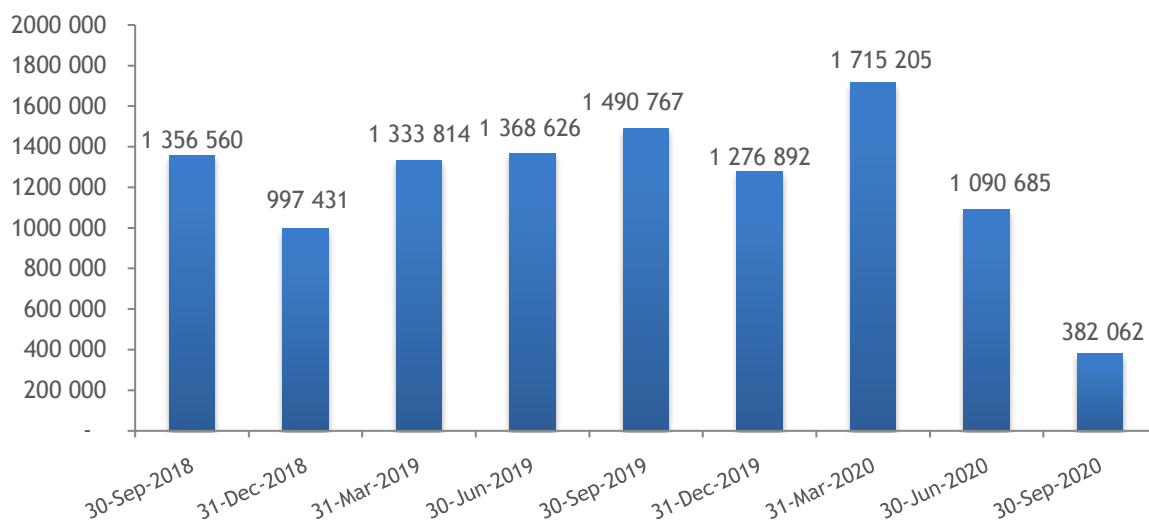
### Ratio formulas:

*Current ratio = current assets / current liabilities*

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

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

## Changes in net working capital\*



\* Financial data restated as described in Section 2.2 of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2020.

Source: Company data.

The decrease in working capital relative to prior periods resulted from a decrease in current assets, due mainly to the equity contribution and disbursement of loans to Grupa Azoty POLYOLEFINS (a decrease in cash), with a concurrent decline in revenue attributable to lower prices and sales volumes in the Chemicals and Plastics segments (a decrease in receivables). In addition, the value of property rights fell following the redemption of CO<sub>2</sub> emission allowances for the previous year, while emission allowances for 2020 and subsequent years are purchased mostly in forward transactions with settlement and delivery dates falling before the redemption date.

## Operational efficiency ratios

	Q3 2020	Q3 2019*
Inventory turnover	62	64
Average collection period	54	52
Average payment period	115	90
Cash conversion cycle	0	26

Source: Company data.

### Ratio formulas:

*Inventory turnover = inventories \* 180 / cost of sales*

*Average collection period = trade and other receivables \* 180 / revenue*

*Average payment period = trade and other payables \* 180 / cost of sales*

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

## Debt ratios [%]

Ratio	Q3 2020	Q3 2019*
Total debt ratio	50.6	48.0
Long-term debt ratio	28.9	29.0
Short-term debt ratio	21.7	19.0
Equity-to-debt ratio	97.8	108.2
Interest cover ratio	462.1	573.3

\* Financial data restated as described in Section 2.2 of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2020.

Source: Company data.

### Ratio formulas:

*Total debt ratio = total liabilities / total assets*

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

*Short-term debt ratio = current liabilities / total assets*

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

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

## 2.4. Financial liquidity

Although their situation is clearly linked to developments in the market environment, the Parent as well as the key Group companies are fully solvent, with good credit standing. The Group is able to pay its liabilities as they fall due and to hold and generate free operating cash flows, allowing it to timely service its debt. In the third quarter of 2020, the Group paid all of its borrowing-related and other financial liabilities when due, and there is no threat to its ability to continue servicing its debt. The liquidity management policy operated by the Group consists in maintaining surplus cash and available credit facilities as well as limits under the intragroup financing agreement (one purpose of which is to effectively distribute funds within the Group), and in ensuring that their level is safe and adequate to the scale of the Group's business.

The Grupa Azoty Group is monitoring the spread of the COVID-19 pandemic and its impact on the Group's economic environment. At the Group, the following risk areas have been identified related to the pandemic outbreak that may affect its liquidity:

- potential risk of deterioration in the financial liquidity of some of our trading partners as a result of payment backlogs,
- volatility of exchange rates.

As at the date of this Report, the Group identified no significant impact of the pandemic on its financial condition. Since the actual magnitude of effects of the unfolding COVID-19 pandemic and their impact on the Grupa Azoty Group's business is difficult to estimate, it is not possible to reliably determine the future impact of the second wave of the pandemic on the Group's financial condition.

## 2.5. Borrowings

In the third quarter of 2020, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.

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

The amount of limits under overdraft and multi-purpose credit facilities available to the Group as at September 30th 2020 was PLN 786m. In addition, as at the reporting date, the Group had access to corporate credit facilities of approximately PLN 1,645m. The Group also had access to special purpose loans totalling PLN 53m. As at September 30th 2020, under the agreements specified above the Group had access to total credit limits of approximately PLN 2,484m. Moreover, as at September 30th 2020, the Group had access to an undrawn amount of PLN 461m under a payments servicing agreement to finance its liabilities towards suppliers.



The Group complies with the uniform covenants of its facility agreements which enable it to significantly increase financial debt when and as needed.

It should be noted that the Group's financial condition is stable. The Group has sources of liquidity, namely cash held, whose amount as at September 30th 2020 was PLN 576m (including cash held as bank deposits), undrawn credit facilities, whose amount as at September 30th 2020 was PLN 2,484m, and available reverse factoring limit of PLN 461m, adding up to a total of PLN 3,521m. As at October 31st 2020, the amount of cash held was PLN 551m, the amount of available credit limits was PLN 2,269m, and the available limit of the reverse factoring facility was PLN 465m, adding up to a total of PLN 3,285m.

The decrease in the Group's total cash and available limits after the reporting date was largely attributable to the financing of expenditure on the Polimery Police and Puławy Power Plant projects.

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

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

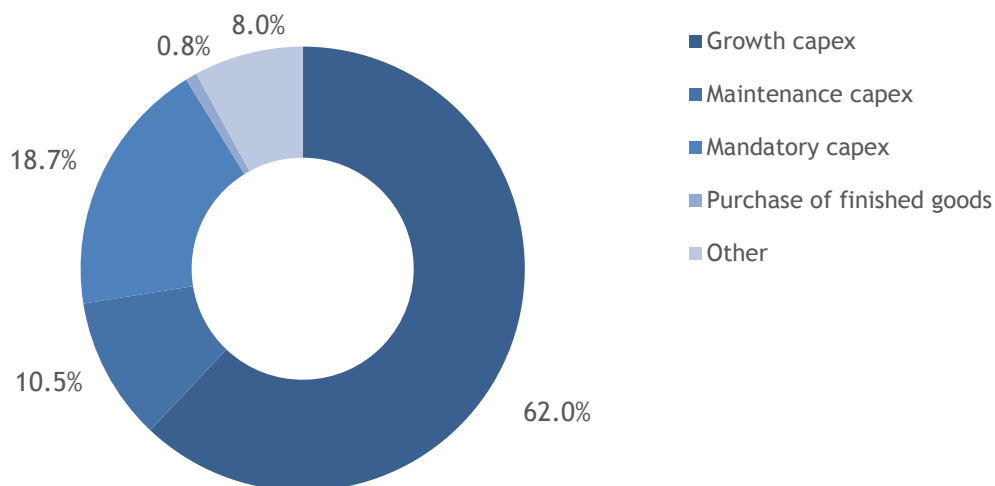
## 2.7. Key investment projects

In the third quarter of 2020, the Group incurred expenditure of PLN 809,100 thousand to purchase intangible assets and property, plant and equipment.

Structure of capital expenditure:

• Growth capex	PLN 501,972 thousand
• Maintenance capex	PLN 84,552 thousand
• Mandatory capex	PLN 151,484 thousand
• Purchase of finished goods	PLN 6,754 thousand
• Other (major overhauls, components, catalysts, etc.)	PLN 64,338 thousand

### Structure of the Grupa Azoty Group's capital expenditure in the third quarter of 2020



Source: Company data.

The Grupa Azoty Group's capital expenditure in third quarter of 2020:

• Parent	PLN 23,840 thousand
• Grupa Azoty POLYOLEFINS	PLN 415,045 thousand
• Grupa Azoty PUŁAWY Group	PLN 261,083 thousand
• Grupa Azoty KĘDZIERZYN Group	PLN 50,219 thousand
• Grupa Azoty POLICE Group	PLN 44,489 thousand
• COMPO EXPERT Group	PLN 6,396 thousand
• Grupa Azoty KOLTAR Sp. z o.o.	PLN 3,388 thousand
• Grupa Azoty SIARKOPOL	PLN 2,513 thousand
• Grupa Azoty PKCh Sp. z o.o.	PLN 1,461 thousand
• Grupa Azoty Compounding Sp. z o.o.	PLN 535 thousand
• Grupa Azoty ATT Polymers GmbH	PLN 131 thousand

### Key investment projects implemented by the Group

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q3 2020	Project purpose	Scheduled completion date
<b>Grupa Azoty POLYOLEFINS</b>					
Propane Dehydrogenation (PDH) unit with related infrastructure, and polypropylene (PP) production unit	USD 1,801,109 thousand	1,670,311	415,045	Construction of a propylene dehydrogenation plant (PDH) and a polypropylene production plant with associated infrastructure, including the expansion of the Police Sea Port to include a propane and ethylene handling and storage terminal.	2023
<b>Grupa Azoty POLICE</b>					
Making production of demineralised water independent of variable salinity of the Oder River and increasing the ability to produce special waters in the units	108,000	42,595	28,275	Upgrade and expansion of the water treatment and demineralisation station as a means of protection against periodic salinity increases in the Oder river for Grupa Azoty POLICE companies	2022

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(all amounts in PLN '000 unless indicated otherwise)

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q3 2020	Project purpose	Scheduled completion date
<b>Grupa Azoty PUŁAWY</b>					
Construction of a coal-fired power generation unit	1,200,000	177,375	139,610	Adaptation of energy generation units to environmental requirements, while increasing the share of the autoproducer CHP plant in electricity consumption by production units and ensuring continuity of energy supply	2022
Upgrade of existing nitric acid production units and construction of new nitric acid production and neutralisation units and units for production of new fertilizers based on nitric acid	695,000	337,490	28,469	To raise the efficiency of nitric acid production and improve the economics of production of nitric acid-based fertilizers	2028
Facility for production of granulated fertilizers based on ammonium nitrate	430,000 <sup>*)</sup>	377,779	5,563	To improve the quality of fertilizers by applying modern mechanical granulation	2021
Upgrade of steam generator OP-215 No. 2 to reduce NO <sub>x</sub> emissions	93,000	45,368	6,889	To bring the steam generator into compliance with new NO <sub>x</sub> emission standards and restore it to proper working condition	2021
Replacement of the turbine generator set	85,000	14,951	5,513	To increase the efficiency of electricity and heat cogeneration by replacing a pass-out and condensing turbine with a new unit	2021
<b>Grupa Azoty KĘDZIERZYN</b>					
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	140,000	61,435	2,112	To rebuild the capacity of synthesis gas compression for the Ammonia Plant through the installation of new compressors	2021
Peak-load/reserve boilers	123,000	130	31	The peak-load/reserve boiler house as a peak-load source will operate in conjunction with steam generators; in the event of downtime of coal-fired boilers, the peak-load/reserve boiler house will operate as a stand-alone reserve steam generator.	2023
Purchase and installation of an oxygen compressor	72,800	19,462	11,986	Replacement of old steam turbine driven oxygen compressors with one electric compressor	2021

\*) On May 25th 2020, the Extraordinary General Meeting granted its consent for Grupa Azoty Zakłady Azotowe Puławy S.A. of Puławy to enter into legal transactions whereby it would purchase non-current assets for the purpose of implementing the 'Ammonium nitrate-based granulated fertilizer unit' project, with a total value increased from PLN 385m to PLN 430m.

Source: Company data.

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

### Exchange rates

In the third quarter of 2020, the Polish zloty slightly depreciated against the euro with the PLN/EUR exchange rate changing from 4.46 to 4.52, and slightly appreciated against the US dollar (from 3.98 to 3.87), which resulted directly from the weaker spread of the COVID-19 pandemic in Europe over that period and re-opening of the economies after the first wave of the pandemic, as well as a profound weakening of the Polish currency that occurred in March 2020 and its subsequent gradual strengthening until the end of the second quarter of 2020.

The observed scale of the pandemic is expected to have a material adverse effect on the global economy throughout 2020 and 2021; therefore, in the fourth quarter of 2020 the Group expects the Polish zloty to remain dominated by global factors related to the escalating second wave of the pandemic all over the world (which resulted in a second wave of the euro's appreciation against the US dollar in October 2020, while over the same time the Polish zloty weakened against the euro and, to a much lesser extent, the US dollar). This will be combined with a continuing risk of increased volatility and further depreciation episodes for the Polish currency.

As a result, the PLN/EUR and PLN/USD exchange rates may temporarily weaken even further, in the range of 4.50-4.70 and 3.95-4.30, respectively.

By the end of 2020, the zloty may strengthen moderately, as the actual scale of the second pandemic wave is expected to be established by that time, and as its impact will be mitigated by further anti-crisis programmes and measures implemented by banks and governments, which should prevent a debt crisis and mitigate the risk of insolvency of major economies.

The forecast currency exchange trends are not expected to bear materially on the Grupa Azoty Group's performance in the fourth quarter of 2020, as its positive currency exposure in EUR from operating activities should offset any adverse changes in the value of EUR-denominated loans. The effect of the zloty's depreciation against convertible currencies should not significantly jeopardise the achievement of the Grupa Azoty Group's currency exposure targets in the fourth quarter of 2020.

### Interest rates in Poland

In the first half of 2020, the Polish Monetary Policy Council significantly reduced the interest rates in March, April and May, by a total of 1.4pp. Thus, the main reference rate applicable to credit facilities contracted by the Group (1M/3M WIBOR) fell from approximately 1.7% to about 0.3%, and is expected to stay there in a longer term. This will help stabilise the Group's borrowing costs at a relatively low level and reinforce its debt service capacity.

The Polish Monetary Policy Council should not change its interest rate policy over the next several quarters. This will help maintain the Group's low borrowing costs and secure debt service.

The main reference interest rate for the Group's borrowings (1M WIBOR) should remain at approximately 0.2% in the current and next year.

The European Central Bank and the US FED are not expected to reduce interest rates by the end of this year, focusing on non-standard instruments to ease the monetary policy and sustain liquidity of the interbank sector.

In conclusion, the Group expects the current low interest rates to remain unchanged until the end of 2020 with respect to the currencies used to finance the Group's activities (PLN and EUR). Thus, the borrowing costs will remain at their historical lows, and the risk of the Group's financial condition or results of its operations deteriorating on higher borrowing costs should be assessed as low.

### Regulatory area

The European Commission has continued its work on the New Fertilizers Regulation (Regulation (EU) 2019/1009 of the European Parliament and of the Council of June 5th 2019) and, specifically, on delegated acts designed to clarify the provisions of the Regulation. The Regulation will take full effect in July 2022 after a three-year *vacatio legis* period.

The European Commission is engaged in efforts to implement the European Green Deal concept, leading to the European Union's climate neutrality by 2050.

Furthermore, during the European Council Summit held from July 17th to July 21st 2020, a draft document was approved concerning the EU's own resources from a tax on non-recycled plastic packaging waste, levied at a rate of EUR 0.80/kg. The draft is supported by the proposed Multi-Annual Financial Framework for 2021-2027, presented by the European Commission in May 2018 together with a draft system of the European Union's own resources.

On August 27th 2020, a public consultation process was opened regarding the environmental footprint: 'Substantiated claims regarding the environmental performance of products and organisations'. The consultation aims to develop a common methodology for assessing, communicating and labelling the life cycle environmental performance of products, services and organisations. In addition, the environmental footprint should provide the public with access to information on the environmental impact of a particular product or organisation, taking into account the need to avoid any confusion and an improvement of Ecolabels.

On September 17th 2020, the European Commission presented a new target for reducing greenhouse gas emissions by 2030. With a view to putting the European Union on the path to achieving climate neutrality by 2050, the communication proposed an EU-wide target for reducing net greenhouse gas emissions by at least 55% by 2030 compared with 1990. The Commission's proposal is based on a full impact assessment, which concludes that the reduction of GHG emissions by at least 55% by 2030 is a viable and feasible way of action. The Commission also presented an amendment to the proposed EU climate law, to include the emission reduction target of at least 55% by 2030. The new 55% reduction target includes both emissions and absorption of carbon dioxide.

On September 21st 2020, the European Commission adopted new guidelines on certain state aid measures in the context of the greenhouse gas emission allowance trading scheme post-2021. The guidelines set out the rules for granting state aid by the governments of EU member states in the form of compensation to sectors most exposed to the negative consequences of high energy prices due to costs incurred by the power sector under the European ETS, so that such compensation is not prohibited state aid within the meaning of the Treaty on the Functioning of the European Union. The compensation is intended to minimise the risk of relocation of the exposed plants to regions following less ambitious climate policies. The new guidelines enter into force on January 1st 2021 and concern compensation which will only be granted during the fourth ETS period (2021-2030) and do not apply to compensation already granted to sectors under the previous guidelines during the third ETS period (2012-2020), as that compensation was already notified to the European Commission and approved in August 2019 in accordance with the previous guidelines. The new guidelines list includes hydrogen.

#### **International trade policy**

As the United Kingdom left the European Union (on January 31st 2020), a transitional period is in place until the end of 2020, allowing trade between the EU and the United Kingdom under the former rules. The United Kingdom did not request an extension of the transitional period (which was only possible until the end of June). In July, August and September 2020, negotiations of an agreement that would govern future EU-UK trade relations were held as direct meetings in Brussels and London, but failed to bring about an expected breakthrough resulting in a consensus on the provisions of the future trade deal (nine rounds of the negotiations have taken place since Brexit). In September, the Ministry of Development held a consultation regarding the rules of origin on the UK market in order to enable the government to take appropriate action in the negotiation of the agreement.

The European Commission is engaged in continued work on the expiry review of anti-dumping measures applicable to imports of ammonium nitrate originating in Russia. The periodic review was initiated in September 2019, following the submission of relevant requests by EU fertilizer manufacturers. Within at most 15 months, the European Commission is expected to decide whether to abolish or maintain the duty for another five years - in accordance with the schedule, the decision will be announced by December 22nd 2020. The most recent review of anti-dumping measures on imports of ammonium nitrate from Russia, carried out at the request of EU agricultural producer associations, concluded with the announcement of duty rates on November 16th 2018.

Continued work is under way to challenge the European Commission's 2019 decision to impose an anti-dumping duty on UAN imports from Russia, the US and Trinidad and Tobago by Methanol Holdings (of Trinidad and Tobago) and Eurochem (of Russia).

On July 13th 2020, Turkey confirmed withdrawal of its request to the European Commission for the establishment of a duty-free import tariff quota for 2-ethylhexan-1-ol, a product offered by the Grupa Azoty Group.

On July 23rd 2020, the WTO announced its decision in favour of Russia, which had challenged the European Commission's decision of 2014 extending the anti-dumping duties on ammonium nitrate. In the decision, the WTO stated that the European Commission had applied an inappropriate methodology during the 2014 review. On August 28th 2020, the European Commission appealed against the decision to the WTO appellate body.

The European Union states are discussing the possibility of sanctions against Belarus for disregarding standards and human rights in the presidential election held in Belarus on August 9th 2020.

### 3. Other information

#### 3.1. Other significant events

##### **Progress of the *Polimery Police* project**

In the third quarter of 2020, Grupa Azoty POLYOLEFINS (a special purpose vehicle) continued to implement *Polimery Police*, the Grupa Azoty Group's key investment project, comprising the construction of propylene and polypropylene units with auxiliary systems and associated infrastructure, as well as a port terminal with feedstock storage facilities.

##### ***Technical stream***

Currently, Grupa Azoty POLYOLEFINS is implementing the project's construction phase. To date, utility connections have largely been installed and a range of works related to the wharf construction and laying of the foundations for storage tanks have been performed. In addition, hydraulic engineering work is also in progress.

On October 9th 2020, Grupa Azoty POLYOLEFINS signed an amending annex to the contract for turnkey execution of the *Polimery Police* project of May 11th 2019 (the "EPC Contract") between Grupa Azoty POLYOLEFINS and HEC.

The amendment provides, among other things, for a EUR 33.2m increase in the amount payable to HEC and a three-month extension of the timescale for the *Polimery Police* project.

##### ***Financial stream***

For information on the financial aspects of the *Polimery Police* project, see Notes 3.4, 3.8 and 3.12 to the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2020.

##### ***Decisions and permits***

On September 29th 2020, the process of securing building permits for the *Polimery Police* project was completed. Thus, as at the date of this Report, all 22 building permits required for the implementation of the *Polimery Police* project had been obtained.

##### ***Impact of COVID-19 on the implementation of the Polimery Police project***

In response to proposed amendments to the EPC Contract, received from the General Contractor HEC resulting, among other things, from the impact of the COVID-19 pandemic on the implementation of the *Polimery Police* project, in August and September 2020, Grupa Azoty POLYOLEFINS entered into negotiations concerning Annex No. 2 to the EPC Contract. Once the negotiations were closed and the necessary approvals from the financing institutions and Grupa Azoty POLYOLEFINS' corporate bodies were obtained, Annex No. 2 to the EPC Contract was signed on October 9th 2020, whereby the amount payable to the Contractor was increased by EUR 33.2m and the project schedule was extended by three months, so that completion of the *Polimery Police* project is now expected in the first quarter of 2023.

In addition, HEC gave notice of a coronavirus outbreak identified at the construction site. However, the general contractor assured Grupa Azoty POLYOLEFINS that the event would have no material impact on the contract execution. As at the date of authorisation of this Report for issue, the majority of the isolated workers had already returned to the site.

As at the date of authorisation of this Report for issue, Grupa Azoty POLYOLEFINS did not identify any other impacts of the pandemic on its operations in the fourth quarter of 2020. However, if the pandemic continues in the coming months, the risk of further delays in delivering individual milestones of the *Polimery Police* project may increase.

##### ***Events after the reporting date as part of the Polimery Police project***

On November 16th 2020, the Extraordinary General Meeting of Grupa Azoty POLYOLEFINS passed resolutions to increase the share capital of Grupa Azoty POLYOLEFINS through the issue of Series G ordinary shares and to fully waive the shareholders' pre-emptive rights to all Series G shares. For detailed information on the event, see Note 3.12 to the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2020.

### **Contractor selection for the construction of a peak-load and reserve boiler house**

On August 18th 2020, Grupa Azoty KĘDZIERZYN selected the consortium of Polimex Energetyka Sp. z o.o. and Polimex Mostostal S.A. as the contractor to execute the 'Construction of a gas-fired peak-load and reserve boiler house at Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.' project. The construction of a new boiler house is an important element of the New Energy Concept, whose key envisaged outcome is the use of heat generated in production processes to make electricity and other energy carriers.

The turnkey contract was executed on November 5th 2020. The project is to be completed within 36 months of the contract's effective date. The value of the contract is PLN 91,568.6 thousand.

### **Implementation of a new communication system in the fertilizers area**

In September 2020, the Parent officially implemented a new communication system for the Agro segment. The rebranding effort seeks to create a modern and recognisable brand of products projecting a consistent image that will also address challenges faced by agriculture in relation to the European Green Deal. The effort marks another step towards business integration of the Grupa Azoty Group companies.

### **Information on the effects of the COVID-19 pandemic**

For information on the effects of the COVID-19 pandemic, see Note 3.11 to the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2020.

## **3.2. Significant agreements**

The agreements are presented in chronological order.

In the third quarter of 2020 and as at the date of this Report, none of the Group companies defaulted on significant credit facilities or other borrowings or breached any material covenants under credit facility or other loan agreements.

### **Material agreements**

#### ***Agreements and annexes to contracts of a financial nature***

#### **Transfer of credit commitment from Santander Bank Polska S.A. to CaixaBank S.A.**

On July 16th 2020, Santander Bank Polska S.A. transferred a part of its commitment under Tranche A of the Credit Facility Agreement of April 23rd 2015 (as amended) concluded between the Parent and a bank syndicate (PKO BP S.A., Santander Bank Polska S.A., BGK and ING Bank Śląski S.A.), in the amount of PLN 100m, to CaixaBank S.A., Polish Branch. Following the transfer, Santander Bank Polska S.A.'s credit commitment is PLN 200m.

#### **Loan agreement concluded by COMPO EXPERT Spain S.L.**

On August 3rd 2020, COMPO EXPERT Spain S.L. and Fondo Europaeo concluded a EUR 943 thousand loan agreement, maturing on September 27th 2024. On September 14th 2020, COMPO EXPERT Spain S.L. received a tranche of EUR 471 thousand. The balance will be disbursed by June 27th 2021, depending on the progress in implementing individual stages of the project to provide equipment for a granulated fertilizers line.

#### **Annexes to the physical cash pooling agreement with PKO BP**

On August 10th 2020, the Parent and the Group companies entered into Annex 10 to the above-mentioned agreement with PKO Bank Polski S.A., concerning exclusion of Grupa Azoty Folie Sp. z o.o. w likwidacji (in liquidation) and Grupa Azoty POLYOLEFINS from the physical cash pooling arrangement.

### **Insurance agreements**

#### **Insurance of environmental risks**

In the second quarter of 2020, the leading companies of the Grupa Azoty Group: the Parent, Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN extended the environmental liability insurance until September 15th 2021. This risk was insured with the Polish Branch of Colonnade Insurance Societe Anonyme.

#### **Project co-financing agreements**

On July 23rd 2020, the Parent and the county job centre in Tarnów signed an agreement for co-financing of employee training from the National Training Fund. The value of the project is PLN 230.5 thousand, of which PLN 181 thousand will be covered by the grant.

Grupa Azoty PUŁAWY relies on financing in the form of loans and grants under agreements executed in 2011-2019 with: The National Fund for Environmental Protection and Water Management, the National Centre for Research and Development, the Ministry of Investments and Development, and the Lublin Agency for the Support of Entrepreneurship.

In the third quarter of 2020, Grupa Azoty PUŁAWY entered into new co-financing agreements under the Smart Growth Operational Programme 2014-2020:

- agreement of August 4th 2020 for co-financing of the 'Environmentally friendly slow-release fertilizers' project; total co-financing granted to Grupa Azoty Zakłady Azotowe Puławy S.A. was PLN 1.4m; as at September 30th 2020, no amount was yet disbursed under the agreement,
- agreement of September 29th 2020 for co-financing of the 'Environmentally friendly technology for the production of adipic acid through the oxidation of cyclohexanone' project; total co-financing granted to Grupa Azoty Zakłady Azotowe Puławy S.A. was PLN 1.7m; as at September 30th 2020, no amount was yet disbursed under the agreement.

In the third quarter of 2020, Grupa Azoty PUŁAWY's bank account was credited with grants totalling PLN 903.4 thousand, including:

- PLN 656.6 thousand under agreements with the National Centre for Research and Development, and
- PLN 246.8 thousand under the agreement with the Lublin Agency for the Support of Entrepreneurship.

### **Agreements concluded after the reporting date**

#### **Annex to Overdraft Facility Agreement with PKO BP**

On October 21st 2020, the Parent, together with other Grupa Azoty Group companies, and PKO Bank Polski S.A. executed Annex 17 to the overdraft facility agreement of October 1st 2010 (as amended), concerning exclusion of Grupa Azoty Folie Sp. z o.o. w likwidacji (in liquidation) from the Overdraft Facility Agreement.

#### **Annex 1 to Payments Servicing Agreement with Banco Santander S.A.**

On November 3rd 2020, the Parent, its Key Subsidiaries and COMPO EXPERT GmbH executed Annex 1 to the Payments Servicing Agreement with Banco Santander S.A. of December 14th 2018, as specified in the agreement amending and superseding the Payments Servicing Agreement of September 23rd 2019, with a maximum limit of EUR 122m, to transfer the servicing of four Key Companies of the Grupa Azoty Group, i.e. the Parent, Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN, to a Polish member of the Santander Group, i.e. Santander Factoring Sp. z o.o. The Parent submitted to Santander Factoring Sp. z o.o. a notarised declaration of voluntary submission to enforcement, under the Annex, for up to 120% of the financing limit, i.e. up to EUR 146.4m, while retaining the existing declaration of submission to enforcement, submitted to the previous factor, i.e. Banco Santander, with the proviso that both factors may not jointly pursue claims under the two declarations of submission to enforcement for an amount higher than 120% of the permitted financing limit.

### **3.3. Sureties for credit facilities or loans, guarantees issued**

In the third quarter of 2020, the Grupa Azoty Group did not issue, or execute annexes to, any guarantees with a significant aggregate value. The total amount of all guarantees issued by the Grupa Azoty Group companies in the reporting period amounted to PLN 2,979 thousand.



For information on the guarantees related to the Polimery Police project, see Note 3.4 to the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2020.

### **Letters of credit**

In the period from January 1st to September 30th 2020, on the instruction of Grupa Azoty Zakłady Azotowe Chorzów S.A., four documentary letters of credit were issued in favour of a supplier for a total amount of USD 309.1 thousand, with the following payment dates: September 30th 2020 and October 3rd 2020. As at September 30th 2020, the outstanding credit balance under the letters of credit was PLN 207.2 thousand.

### **Intragroup loans**

#### **Loan tranche disbursement**

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

- on July 27th 2020, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 14m, of the loan to finance projects implemented at the Fertilizers Production Unit, and a tranche of PLN 7m after the reporting date, on October 16th 2020;
- on July 31st 2020 the Parent disbursed to Grupa Azoty POLICE a PLN 51,420 thousand tranche under the loan for refinancing the PLN 90m loan agreement concluded on November 5th 2013 with the National Fund for Environmental Protection and Water Management (NFOŚiGW) to finance the 'Upgrade of ammonia synthesis process at Zakłady Chemiczne Police S.A.' project;
- on August 26th 2020, the Parent disbursed to Grupa Azoty POLICE a PLN 249,047 thousand tranche, and on October 9th 2020 - a PLN 48,953 thousand tranche under the loan to finance the Polimery Police project (PLN 298,000 thousand in total);
- on October 16th 2020, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 16m, of the loan to finance the 'Upgrade of the partial combustion unit at the Ammonia Department' project.

#### **Disbursement of loan tranches to Grupa Azoty POLYOLEFINS**

Under the PLN 344,464 thousand loan agreement concluded on May 31st 2020 between the Parent and Grupa Azoty POLYOLEFINS, the Parent disbursed to Grupa Azoty POLYOLEFINS:

- on August 4th 2020 - a tranche of PLN 18,430 thousand,
- on August 26th 2020 - a tranche of PLN 220,853 thousand, and
- on October 9th 2020 - a tranche of PLN 105,181 thousand.

Under the PLN 388,438 thousand loan agreement concluded on May 31st 2020 between Grupa Azoty POLICE and Grupa Azoty POLYOLEFINS, Grupa Azoty POLICE disbursed to Grupa Azoty POLYOLEFINS:

- on August 4th 2020 - a tranche of PLN 20,783 thousand,
- on August 26th 2020 - a tranche of PLN 249,047 thousand, and
- on October 9th 2020 - a tranche of PLN 118,608 thousand.

The above tranches were disbursed to cover expenditure on the Polimery Police project.

## **3.4. Shares and shareholding structure**

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

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

The total number of Parent shares is 99,195,484 bearer shares (ISIN code PLZATRM00012).

Below are listed shareholders holding directly, or indirectly through subsidiaries, at least 5% of total voting rights at the General Meeting as at the date of this Report, along with information on the number of shares held by such entities, their respective ownership interests, the number of voting rights held, and their share in total voting rights at the General Meeting.

**Shareholding structure as at November 10th 2020 (issue date of the most recent financial report)**

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

<sup>\*)</sup> Direct subsidiary of Norica Holding S.à r.l.

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

On November 10th 2020, the Management Board of the Parent received a notification from an attorney-in-fact Norica Holding S.à r.l. (Norica), acting on behalf of Mr Viatcheslav Kantor (hereinafter: Mr Kantor), Terasta Enterprises Ltd (hereinafter: Terasta), Redbrick Holding S.à r.l. (hereinafter: Redbrick Holding), Redbrick Investments S.à r.l. (hereinafter: Redbrick Investments), and JSC Acronagroservice (hereinafter: Acronagroservice).

According to the notification, as a result of an intragroup transaction involving transfer on November 5th 2020 by Redbrick Investments to Acronagroservice (a controlled entity, through subsidiaries: Terasta, Redbrick Holding and Redbrick Investment, through Mr Kantor) of a holding of shares in JSC Acron (hereinafter: Acron), Acronagroservice became the parent of Acron (the Transaction) and thus indirectly, through its subsidiaries Acron, TrustService Limited Liability Company (hereinafter: TrustService), Norica, Opansa Enterprises Limited (hereinafter: Opansa) and Rainbee Holdings Limited (hereinafter: Rainbee), acquired 19,657,350 shares in the Parent, representing approximately 19.8168% of all shares in the Parent and conferring 19,657,350 voting rights at the Parent's General Meeting, that is approximately 19.8168% of total voting rights at the Parent's General Meeting, resulting in its indirectly exceeding the threshold of 15% of total voting rights at the Parent's General Meeting.

The notification also specified that the Transaction was an intragroup transaction and thus Mr Kantor remained the parent of Terasta, Redbrick Holding, Redbrick Investments, Acronagroservice, Acron, TrustService, Norica, Opansa and Rainbee, thus continuing to indirectly hold 19,657,350 shares in the Parent, representing approximately 19.8168% of all its shares and conferring 19,657,350 voting rights (i.e. 19.8168% of total voting rights) at the Parent's General Meeting.

For details of the Transaction, see Current Report No. 49/2020, available on the Parent's website.

### **3.5. Parent shares held by management and supervisory personnel**

As at the end of the reporting period (September 30th 2020) and as at the date of this Report, none of the members of the Parent's Management and Supervisory Boards held any shares in the Parent.

### 3.6. Composition of the management and supervisory bodies

#### Parent's Management Board

In the third quarter of 2020, there were no changes in the composition of the Management Board. Composition of the Parent's Management Board as at September 30th 2020:

- 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 Kądziałowski - Vice President of the Management Board,
- Paweł Łapiński - Vice President of the Management Board,
- Artur Kopeć - Member of the Management Board.

At its meeting held on October 22nd 2020, the Company's Supervisory Board resolved to remove the following persons from the Management Board:

- Wojciech Wardacki - President of the Management Board,
- Paweł Łapiński - Vice President of the Management Board.

The Supervisory Board further resolved to appoint Mariusz Grab, previously serving as Vice President of the Management Board, as acting President of the Management Board until appointment to the position of a person selected through the opened recruitment procedure for Members of the Company's Management Board. The Supervisory Board's resolutions regarding changes on the Management Board took effect as of their dates.

On November 13th 2020, the Supervisory Board of the Parent appointed Tomasz Hinc, with effect from December 1st 2020, as Member of the Company's Management Board of the 11th term of office to serve in the position of President of the Management Board. Following the appointment of Tomasz Hinc to the Management Board to serve in the position of President of the Management Board, Mr Mariusz Grab will cease to serve in that capacity, with effect from November 30th 2020. The recruitment procedure to select another Member of the Parent's Management Board ended without resolution.

On November 13th 2020, the Supervisory Board of the Parent resolved to open another recruitment procedure to select a Management Board Member for the duration of the 11th term of office. As at the date of issue of this interim Report, the procedure was pending.

The Supervisory Board's resolutions concerning changes in the composition of the Company's Management Board became effective as of their dates.

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

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

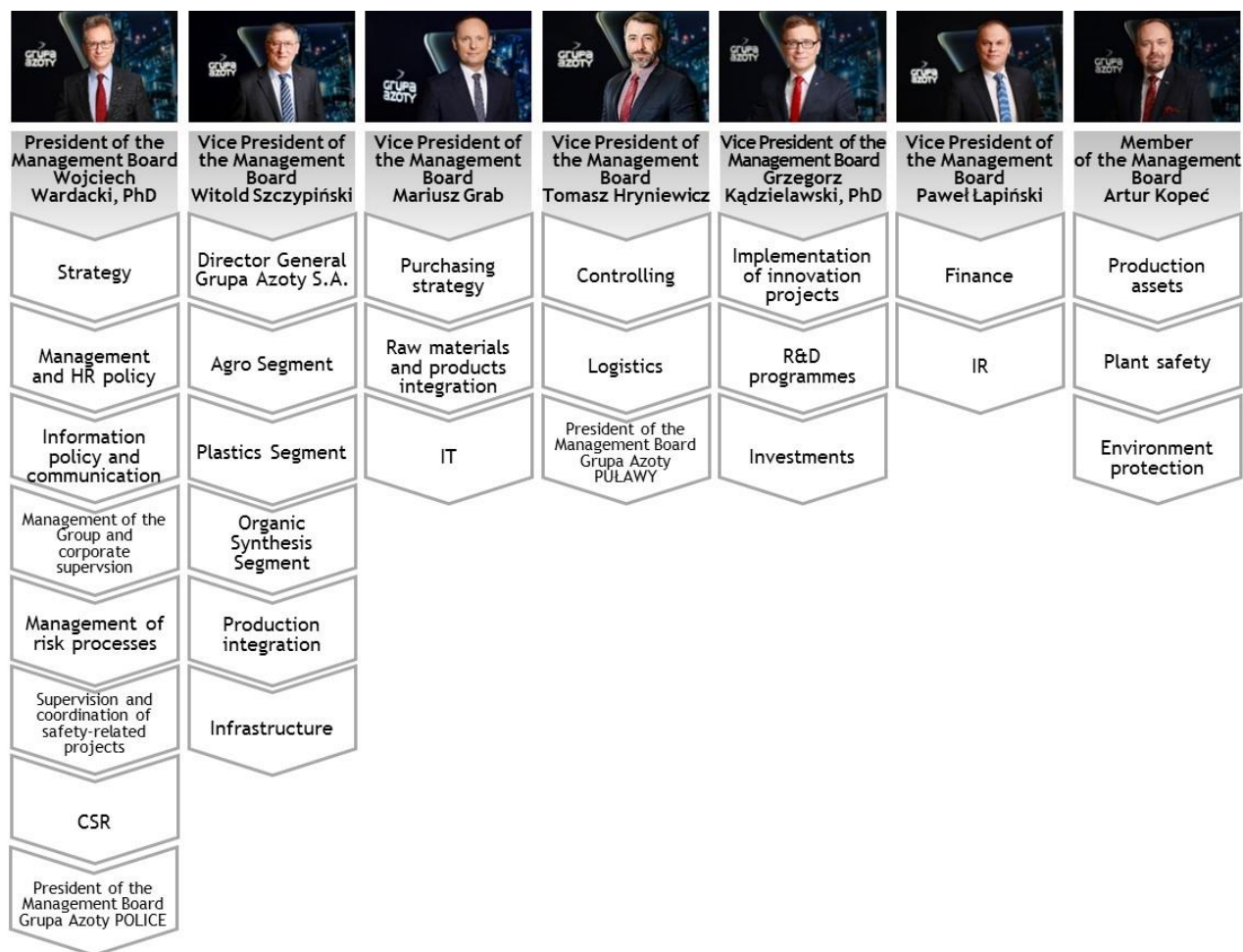
#### Powers and responsibilities of the Parent's Management Board and Supervisory Board members

On May 7th 2020, the Company's Management Board passed a resolution establishing the following division of responsibilities between the Management Board members:

- Wojciech Wardacki - President of the Management Board: directing the work of the Management Board, supervising and managing the Group, in charge of the strategy and supervision of strategic processes, corporate governance, including owner's supervision, HR policy, information policy, communication and corporate image (including public relations and CSR), representing the Parent in relations with its shareholders, governing bodies, the government and local authorities;
- Witold Szczypiński - Vice President of the Management Board, Director General of the Parent: integration of production processes, supervising the Agro Segment, the Plastics Segment, and the infrastructure;
- Mariusz Grab - Vice President of the Management Board: procurement, raw materials and IT;
- Tomasz Hryniewicz - Vice President of the Management Board: management control and logistics;
- Grzegorz Kądziałowski - Vice President the Management Board: innovation, R&D programmes, and investments;
- Paweł Łapiński - Vice President of the Management Board: finance and investor relations;

- Artur Kopeć - Member of the Management Board: production assets, plant safety and environmental protection.

#### Division of responsibilities between the Management Board members as at September 30th 2020



Source: Company data.

On October 28th 2020, the Company's Management Board passed a resolution establishing the following division of responsibilities between the Management Board members:

- Mariusz Grab - President of the Management Board: directing the work of the Management Board, supervising and managing the Group, in charge of the strategy and supervision of strategic processes, corporate governance, including owner's supervision, HR policy, information policy, communication and corporate image (including public relations and CSR), procurement, raw materials and IT, representing the Parent in relations with its shareholders, governing bodies, the government and local authorities;
- Witold Szczypiński - Vice President of the Management Board, Director General of the Parent: integration of production processes, supervising the Agro Segment, the Plastics Segment, and the infrastructure;
- Tomasz Hryniewicz - Vice President of the Management Board: logistics, management control, finance and investor relations;
- Grzegorz Kądzielawski - Vice President the Management Board: innovation, R&D programmes, and investments;
- Artur Kopeć - Member of the Management Board: production assets, plant safety and environmental protection.

#### The Supervisory Board

As at January 1st 2020, the Supervisory 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.

On June 29th 2020, pursuant to resolutions of the Company's Annual General Meeting, the following persons were appointed as members to the Company's Supervisory Board of the 11th joint term of office:

- Marcin Pawlicki - Chairman of the Supervisory Board,
- Monika Fill - Member of the Supervisory Board,
- Robert Kapka - Member of the Supervisory Board,
- Wojciech Krysztofik - Member of the Supervisory Board,
- Bartłomiej Litwińczuk - Member of the Supervisory Board,
- Michał Maziarka - Member of the Supervisory Board,
- Zbigniew Paprocki - Member of the Supervisory Board,
- Roman Romaniszyn - Member of the Supervisory Board.

On July 23rd 2020, the Supervisory Board appointed Wojciech Krysztofik as Deputy Chairman and Zbigniew Paprocki as Secretary of the Company's Supervisory Board of the 11th term of office.

On the same day, the Supervisory Board passed resolutions on the assessment of independence of the Supervisory Board members. In the opinion of the Supervisory Board, the independence criteria specified in principle II.Z.6 of the 'Best Practice for WSE Listed Companies 2016' ("Code of Best Practice") in conjunction with Art. 32.1.21 of the Company's Articles of Association, taking into account principle II.Z.3, principle II.Z.4 and principle II.Z.10.2. of the Code of Best Practice as well as the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), together with the independence criteria set out in Annex II thereto, are met by:

- Marcin Pawlicki,
- Monika Fill,
- Michał Maziarka.

The Supervisory Board operates on the basis of:

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

#### **Supervisory Board's Audit Committee**

To streamline its work and improve control of the Parent and the Group, on July 4th 2013 the Supervisory Board passed a resolution to appoint an Audit Committee.

Following the appointment of new persons to the Supervisory Board of the 11th joint term of office, which took place on June 29th 2020 by resolutions of the Company's Annual General Meeting, the composition of the Audit Committee was changed.

Composition of the Audit Committee as at July 23rd 2020:

- Marcin Pawlicki - Chair,
- Zbigniew Paprocki - Member,
- Michał Maziarka - Member.

By the date of this Report, the composition of the Audit Committee did not change.

#### **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**

Within the Supervisory Board, a Strategy and Development Committee and a Nomination and Remuneration Committee were established.

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

- Robert Kapka - Chair,
- Zbigniew Paprocki - Member,
- Wojciech Krysztofik - Member.

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

- Michał Maziarka - Chair,
- Wojciech Krysztofik - Member,
- Roman Romaniszyn - Member.

#### **Remuneration policy for the Parent's management and supervisory bodies**

On August 20th 2020, the Extraordinary General Meeting of the Parent passed a resolution to adopt the Remuneration Policy for members of the Management Board and Supervisory Board of Grupa Azoty S.A. The remuneration policy defines the rules and terms of remuneration for members of the Management Board and Supervisory Board of Grupa Azoty S.A. within the meaning of the Act on Rules of Remunerating Persons Directing Certain Companies of June 9th 2016, as well as the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (consolidated text: Dz.U. of 2019, item 623, as amended). Implementation of this Policy supports and ensures the implementation of the Company's business strategy, pursuit of the Company's long-term interests, stability and growth of the Company and increase in its value.

## 4. Supplementary information

### Management Board's position on the achievement of forecasts

As no forecasts for 2020 were published, the position of the Parent's Management Board concerning achievement of such forecasts is not presented.

### Litigation

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

### Parent's branches

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

### Shares, share issues

In the third quarter of 2020, the Parent did not issue, redeem or repay any debt or equity securities. The Company had spent the proceeds from Public Offerings by the end of 2013. The proceeds were used in line with the original issue objectives.

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

The Company does not operate any employee share ownership plan.

### Signatures of the Management Board

.....  
Mariusz Grab

*President of the Management Board*

.....  
Witold Szczypiński

*Vice President of the Management Board,  
Director General*

.....  
Tomasz Hryniewicz

*Vice President of the Management Board*

.....  
Grzegorz Kądziałowski, PhD

*Vice President of the Management Board*

.....  
Artur Kopec

*Member of the Management Board*

### Person responsible for maintaining accounting records

*Signed with qualified electronic signature*

.....  
Piotr Kołodziej

*Head of the Corporate Finance  
Department*

Tarnów, November 18th 2020