



Directors' Report
on the operations of the Grupa Azoty Group
in the first half of 2021

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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 June 30th 2021, the Grupa Azoty Group (the "Group") comprised: Grupa Azoty S.A. (the Parent) and nine direct subsidiaries together with companies 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 Zakłady Azotowe Puławy Spółka Akcyjna

The company's registered office is located in Puławy.

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

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna

The company's registered office is located in Police.

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

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna

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

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

COMPO EXPERT Holding GmbH

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

COMPO EXPERT Holding GmbH ("COMPO EXPERT") 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.

Grupa Azoty ATT Polymers GmbH ("Grupa Azoty ATT POLYMERS") manufactures polyamide 6 (PA6).

Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

The services of Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty PKCh") encompass comprehensive design support for investment projects in the chemical industry – from study and concept work to engineering design, building permit design and

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

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty KOLTAR") is a nationwide provider of railway services. It is one of the few organisations in Poland to hold licences required to perform comprehensive repairs of rail car chassis and tank cars used in the transport of dangerous materials (according to RID).

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna

The company's registered office is located in Grzybów.

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

Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością

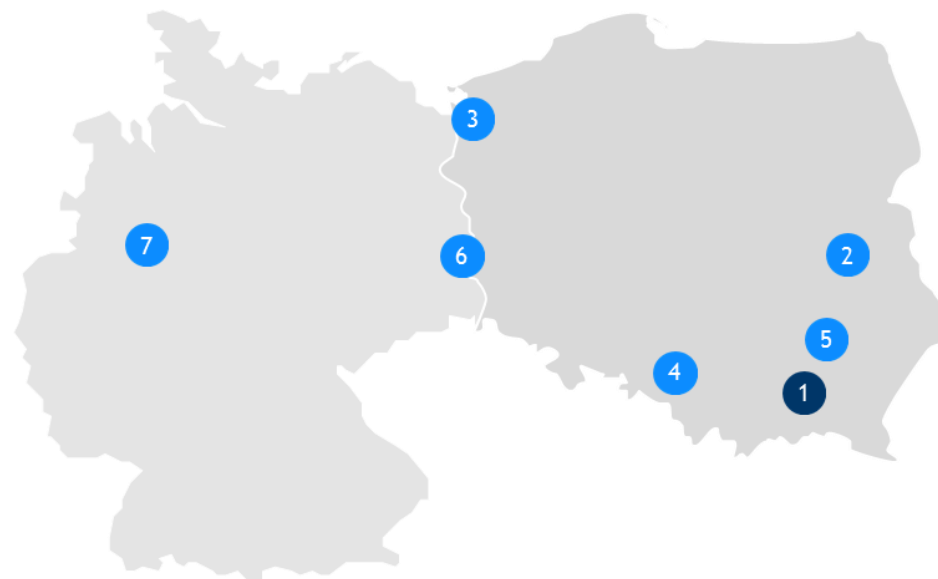
The company's registered office is located in Tarnów.

The business model of Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty COMPOUNDING") 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.

Parent's equity interests in the subsidiaries as at June 30th 2021

<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	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
Grupa Azoty COMPOUNDING	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 72,007,700	100.00
Grupa Azoty SIARKOPOL	Grzybów 28-200 Staszów	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 p.o. box 163 47-220 Kędzierzyn-Koźle, Poland	PLN 285,064,300	93.48
Grupa Azoty PKCH	ul. 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	ul. Kwiatkowskiego 8 33-101 Tarnów, Poland	PLN 54,600,000	60.00

The Parent and its subsidiaries as at June 30th 2021



1	Parent
	Grupa Azoty 100%
	Grupa Azoty PKCh 63.27%
	Grupa Azoty KOLTAR 60%

2	Grupa Azoty PULAWY 95.98%
3	Grupa Azoty POLICE 62.86%
4	Grupa Azoty KĘDZIERZYN 93.48%

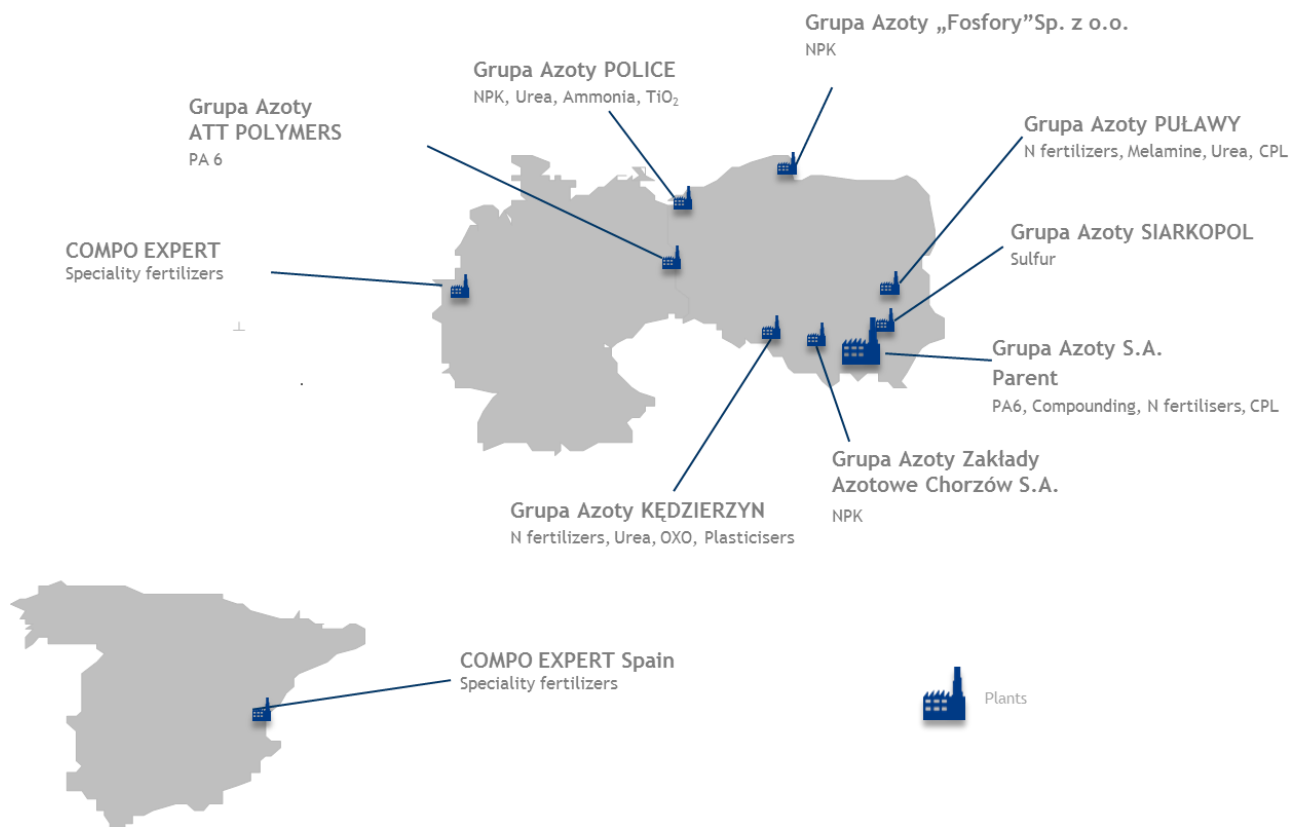
5	Grupa Azoty SIARKOPOL 99.56%
6	Grupa Azoty ATT POLYMERS 100%
7	COMPO EXPERT 100%

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 in Tarnów (Parent), Puławy, Kędzierzyn, Police, Gdańsk, Chorzów, as well as Germany and Spain. The Group is Poland's largest and European Union's second largest manufacturer of mineral fertilizers.

Plastics

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

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

Chemicals

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

They are manufactured in Kędzierzyn, Puławy, Police, and Grzybów. The Grupa Azoty Group is the third largest manufacturer of melamine in the EU. The Group is Poland's only producer of OXO alcohols and plasticizers. It is EU's No. 4 producer of OXO alcohols and No. 5 producer of plasticizers. The Group is Poland's only producer of titanium white.

Energy

The segment operates mostly for the needs of the Group's production facilities. Some of the electricity and heat produced by the Energy segment is sold locally, to customers in the immediate vicinity of the Grupa Azoty Group companies, which operate their own electricity and energy carrier distribution networks.

Other Activities

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

1.3. Overview of key products

AGRO FERTILIZERS

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

Nitrogen fertilizers

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

Urea

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

The Group's portfolio also includes Pulrea[®] +INu, i.e. urea with an addition of urease inhibitor (NBPT), which increases the absorption of nitrogen from the fertilizer. The fertiliser is a stable source of nitrogen for plants.

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

Nitrate fertilizers

- Ammonium nitrate is a nitrogen fertilizer which is easily dissolved in water, Containing between 30% and 34% nitrogen. The Group offers this product in a wide variety of granule forms and sizes, such as mechanically granulated ZAKsan[®], with excellent sowing properties; the PULAN[®] beaded ammonium nitrate,
- Calcium ammonium nitrate (CAN) is a nitrogen fertilizer with a nitrogen content of up to 27%. It is a universal fertilizer, suitable for all types of soil, well soluble and easily absorbed by crops. The Group markets CAN in a number of granule varieties; the offering includes the granulated Salmag[®] fertilizers (including varieties with a sulfur or boron content), and bead fertilizers such as Saletrzak 27 (CAN 27) standard and Saletrzak 27 with boron.

- Urea-ammonium nitrate solution (UAN - RSM®) is a liquid nitrogen fertilizer coming in three varieties: with 32%, 30% and 28% nitrogen content. Thanks to its form, UAN-RSM® is easily absorbed by plants. It is also produced with an admixture of sulfur, as UAN-RSM®S.

Nitrogen-sulfur fertilizers

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

- PULGRAN®S - urea-ammonium sulfate, is a nitrogen fertilizer with sulfur in the form of white hemispherical pastilles, obtained by blending urea and ammonium sulfate. It is manufactured in two varieties with various contents: 37% nitrogen/21% sulfur and 33% nitrogen/31% sulfur.
- Saletrosan®, or ammonium sulfate nitrate, is a nitrogen fertilizer with sulfur, obtained by blending ammonium nitrate and ammonium sulfate. Saletrosan® 26 contains 26% nitrogen and 13% sulfur. The product may also include small amounts of iron and magnesium - Saletrosan® 26 Plus, and boron - Saletrosan® 26 with boron. Saletrosan® 30 has different proportions of main components: 30% nitrogen and 6% sulfur. A new product offered in the same product group is Saletromag®, containing 25% nitrogen, 7% sulfur and 6% total magnesium oxide. The product contains small amounts of iron which increase the fertilizer's resistance to high temperatures.
- Polifoska® 21 is a nitrogen fertilizer with sulfur, a mixture of ammonium sulfate-urea 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 Azoplone Nutri, Azoplone Opti, Fertiplone, Blaukorn®, NovaTec®, Hakaphos®, Basfoliar®, Easygreen®, DuraTec®, Basacote®, Floranid®Twin.

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 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

An organic chemical compound and an intermediate product used for the manufacture of polyamide 6. 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: OXO ALCOHOLS 2-ethylhexanol (2-EH) and butanols (n-butanol, isobutanol). The key product in this group is 2-EH.

2-ethylhexanol (2-EH) is used in the manufacture of plasticizers, paints and varnishes as well as in the textile industry and oil refining processes. It 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, low migration, and 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 PVC processing, Adoflex® is also recommended as a solvent for the cosmetics industry, for use in nitrocellulose and synthetic rubber plasticisation, and in the manufacturing of lacquers.

Sulfur

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

Melamine

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

SOURCES OF STRATEGIC RAW MATERIALS

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

Ammonia

The procurement strategy is based primarily on the optimisation of intragroup supplies. Intragroup supplies are transacted on arm's length terms. The Grupa Azoty Group is the largest ammonia manufacturer in Poland and 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 2021, 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 Grupa Azoty 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. 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, 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 Grupa Azoty 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 - a price benchmark for coal delivered at the ports of Amsterdam, Rotterdam and Antwerp).

On the domestic market, the prices of pulverised coal used in power generation are not directly linked to ARA prices, 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

Exchange rates

Among the favourable developments and factors with effect on the Grupa Azoty Group's financial performance in the first half of 2021 were approval of further COVID-19 vaccines and progress in their application, the gradual easing of pandemic restrictions, and the economic growth observed in Poland and most global markets. However, the extension of expected time needed to achieve population immunity and the prospects of another wave of the pandemic gave rise to an increased volatility of the PLN/EUR and PLN/USD exchange rates which continued until mid-year, and caused changes both in market sentiment and the EUR/USD exchange rate.

Over the first half of 2021, the zloty appreciated relative to the euro by approximately 2% and depreciated relative to the US dollar by 1.2% versus the respective levels recorded as at December 31st 2020. The average PLN/EUR exchange rate in the first half of 2021 fell by approximately 1.5% on the second half of 2020, while the average PLN/USD exchange rate rose by about 0.6%.

As the combined movements in the average PLN/EUR and PLN/USD exchange rates at the end of the half-year periods were limited and contrary, and partly cancelled out each other, they did not significantly affect the Group's performance in the first six months of 2021 with regard to the Group's exposure in EUR and USD.

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 foreign currency receivables, and currency forwards entered into on a rolling basis to cover up to 80% of the net currency exposure with time horizons of up to 6 months, 50% of the net currency exposure with time horizons between 6 and 12 months, and 25% of the remaining currency exposure with time horizons between 12 and 24 months.

The Group has a physical EUR cash pooling structure in place that 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 six months ended June 30th 2021, the Grupa Azoty Group entered into FX forward contracts for the sale of EUR and USD, executed in the periods of depreciation of PLN, to supplement hedges in line with its planned exposure in both currencies.

The Group's (excluding Grupa Azoty POLYOLEFINS) net result on hedging transactions settled in the first half of 2021 was PLN -74.5 thousand. The result on remeasurement of hedging instruments was positive at PLN +8,852 thousand due to depreciation of EUR against PLN in the second quarter of 2021. The overall net result of the Grupa Azoty Group (excluding Grupa Azoty POLYOLEFINS) on the settlement of hedging transactions and remeasurement of hedging instruments in the six months ended June 30th 2021 was positive at PLN 8,777 thousand.

In the six months ended June 30th 2021, Grupa Azoty POLYOLEFINS entered into FX forward contracts to buy EUR for USD and PLN for USD to hedge the expected expenditure in EUR and PLN under contractual payments for the Polimery Police project, to be covered from disbursements under the term facility. The FX forwards were the target security required under the credit facilities agreement. They are a continuation of the temporary security executed in 2020.

As at June 30th 2021, Grupa Azoty POLYOLEFINS had the following open contracts:

- FX forward to buy approximately EUR 227m for USD (hedging expenditure planned to be covered with proceeds from the term facility made available under the credit facilities agreement in USD),
- FX forward to buy approximately PLN 213m for USD (hedging expenditure planned to be covered with proceeds from the term facility made available under the credit facilities agreement in USD).

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

As at June 30th 2021, the total result on the measurement of open FX forwards executed by Grupa Azoty POLYOLEFINS was PLN -41,249 thousand, including PLN -7,370 thousand attributable to the measurement of transactions designated as hedges for accounting purposes.

Grupa Azoty POLYOLEFINS' interest rate risk

In the six months ended June 30th 2021, Grupa Azoty POLYOLEFINS entered into IRSs with a zero floor whereby positive values of EURIBOR and USD LIBOR are exchanged for a fixed interest rate. The contracts hedge the planned interest expense on the term facility made available under the Credit Facilities Agreement. They constitute security required under the credit facilities agreement.

As at June 30th 2021, Grupa Azoty POLYOLEFINS had the following open contracts:

- IRS with a zero floor on EURIBOR for a maximum notional amount of approximately EUR 370m (the notional amounts increase as drawdowns are made and are then amortised in accordance with Grupa Azoty POLYOLEFINS' expectations regarding the repayment of the term facility under the credit facilities agreement in EUR),
- IRS with a zero floor on USD LIBOR for a maximum notional amount of approximately USD 408m (the notional amounts increase as drawdowns are made and are then amortised in accordance with Grupa Azoty POLYOLEFINS' expectations regarding the repayment of the term facility under the credit facilities agreement in USD).

The transactions hedging interest rate risk have been fully designated for the purpose of cash flow hedge accounting.

As at June 30th 2021, Grupa Azoty POLYOLEFINS' portfolio included open IRS contracts with a zero floor measured at PLN -26,189 thousand.

Grupa Azoty POLYOLEFINS's exposure to commodity risk

In the six months ended June 30th 2021, Grupa Azoty POLYOLEFINS entered into commodity swaps hedging purchase prices of precious metals (platinum and palladium).

All commodity risk hedging transactions held by Grupa Azoty POLYOLEFINS were settled in the three months ended March 31st 2021.

Commodity hedging transactions were fully designated for the purpose of cash flow hedge accounting.

Foreign currency derivatives and hedge accounting

As at June 30th 2021, the notional amount of Grupa Azoty Group's unrealised foreign currency derivatives (FX Forward) was EUR 66.5m (maturing in the second half of 2021 and in 2022) and EUR 5m under options, maturing in the period July to December 2021, entered into by Grupa Azoty POLICE. The total value of the Grupa Azoty Group's open currency derivatives amounted to EUR 71.5m.

In addition, Grupa Azoty POLICE held open currency derivatives (FX forwards) to exchange EUR 3m for USD, to be settled in the third quarter of 2021.

In the case of USD, the notional amount of Grupa Azoty Group's unrealised FX forwards was USD 8m (with maturities until the end of 2021).

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

Hedge accounting

The Grupa Azoty Group applies cash flow hedge accounting. The hedged item are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from July 2021 to September 2028. The hedging covers currency risk. The hedge are two euro-denominated credit facilities of:

- EUR 72,648 thousand as at June 30th 2021 (December 31st 2020: EUR 81,729 thousand), 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 June 30th 2021 (December 31st 2020: EUR 100,000 thousand), repayable from September 2021 to September 2028 in 15 equal half-yearly instalments of EUR 6,666 thousand each.

As at June 30th 2021, the carrying amount of both these credit facilities was PLN 780,112 thousand (December 31st 2020: PLN 838,187 thousand). As at June 30th 2021, the hedging reserve included PLN -39,725 thousand (December 31st 2020: PLN -58,626 thousand) on account of the effective hedge. In the first half of 2021, the Group reclassified PLN 1,799 thousand from other comprehensive income to the statement of profit or loss in connection with the settlement of a hedging relationship with respect to payment of currency loan instalments against proceeds from sales in the euro.

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

As at June 30th 2021, the cash flow hedge reserve included PLN -7,370 thousand (December 31st 2020: no transactions designated for hedge accounting), PLN 18 thousand under settled foreign exchange hedging transactions for which the hedged item has not yet been realised, and PLN -25,704 thousand as a result of measurement of interest rate risk hedging transactions.

Prices of CO₂ emission allowances

In the six months ended June 30th 2021, prices of CO₂ emission allowances on the exchange market followed a strong upward trend. The current price surge began at the end of October 2020, starting from EUR 23 per tonne. At the end of the reporting period, EUA prices amounted to an all-time high of EUR 57 per tonne. The strength of the upward trend is demonstrated by the fact that no significant downward correction took place in the market in the last eight months. In addition, the last two months saw an increase in market volatility. The growth rate came as a surprise to analysts and market participants. The prices of emission allowances are now far above forecasts for the current year. Both the upward trend and greater market volatility should prevail in the second half of the year.

The more ambitious CO₂ emission reduction targets approved at the end of 2020 to cut emissions in the EU by at least 55% by 2030, as well as the new package of EU ETS reform regulations announced in mid-July 2021 were the direct fundamental impulses for the growth trend to accelerate. The prices of emission allowances are forecast to continue growing over the next few years,

driving a speculative bubble on the market. The high prices of emission allowances are supported by growths in other energy commodity markets and equity markets, as well as the presence of large speculative capital betting on further price hikes. A solid downward adjustment is likely to occur only after the global investment sentiments deteriorate permanently.

In the six months to June 30th 2021, allowances for this year and for 2022-2023 were purchased by the Grupa Azoty Group companies based on the joint management model for CO₂ emission allowances and an approved procurement plan.

As at the end of the six months to June 30th 2021, the Group companies' requirement for EUAs for 2021 was largely covered, while the requirement for 2022-2023 was covered in part.

Free allocation of CO₂ emission allowances

By June 30th 2021, no free CO₂ emission allowances due to the Group for 2021 were credited to the EU ETS installation accounts. After the reporting date, on July 7th 2021, the Ministry of Climate and Environment published a list of installations together with an annual number of emission allowances allocated for 2021-2025. The list contains expected free allocations of CO₂ emission allowances to eligible companies of the Grupa Azoty Group. The final size of the free allocation of CO₂ emission allowances for individual installations will be adjusted on the basis of the average production volume in the two years preceding the year for which the emission allowances will be allocated. In the first half of 2021, the Grupa Azoty Group companies submitted to the National Centre for Emissions Balancing and Management reports on actual emissions from their respective installations in 2019-2020, specifying the requested allocation for 2021-2025. The information contained in these reports will be the basis for adjusting free allocations of CO₂ emission allowances to the maximum level defined for each eligible installation in the published list referred to above. In view of the above, the expected allocation of free CO₂ emission allowances for 2021 was determined in accordance with the applications submitted.

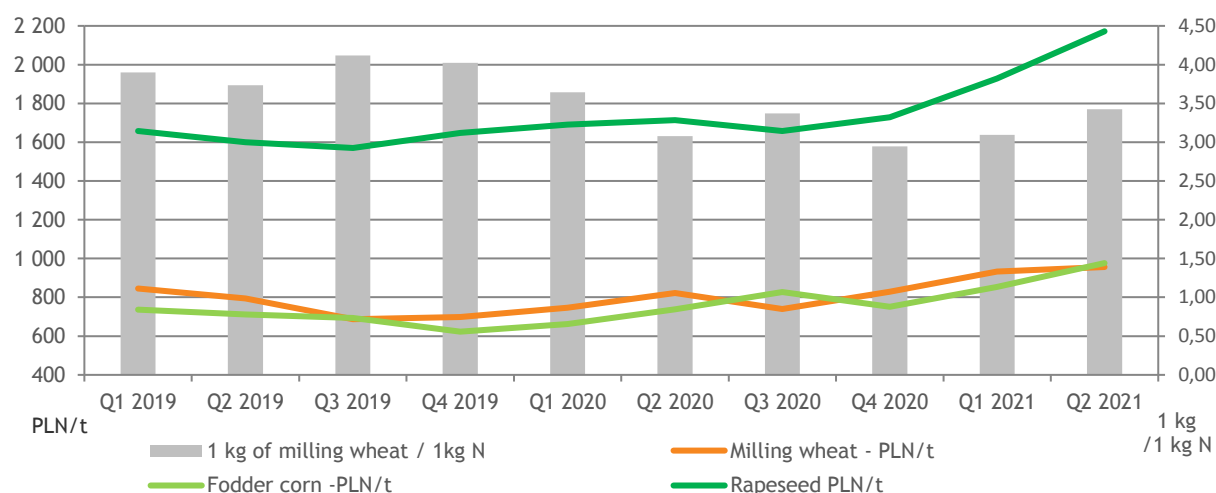
2.2. Market overview

AGRO FERTILIZERS

Economic conditions in agriculture

The condition of the Polish agricultural sector in the six months ended June 30th 2021 improved to some extent, driven by record-high prices of agricultural produce and high rates of disbursements for 2020 under the direct payments system. In the reporting period, the average price of milling wheat stood at PLN 944 per tonne, up 20% year on year. The prices of maize and rapeseed were also high, at PLN 915 and PLN 2,050 per tonne (up 31% and 20% year on year), respectively. The current agricultural produce forecasts for 2021 predict that the prices will be generally higher than in 2020. The key factor will be the actual outcome of this year's harvest, both in Poland and in the European Union as a whole. According to Stratégie Grains forecasts for Poland for the 2021/2022 season, the yields may be slightly lower but will not differ materially from the average volumes harvested in previous years. The forecasts put yields of wheat at 11.66 million tonnes (down 3% year on year) and barley at 3.67 million tonnes (down 4% year on year). Maize is an exception here, as its production is expected to grow by 5%, to 4.7 million tonnes. The situation in the EU is largely different, with a year-on-year increase of 6% in grain production projected for the 2021/2022 season, to 293.7 million tonnes (up 16.7 million tonnes). The condition of crops in Poland in the first half of 2021 is viewed as relatively good, despite the sometimes dynamic development of weather conditions in winter and prolonged colder weather in spring, slowing down vegetation (April/May). The situation did not deteriorate because of rainfall shortage, either (especially in the second half of June) as the water balance of soil was still favourable and the drought did not cause any significant crop losses.

Prices of wheat, maize and rapeseed



Source: Ministry of Agriculture and Rural Development.

The table below presents the average prices of wheat, maize and rapeseed in the first half of 2021 relative to the first half of 2020:

Average prices of wheat, maize and rapeseed

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	PLN/t	PLN/t	%	PLN/t	PLN/t	PLN/t
Milling wheat	784	944	20	962	905	966
Maize	700	915	31	1,022	809	1,022
Rapeseed	1,702	2,050	20	2,229	1,830	2,229

Source: In-house analysis based on external data.

The prospect of prices of agricultural produce remaining relatively high in the second half of 2021 and forecasts of good grain yields in Poland give reasons to believe that the economic condition of the Polish agricultural sector will improve. Direct payments for 2021 will be an additional supporting factor. As the EUR/PLN exchange rate continues to be relatively high, the value of direct payments in the long term may be similar to the amount disbursed in 2020.

The prices of agricultural produce in the third quarter are likely to reach their lowest in the year, which is typical of this period, mainly on account of a seasonal increase in the supply of grains from the current harvest season. Further price developments will depend on the results of this year's harvest both in Poland and abroad. All in all, the prices of agricultural produce in 2021 are expected to grow year on year.

Today, crops in Poland are viewed as relatively healthy despite the rainfall shortage in June 2021. To date, there have been no reports of any significant crop losses caused by drought. Due to the nature of agricultural production, the third quarter may bring sudden changes in weather conditions, leading to crop losses. Prolonged rainfall, especially in July and August, may be another important factor with a negative impact on crop quality and prices. The end of the third and beginning of the fourth quarter of 2021, when after the end of the harvest season farmers start sowing winter crops, will also be important in terms of agricultural production.

The condition of crops in Western Europe is slightly worse. In view of the extreme weather phenomena (floods and inundations) reported in the region (Austria, Belgium and Germany) in mid-July, a decline in grain yields across the EU may be forecast, leading to higher grain prices in the following months. The above developments are also expected to have a negative impact on the overall economic condition of the region's agricultural sector, reducing fertilizer consumption in autumn (looking for savings in agricultural production as a result of losses sustained by the agricultural sector due to floods). The situation keeps changing.

The relatively favourable forecasts of grain yields coupled with the prospect of maintaining high prices of agricultural produce give reasons to believe that the economic condition of Poland's agricultural sector will improve in the second half of 2021. The expected high amount of direct payments, which in 2020 amounted to PLN 15.5bn, will also play a part here. This may be supported in the long term by the persistently high EUR/PLN exchange rate. The final amount of direct payments will be set at the exchange rate effective as at September 30th 2021, and the start of disbursements is scheduled for December 1st 2021. As yet no announcements have been made that disbursements would start early (October 2021), in the form of advance payments, as was the case in previous years.

Market of nitrogen fertilizers

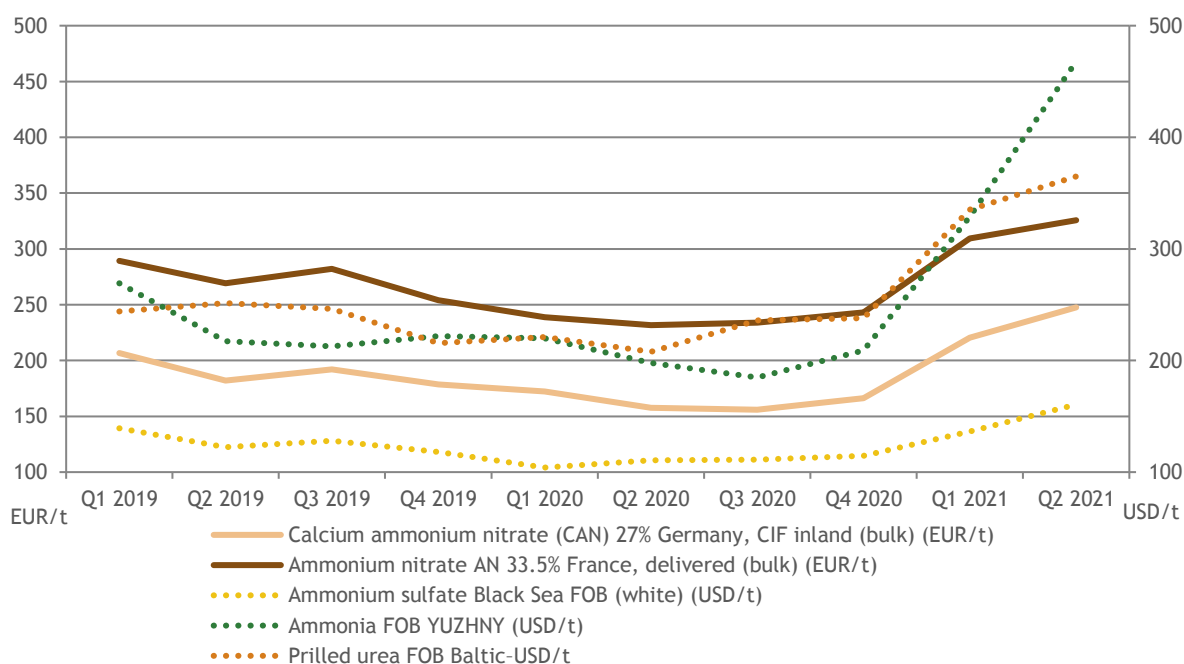
In the six months ended June 30th 2021, the prices of nitrate fertilizers and UAN were much higher than in the corresponding period of the previous year. The average price of ammonium nitrate in France reached EUR 317 per tonne, having increased year on year by as much as 35%. In Germany, the average price of CAN reached EUR 234/tonne CIF Inland, having risen in the first six months of 2021 by 42% year on year, chiefly on the back of high prices of natural gas, which had an effect on production costs. Another important factor here was the pricing policies adopted by the largest market players, who consistently (even several times within a month) increased the prices of their products. Demand for nitrogen fertilizers in Poland in the six months ended June 30th 2021 was characterised by periodic dynamic changes due to the weather conditions and the legislative constraints. On a year-on-year basis, the demand is estimated to have grown slightly, driven by the relatively good condition of winter crops, which encouraged the agricultural sector to increase spending on agricultural production, and by the sector's improved purchasing power resulting from higher crop prices and high levels of direct payment disbursements. It is expected that the distribution of demand in the second half of 2021 will depend strongly on this year's yields and weather conditions, which determine the timing of fertilization treatments in autumn. Contrary to the previous years (spring droughts), the current market situation indicates that consumption of nitrogen fertilizers in 2021 may increase year on year.

In the first half of 2021, urea prices were much higher year on year. The average price of urea went up by 63%, to USD 350/tonne FOB Baltic. The key development on the fertilizer markets in Europe was an increase in urea prices across international markets. It had been expected that urea purchases for the 2021 spring season would be made in Europe in October 2020, but the situation continued to deteriorate in the fourth quarter of 2020 due to market uncertainties and huge demand from a large importer, i.e. India. As a result, an upward price trend continued. In the case of urea volumes from Egypt with delivery dates falling in March the prices rose by 15%, mainly on the European market. The growing prices of energy and the general sharp rise in demand for fertilizers and raw materials also contributed to the price growth. The activity of players on the international market in early February was assessed as high. It was supported by strong demand, limited supply, high production levels, and the cost of gas. Freight rates were high in March, posing an obstacle to shipments from producers, especially in the Baltic Sea region. It was not until the end of March that the freight rates started to go down, for the first time in many months, which could facilitate contracting shipments by the producers. India's inability to purchase the required volume triggered price hikes globally. From the beginning of the year, India announced three urea purchase tenders, and each time the volumes it purchased were below its expectations (i.e. less than 1 million tonnes). Since the beginning of the year, India bought 2.1 million tonnes of urea. The availability of Chinese exports was limited by internal demand. China's domestic market was active, with prices going up so much for the better part of June that the government sought ways to stabilise them. Unlike in China, the Egyptian government placed constraints on urea exports on local market players to secure appropriate volumes on the internal market given the expected drop in the product's availability. In late June, the absence of exports from China, Egypt and other major centres continued to affect the price of urea, as did the rising costs of energy and production. Moreover, CFR Tampa prices reached the maximum of December 2014.

In Europe, the beginning of 2021 brought further growth in urea prices, which was mainly driven by strong demand, growing gas prices, and shortages of the product. As demand decelerated in the middle of the first quarter, urea prices stabilised and began to gradually decline. According to some reports, low temperatures in north-western Europe were a key factor contributing to falling demand. Since May, demand for urea in Europe has been gradually on the rise (mainly from the chemical sector). The end of the first half of the year saw a gradual increase in urea prices, driven mainly by high costs of gas and production, limited availability of ammonia and India's continuing high demand for urea. Egypt and China, focusing on their internal markets, also contributed to reducing the availability of the product. Buyers in Southern Europe were discouraged by the high price of urea.

In the first six months of 2021, both ammonia and urea prices rose significantly year on year. The average FOB Yuzhny price of ammonia increased by 91%. In early January, the international ammonia market saw increased trading activity, with most of the transactions originating from a major global trader, who was very active on both sides of the Suez Canal. With time, the price of ammonia began to be determined based on the value of the monthly contract between the European and the US manufacturers. Strong demand from optimistic fertilizer and chemical manufacturers, coupled with unplanned cuts in production capacities at key units, meant that traders and buyers had to factor in high volume-related premiums on the spot market.

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



Source: In-house analysis based on external data.

Average prices of nitrogen fertilizers

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
CAN 27% Germany CIF inland (bulk)	165	234	42	244	198	252
AN 33.5% France, delivered (bulk)	235	317	35	330	275	342
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ammonia (FOB Yuzhny)	209	398	91	508	250	508
Urea (FOB Baltic)	214	350	63	414	298	414
AS (Black Sea FOB white)	107	149	38	165	113	165

Source: In-house analysis based on external data.

The third quarter is a period of seasonal decline in demand for nitrogen fertilizers due to the harvest season. Purchasing activity usually picks up in late August/early September, when the agricultural

market starts buying fertilizers for autumn applications. Key factors here will include weather conditions, determining when particular agricultural treatments (fertilizer application/winter grain sowing) are performed, the outcome of this year's harvest, and the prices of agricultural produce, determining the purchasing power of Poland's agricultural sector.

Based on current market reports on price paths for the coming months, announced by the largest market players, it can be concluded that prices of nitrogen fertilizers in the second half of 2021 will grow at a moderate pace. Developments in the ammonia and urea segments and commodity markets, mainly movements in natural gas prices, which in 2021 have been soaring to all-time highs, will be crucial in this respect. Other important factors include pricing policies of the largest market players and the unpredictable spread of the COVID-19 virus (and its subsequent mutations), which so far has not had a significant impact on a broadly defined fertilizer market.

Market of compound fertilizers

Since January 2021, prices of NPK 3x16 (FOB Baltic) followed a constant upward trend, albeit at a varied rate. The lowest month-on-month growth was recorded in April and the largest in June, when the price of the same product was about 47% higher than in January. In the first half of 2021, the average price of compound fertilizers (3x16 FOB Baltic) was USD 317 per tonne, having increased by 37% year on year.

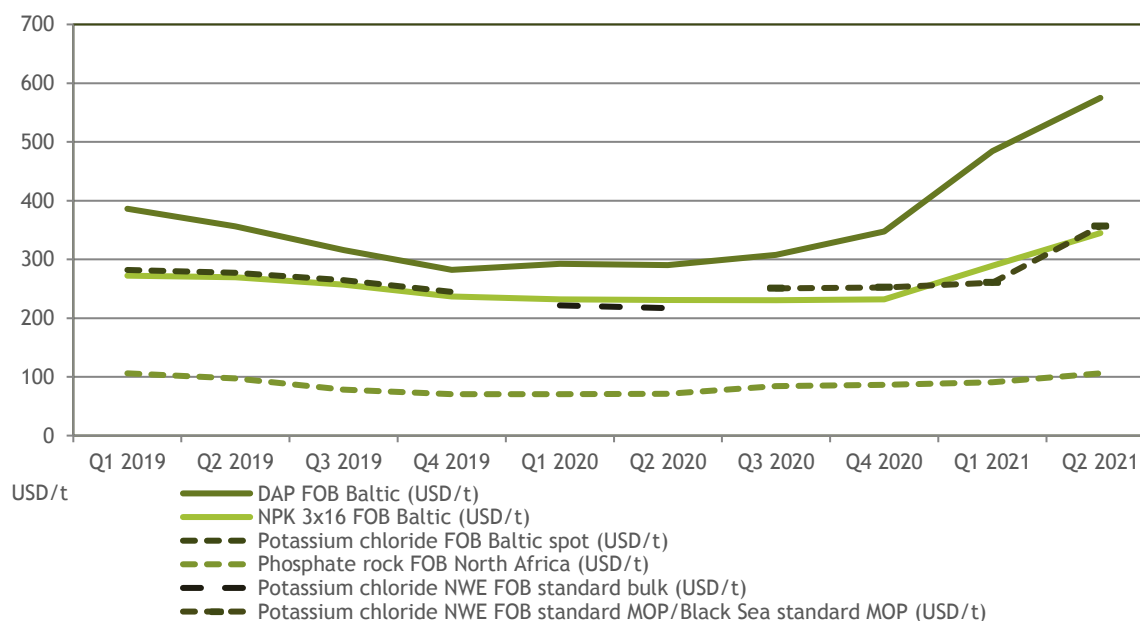
In the first quarter of 2021, prices of NPK went up, led by commodity prices and the expected increase in demand before the upcoming (spring) season of fertilizer application in Europe. The price hikes were further supported by growing logistics costs, the announcement of purchase tenders in Africa and India, and resurging demand in Latin America. The rate of growth in prices of NPK fertilizers was more moderate than in the case straight fertilizers, which had its source in the foundations underlying the demand-supply balance. Nevertheless, as early as at the end of January, the sellers contemplated withholding transactions for the volumes to be delivered in March as the product value was dynamically growing. At the beginning of the second quarter, most market players mainly watched the market. Prices on the Asian markets went up following the uptrend in the prices of raw materials, while consumers avoided products containing expensive, secondary nutrients such as sulfur. The growth of NPK prices was supported by the upcoming main fertilizer application season in South East Asia and strong demand from India, compounded by concerns about the shortage of those fertilizers. On the other hand, one had to factor in the seasonal cooling of Western markets (including Poland) and increased supply of Russian, Chinese and Moroccan products. April was marked by an important market event, that is setting the price of phosphoric acid for India for the second quarter at more than USD 200/tonne above the first-quarter figure, which increased the cost of production of Indian compound fertilizers, making imports more attractive and spurring the purchasing activity on eastern markets. In May, Polish customers started buying NPK fertilizers, and East European buyers began to make purchases for the autumn season. Demand was also seen in Latin America and India, which reduced the applicable maximum retail prices (MRP). South East Asia struggled with the cost of freight - high rates and low availability of containers and vessels limited the trading activity despite growing demand. In view of the concerns about possible sanctions against Belarus, more products were sourced from alternative sources, mainly Russia. Globally, the product was barely available in May, as best demonstrated by the absence of offers in purchase tenders announced in India. Higher costs of raw materials, limited supply and the already mentioned costs of freight further pushed up prices. In June, the global NPK market was a producers' (sellers') market. The availability of NPK fertilizers with delivery in the first half of August was low already in the second week of June. Thus, given the strong demand in several regions, producers (sellers) were afforded some freedom as to which market they could export their products. High demand from India continued, but local importers were reluctant to make purchases at prices prevalent on international markets. In Brazil, customers bought NPK 3x15 for maize application and the strong maize market increased importers' willingness to accept high prices. The imposition of EU sanctions on Belarus became the main topic of discussions between market players, especially in Europe. The global market grew increasingly strong and the news of the sanctions having been imposed only further strengthened that trend.

DAP prices (FOB Baltic) followed an upward trend from January, with the exception of May, when prices temporarily stabilised month on month. The price growth rate was varied, and as a result of price increases in the period under analysis the product price in June was approximately 46% higher than in January. In the first half of 2021, the average price of DAP (FOB Baltic) was up 82% year on year.

In the first quarter of 2021, the market was affected by supply shortages. The shortage of DAP and introduction of import duties (for Russia and Morocco) in the US, combined with the growing demand

from Asia and the Chinese producers focusing on their domestic market, led to a sharp increase in prices, which decelerated only in March. In the same period, demand in Poland was weak due to high prices and adverse weather conditions. In April, activity on the global phosphate fertilizers market was on the rise. The sudden recovery of purchasing activity in India, Pakistan and Bangladesh made them attractive sales markets for manufacturers. In Europe, the prices of DAP remained high and customers were unwilling to make purchases. As mentioned earlier, April was marked by an important event, that is the setting of the price of phosphoric acid for India for the second quarter at more than USD 200/tonne above the first-quarter figure. Coupled with the growing ammonia prices, this severely contracted the margins earned by Indian producers. Several production plants in India operated at reduced capacity due to the shortage of raw materials, stoppages, technical problems and a high number of COVID-19 cases. In May, the Ministry of Agriculture of Bangladesh confirmed the announcement of a purchase tender for the private sector. Strong demand continued also in India, where the government cut domestic selling prices and more than doubled DAP subsidies. However, low prices on the home market combined with logistical challenges triggered by the COVID-19 battle, which pushed up freight rates and caused disruptions in port operations, led to a trade deadlock - CFR offers exceeded the break-even point for Indian importers. This posed a serious problem as the Indian market absorbs significant volumes of DAP. Demand was strong in that period both in the US and Brazil. Russia's internal market was active, too. At the end of the second quarter of the reporting period, export prices increased on most markets, supported by higher volumes secured under the tender in Bangladesh, the remaining demand from India, concerns about the imposition of export duty by China and the limited availability of the product. The main contributor to the growth of phosphate fertilizer prices was Brazil. The growing profitability of sales in Brazil vs the US encouraged manufacturers and sellers to market their products in Latin America. Customers started to refuse to pay new, higher prices. Demand in Poland was poor and high prices did nothing but discourage customers. Weak demand continued in certain Western European countries.

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



Source: In-house analysis based on external data.

Average prices of compound fertilizers and raw materials for their production

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	USD/t	USD/t	%	USD/t	USD/t	USD/t
DAP (FOB Baltic)	291	530	82	606	416	606
NPK3x16	232	317	37	394	268	394

(FOB Baltic)				
Potassium chloride (NWE FOB Standard MOP/Black Sea Standard MOP)*	308	426	256	426
Phosphate rock (FOB North Africa)**	99	109	93	109

* *Rebased.*

** *Change of the source of quotations.*

Source: In-house analysis based on external data.

In the future, the situation on the compound fertilizers market will be determined mainly by the prices of raw materials and the global supply-demand balance. Over time, the market should seek balance, which will lead to oversupply, accompanied by price reduction, in the fourth quarter.

The potassium chloride market followed a clearly upward trend in the first half of 2021, especially in the three months ended June 30th 2021. Supportive conditions on the fertilizers market, limited supply and high demand led to a marked increase in the potassium chloride prices on spot markets, especially in the US and Brazil, where the prices of granular potassium chloride soared, coming close to the 2009 level. In the six months to June 30th 2021, the prices of standard grade potassium chloride on the European market grew by approximately 20% year on year, with a significant rise in the spot prices in the second quarter due to the volatile situation in Belarus. An announcement made towards the end of the first half of 2021, saying that potassium chloride supplied by Belarus for the main fertilizer production would not be subject to sanctions on the EU market, was something the market looked forward to. Unfortunately, the fact that the market awaited the news, combined with limited supply and enormous demand from Brazil, drove the prices of potassium chloride to levels rarely seen before. Additionally, favourable forecasts of agricultural produce prices contribute to keeping the product's prices high in various markets.

Analysts expect the potassium chloride market to continue on an upward trend. The rather difficult supply situation is complicated even further by the production capacity reductions on the US market due to an early shutdown of two production shafts at a leading potassium chloride producer. As the other producers will not be able to fully make up for the shortages, the potassium chloride prices in the US may be expected to come under a strong growth pressure towards the end of the year.

Global prices of phosphate fertilizers were in an uptrend practically for the entire first half of 2021. The slow price increase for DAP and MAP fertilizers, started in the third quarter of 2020, accelerated strongly, mainly after the US announced the imposition of countervailing duties on fertilizers imported from Russia and Morocco in 2021. The information caused major turmoil on the US market, where strong demand, coupled with limited supply, pushed DAP and MAP prices in the first quarter up to levels not seen since 2012. Because of high prices of soybean and corn, limited supply of fertilizers, and high imports of MAP by Brazil and DAP by India, the price growth continued in the second quarter. As a result of such significant increases in prices of phosphate fertilizers, the prices of raw materials used in their production, i.e. phosphoric acid and phosphate rock, also grew considerably. In the six months to June 30th 2021, the price of phosphoric acid for India went up by approximately 40% year on year. Altogether, the price of phosphoric acid for India soared by more than USD 300/tonne from the beginning of 2021, making DAP production in India hardly profitable. The prices of phosphate rock also grew, although not as much as in the case of phosphoric acid - by approximately 16% year on year. The higher phosphate rock prices were mainly attributable to an overall increase in prices on the fertilizer market rather than to supply and demand factors.

Analysts forecast that the third quarter will see the beginning of a minor price change on the phosphate fertilizers market. The entire period should also be good for the sellers. A more significant reduction in DAP and MAP prices is expected towards the year end due to a decline in seasonal demand for fertilizers. Despite the forecast decline in prices of phosphate fertilizers, in the third quarter the prices of raw materials for their production, i.e. phosphate rock and phosphoric acid, increased. At the end of the year, both phosphate rock and phosphoric acid prices are expected to fall, albeit to a minor extent.

PLASTICS

Polyamide 6 chain

Just like the last two months of 2020, the first six months of 2021 were marked by strong demand from polyamide 6 application markets and high prices along the entire product chain. In the first half of the year, the supply decreased across most petrochemical and polymer markets. Coupled with high transport costs and global logistics problems, this resulted in record-high product prices.

The prices of key raw materials (benzene and phenol) grew to unprecedented highs in the six months to June 30th 2021, driven by strong demand from markets of derivative products and recurring disruptions in supply (low inventories, rising oil prices, lower operating rates of refineries due to fuel demand declining on the back of restrictions related to COVID-19, the storm in the US in February, the Suez Canal blocking in the last week of March, scheduled and unscheduled maintenance shutdowns). Prices of raw materials in all regions reached their highest levels in April and May, pushing up the prices of caprolactam and polyamide 6. In June, benzene prices followed a downward trend in all markets, an effect of improved availability.

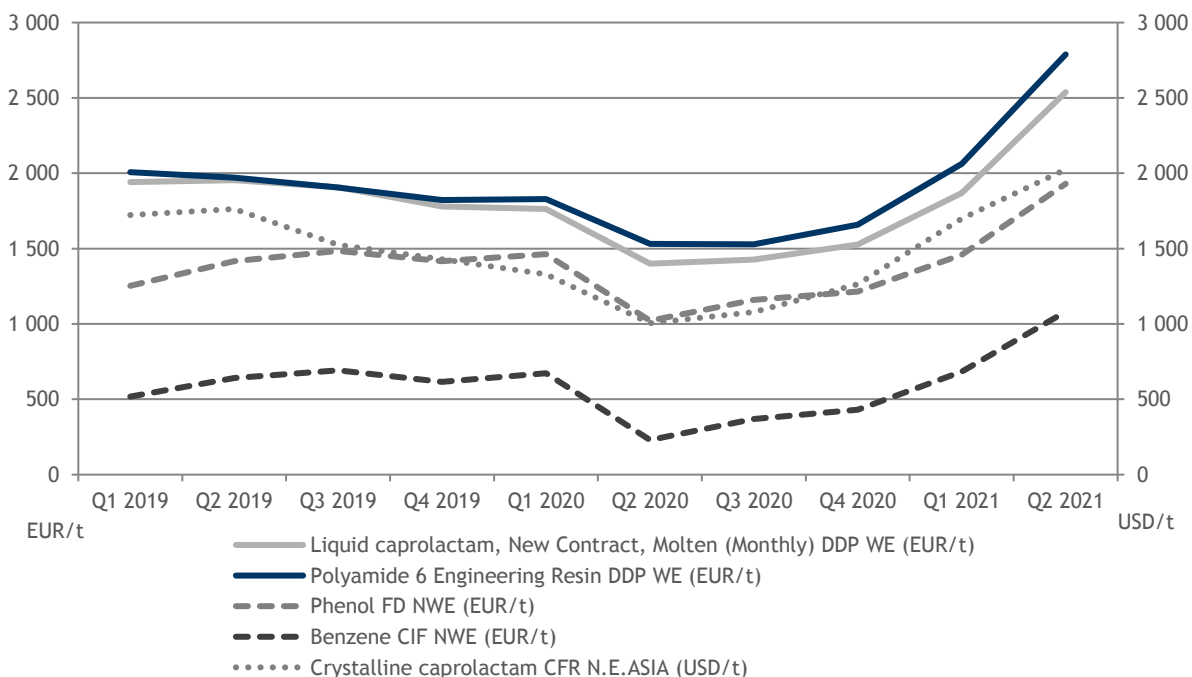
Year on year, the half-year average prices of benzene and phenol in Europe were higher by 96% and 36%, respectively.

The key factors determining the European polyamide 6 market included supply-demand imbalances, logistics problems in the supply chain and high and unstable prices of raw materials.

In the first six months of 2021, prices of liquid caprolactam in Europe continued the upward trend that began in the second half of 2020. The only exception was February, when the prices decreased slightly as a result of lower prices of raw materials. From March to May, prices grew sharply, driven by strong demand from the polyamide 6 market, raw material costs rising to historical highs, and supply constraints. In June, prices went down again as a result of a major correction of benzene and phenol prices. The half-year average contract prices of European caprolactam increased 39% year on year. The half-year average price of caprolactam on the Asian market was 59% higher than in the first half of 2020.

Polyamide 6 prices in Europe followed an upward trend in the six months to June 30th 2021, reaching a record high in May. In June, they went down, only partially reflecting a decrease in raw material prices. Year on year, the half-year average European contract price of polyamide 6 was up 44%.

Prices of PA6, caprolactam, benzene and phenol



Source: In-house analysis based on external data.

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

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Benzene (CIF, NWE)	451	883	96	884	602	1,364
Phenol (FD, NWE)	1,243	1,694	36	1,733	1,376	1,539
Caprolactam (Liq., DDP, WE)	1,582	2,203	39	2,465	1,765	2,765
Polyamide 6 (PA 6) (DDP, WE)	1,680	2,425	44	2,795	1,945	2,975
	USD/t	USD/t	%		USD/t	USD/t
Caprolactam (CFR, NE Asia)	1,168	1,862	59	2,055	1,585	2,055
	USD/bbl	USD/bbl	%	USD/bbl	USD/bbl	USD/bbl
Crude oil (BRENT)	42.56	64.85	52	73.23	55.10	73.23

Source: In-house analysis based on external data.

In the first half of 2021, the high demand for PA6 of virtually all applications exceeded the available supply. Consumption of polyamide in the automotive sector remained strong despite the continuing shortage of semiconductor chips and other components. Strong demand from end users for PA6 products improved the margins despite high benzene prices. Profitability improved both for PA6 and caprolactam chains.

The supply of caprolactam and polyamide 6 in Europe was limited in the reporting period due to production problems and a general shortage of raw materials and additives, such as glass fibres or flame retardants, which extended the delivery time or allocation of the product. Several producers in Europe and globally claimed or still claim that a force majeure event continues with respect to caprolactam and polyamide 6 and 66 variants.

The situation along the product chain remains under the influence of the overall economic environment, where the prevailing sentiment is optimistic. The situation is still quite volatile and susceptible to change. August saw signs of declining interest in purchases from the automotive sector. Many car manufacturers had to scale down production in response to prolonged shortages of semiconductor chips and other components. However, the situation in Europe differs from country to country, depending on the region and producer, and there is no certainty as to the duration of the present circumstances. Consumption of PA6 from other sectors is still at a good level, with a slight seasonal slowdown due to the holiday season and inventory sell-out typical of that time of the year. Players from these sectors expect purchasing activity to pick up in September and October. In August, there was an exceptionally high demand for household appliances and consumer electronics, which is unusual for this time of the year. This may be due to increased demand for regionally produced products due to significant delays in the supply of various goods from Asia.

Given the maintenance schedules of the European caprolactam manufacturers for the next few months, the supply of PA6 is likely to remain low. Prices will be unstable and probably above historical averages until the supply/demand equilibrium is restored.

CHEMICALS

OXO product chain

In the six months ended June 30th 2021, the prices of 2-EH went up 94% year on year. This price spike was mainly an effect of the very limited supply on the European market and continued high demand.

The supply of OXO alcohols shrank significantly in the first quarter of 2021 as a result of the declaration of force majeure by leading producers, which strongly affected availability of the products from both domestic and foreign manufacturers. At the end of May, one of the producers announced the end of a force majeure event, which resulted in some alcohol quantities becoming available for

import to Europe. Demand for OXO alcohols remained strong, especially from companies active in the processing of OXO alcohols into butyl acetate and glycol. The continuing high demand and major supply constraints led to further substantial price increases on the market. Imports into the European market were very limited owing to continuing logistics problems caused by high freight prices and shortages of transport containers. At the end of the first half of the year, the demand for alcohols declined slightly, improving their availability, but not to a sufficient degree.

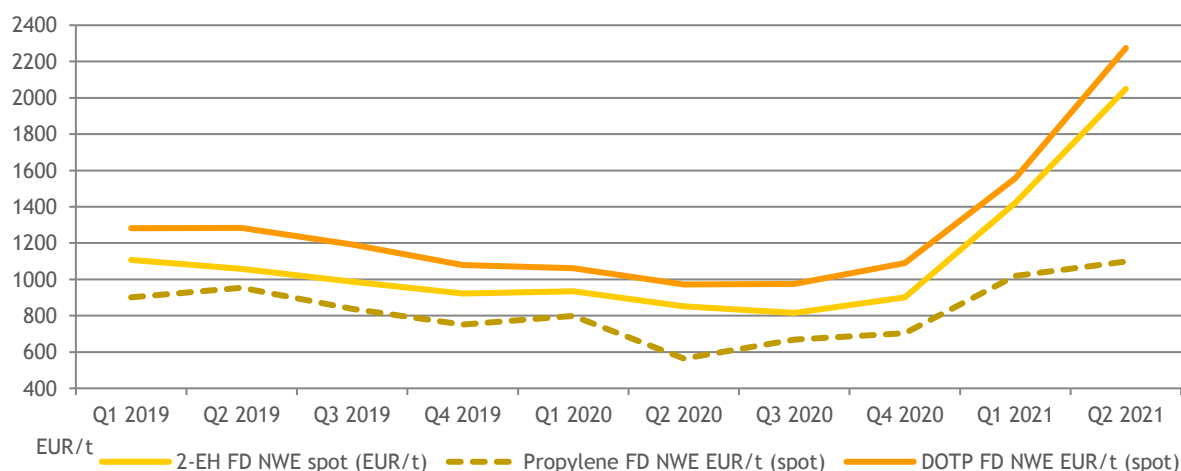
In the six months ended June 30th 2021, the prices of DOTP went up 89% year on year.

The undersupply of OXO alcohols reduced the availability of plasticizers in the European market, especially in March when three producers declared force majeure. Logistics problems (heavy snowfalls and low air temperatures prevailing in Europe at the beginning of February, combined with high freight prices and shortages of containers) translated into reduced imports of plasticizers from other regions of the world (mainly Korea, but also Russia), which further aggravated the supply situation. The demand for plasticizers remained very high. In the second half of the second quarter of 2021, the availability of plasticizers increased as a result of greater imports from Turkey and Asia and lower demand for the products, especially from businesses processing them in PVC production.

In the six months to June 30th 2021, spot prices of propylene went up 55% year on year, while its contract prices rose by 31%. Since the beginning of the year, the supply and demand situation on the propylene market was considered bad. The demand was huge, which during emergency and maintenance shutdowns (also caused by the COVID-19 pandemic) resulted in significant shortages of propylene on the market. In the middle of the second quarter, the availability of the raw material began to rise following as crackers were brought back on stream in the European market and demand declined. Propylene availability was additionally supported by supplies from other regions of the world (mainly Middle East and Asia). Eastern European countries faced less serious problems with propylene availability as they had the possibility to purchase the product from countries farther to the east at attractive prices.

The coming months are likely to see further growth in the prices of propylene, driven mainly by higher prices of crude oil and kerosene. An important price driver will be the size of propylene supply on the market. If propylene processing capacities resume production while maintenance shutdowns of propylene production units continue, the availability of this product may be significantly limited, potentially resulting in another large increase in its prices (mainly on the spot market).

Prices of 2-EH, DOTP and propylene



Source: In-house analysis based on external data.

Average prices of 2-EH, DOTP and propylene

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
2-EH (FD NWE spot)	893	1,736	94	2,000	1,078	2,731
DOTP (FD NWE spot)	1,016	1,916	89	2,075	1,256	2,460
Propylene (FD NWE spot)	681	1,059	55	1,120	940	1,120

Source: In-house analysis based on external data.

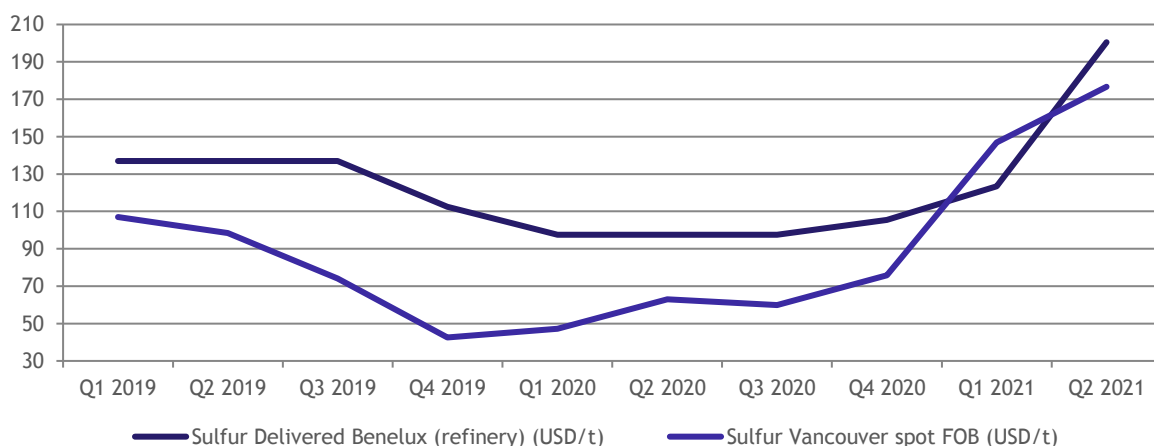
After the summer maintenance shutdown period, the strong demand for OXO products may continue. Prices of petrochemical commodities are expected to be high because of high prices of crude oil and kerosene.

Sulfur

After the strong price increases in the first two months of 2021, the prilled sulfur market was relatively stable in the following months of the first half of 2021. Initially, the price increases were driven by favourable market for phosphate fertilizers and high demand for sulfur for the production of sulfuric acid, used mainly in the fertilizer industry. The price growth was also attributable to limited operations of the petrochemical industry, caused by the pandemic, overhauls and downtimes. On a comparative basis, the price of prilled sulfur (Vancouver SPOT FOB) in the six months to June 30th 2021 rose by approximately 200% year on year, with major rebounds seen across all pricing bases. In the first quarter of 2021, liquid sulfur prices in Tampa, US rose 100%, which was due to strongly limited supply and high demand. The European liquid sulfur market was also under strong price pressure, resulting from very tight supply from refineries. As a result of the problems with liquid sulfur in Western Europe, sulfuric acid producers were sometimes forced to cut or even temporarily discontinue production. In the six months ended June 30th 2021, the average price of liquid sulfur on the Benelux Delivered basis was approximately 66% higher than in the corresponding period of 2020, which was an effect of a one-off increase at the end of the first and beginning of the second quarter of 2020, reflecting a strong upward trend for sulfur.

The short-term outlook for the prilled sulfur market shows that prices should decrease slightly in the coming quarter due to higher activity in the petrochemical sector and increase in fuel output and, consequently, in sulfur production. The decrease will not be significant because of the support from the phosphate fertilizers industry, for which the outlook for the next two or three quarters is positive. The strongest decline, by approximately USD 20/tonne yoy, is forecast to take place in the first and second quarter of 2022. The European sulfur market entered the third quarter with a slight price increase, although the preliminary forecasts indicated a roll-over or even a slight price decline. This did not happen though, because of supply constraints which still hinder the trade in liquid sulfur in Europe. Similarly to the prilled sulfur market, the market of liquid sulfur is projected to see a price reduction further on into the year, as the operating metrics of the European refineries have improved. In both cases, the market balance will largely depend on whether further restrictions related to the COVID-19 pandemic are imposed in autumn, reducing the production of fuels and, consequently, of liquid sulfur.

Sulfur prices



Source: In-house analysis based on external data.

Average sulfur prices

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Liquid sulfur (Delivered Benelux refinery)	98	162	66	201	124	201
Prilled sulfur (Vancouver spot FOB)	55	162	195	176	112	177

Source: In-house analysis based on external data.

Pigment chain

In the six months ended June 30th 2021, the price of titanium white (TiO₂) in Europe rose 4% year on year,

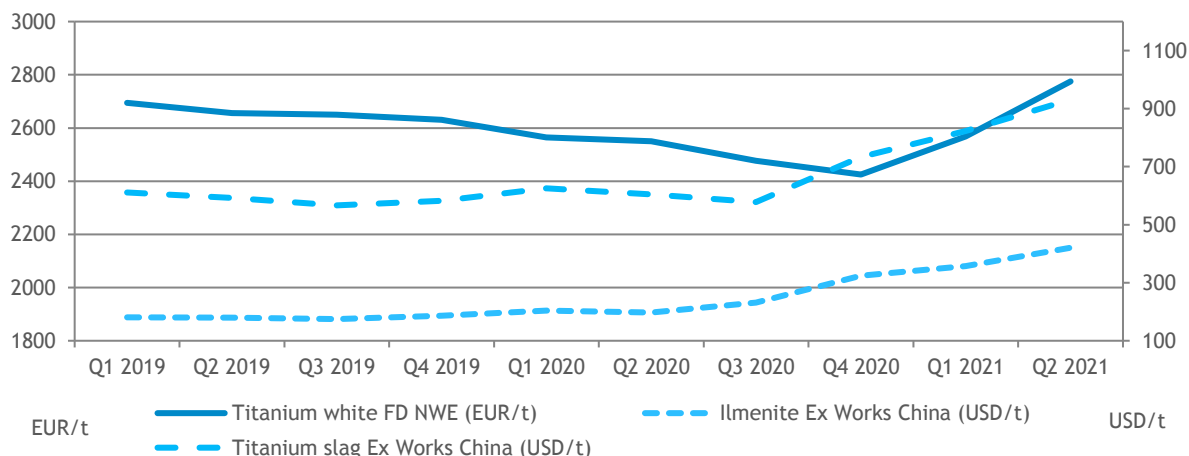
as an effect of the pressure caused by the strong Chinese market, lower supply on the European market, increased demand, high cost of maritime transport from Asia and huge demand for titanium-bearing minerals. The demand for TiO₂ remained exceptionally high, and the security of supply concerns further stimulated purchasing activity.

The availability of Chinese titanium white in Europe was limited, and imports from Asia became hardly profitable for pricing and logistics reasons, including mainly high freight costs. Customers found it difficult to purchase the product outside contracts. Though buyers placed their orders well in advance, deliveries were late. The order execution time was between five and eight weeks for Western products and up to three months for deliveries from Asia.

The outlook for the global construction industry is mixed. The automotive industry is also facing supply chain problems, caused mainly by the global shortage of semiconductors and transport containers, which forces many companies to reduce production volumes or announce early maintenance shutdowns. Most car manufacturers have alarmingly low stocks both of raw materials and finished products. The shortages have not affected the overall purchasing activity in the plastics and paints sector so far.

In the case of titanium-bearing minerals, ilmenite prices have continued at high levels since the beginning of 2021 and are expected to grow further. The dynamic rebound of the Chinese economy after the COVID-19 pandemic crisis, started already in the second half of 2020, caused a sharp growth in the prices of titanium-bearing feedstocks on that market. According to estimates, the price of ilmenite in China in the six months ended June 30th 2021 was 94% higher than in the corresponding period of 2020, with the titanium slag price rising 43%. The price hikes made Chinese producers of titanium white increase imports, which triggered a price growth globally, although it is less sharp.

Prices of titanium white, ilmenite and titanium slag



Source: In-house analysis based on external data.

The sentiment for the upcoming third quarter of 2021 is very optimistic, mainly because of the continued strong demand, declining interest in imports from Asia and limited supply in the second quarter. On the other hand, such a situation may increase pressure among the buyers. The threat of undersupply makes buyers try to purchase volumes for the entire third quarter or even the entire second half of the year. The rising number of people who have received the COVID-19 vaccine strengthens the positive market sentiment. Changes in demand, especially in the summer, will also affect supply in the third quarter. It is therefore very difficult to predict now how demand will develop in the coming months. If international freight rates fall and logistics improve, the European players may again become interested in supplies from Asia.

Average prices of titanium white and raw materials for its production

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Titanium white (FD, NWE)	2,558	2,671	4	2,815	2,473	2,815
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ilmenite (ex Works China)	201	398	94	427	338	427
Titanium slag (ex Works China)	615	877	43	965	804	965

Source: In-house analysis based on external data.

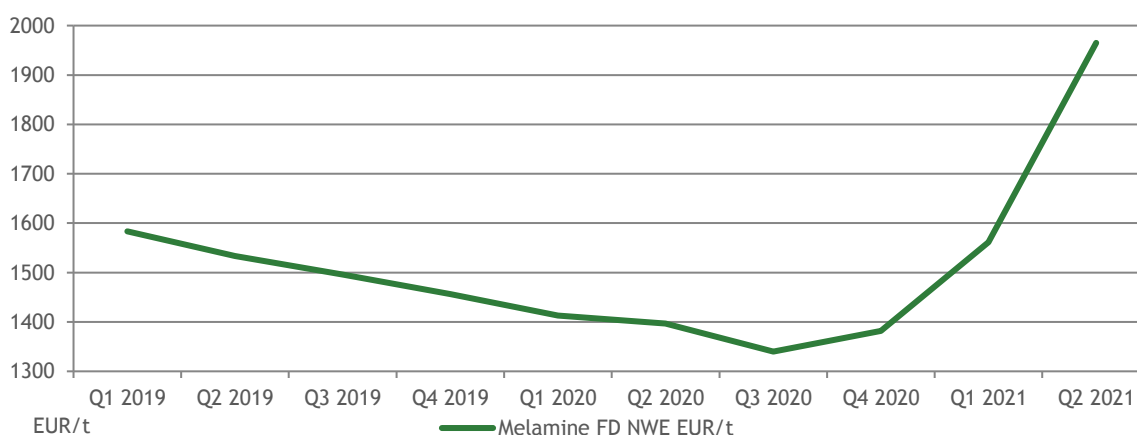
The second half of 2021 is expected to see further increase in ilmenite prices, driven by the constantly high demand for titanium white. The price of titanium slag remains relatively high, but due to lower interest in the product it may not change or grow at a lower rate than ilmenite.

Melamine

In the first half of 2021, contract prices of melamine in Europe increased by 29% compared with the second half and by 26% compared with the first half of 2020. Spot price increases were much stronger as they amounted to 51% compared with the second half and 63% compared with the first half of 2020. In the period under review, demand for melamine was driven by the conditions created by the COVID-19 pandemic and the weather. The continued high interest in DIY products coincided with a very high level of activity in the repair and construction sector. Unexpected events, such as a sudden spell of winter weather in the US, production issues at units in all regions or the lockdown during the winter months, occurred, leading to restrictions on movement between countries. These developments were compounded by bank holiday periods and the approaching summer holiday season.

In the near future, high demand for melamine is expected to continue. Consumption should pick up after the summer holiday season unless the epidemic situation deteriorates. The price level will depend on the extent to which producers will seek to increase their margins, and also on prices of raw materials (such as urea) and customer sentiment.

Prices of melamine



Source: In-house analysis based on external data.

Average melamine prices

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Melamine (FD, NWE)	1,405	1,763	26	1,965	1,495	1,965

Source: In-house analysis based on external data.

ENERGY

Natural gas

At the beginning of 2021 the spot price of natural gas on Gaspool was around EUR 19/MWh and this level was maintained until the end of the first quarter. After an initial decline, gas prices rapidly spiked to nearly EUR 26/MWh in mid-January as a result of a nervous response of the market to an increase in LNG prices in Asia, where the price of LNG supplies soared by more than 20 times in a half year, reaching the historical high of almost USD 40/MMBtu (more than EUR 100/MWh). This record high level was caused by strong frosts in Asia. Subsequently, natural gas prices were on a steady downward trend until mid-February. In the second half of February, the prices stabilised at approximately EUR 16/MWh as warmer weather and stronger wind conditions set in. March saw the beginning of a slow and continuous increase in gas prices on the spot market (with several corrections), attributable to several reasons. The increase was due to growing demand fuelled by low

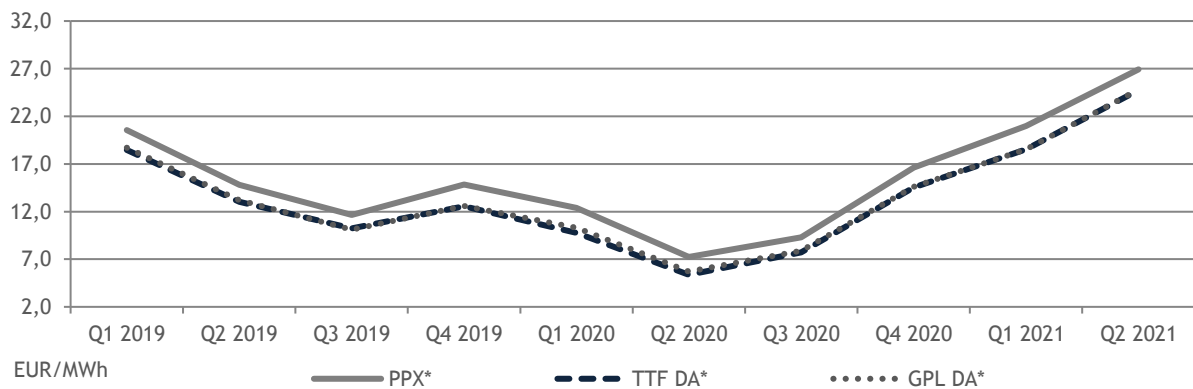
temperatures and low wind levels, as well as to rapidly growing prices of coal and carbon emission allowances, which made the use of gas for electricity production more economical. On the supply side, LNG supplies to Europe were low as Asia continued to be a more profitable market for LNG suppliers. In addition, mid-April saw the start of overhauls on the Norwegian gas infrastructure, which continued with varying intensity until the end of June. Russia did not increase LNG supplies to Europe either, despite the additional transmission capacities offered at the border with Ukraine. As a consequence, in April and May 2021 gas had to be withdrawn rather than injected into storage facilities, with the volumes held in storage hitting all time lows. At the same time, there were significant daily price fluctuations in response to movements in the renewable energy generation volumes and changes in weather forecasts. The end of May saw a marked correction of the prices of coal, CO₂ and gas, with the price of gas having fallen by approximately EUR 5/MWh. The reason for the correction was the news of the US waiving the sanctions against Nord Stream 2. Then the gas price started to go up again. The market was driven by fundamental factors, including a very slow growth of gas stock levels in EU storage facilities and the rising demand for and prices of LNG in the Pacific region following the forecast of a hot summer in Asia.

During maintenance work on Norwegian infrastructure, there was a steep decline in supply (by two thirds). At the same time, prices of carbon emission allowances increased to more than EUR 55 per tonne, while coal prices exceeded USD 100 per tonne and grew further.

In addition to above-average temperatures, wind force remained below normal, additionally driving the demand for gas for power generation. As a result, gas was injected into storage facilities at a slower rate than expected. As at the end of the first half of the year, storage facilities in the EU were filled only up to 48% (528 TWh) of their capacity, 15% below the five-year average filling level. This is accompanied by growing price competition for spot LNG deliveries between customers in the Pacific and Atlantic regions. Finally, political factors come into play - despite high market prices, Russia did not take the opportunity to increase supplies to Europe.

At the end of the first half of 2021, the price of gas on the spot market reached EUR 33/MWh, a level previously seen in winter 13 years ago. As demand is still clearly higher than supply, a change in the price trend in the following quarter can hardly be expected.

Prices of natural gas



* Excluding transmission.

Source: In-house analysis based on external data.

Average gas prices

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	EUR/MWh	EUR/MWh	%	EUR/MWh	EUR/MWh	EUR/MWh
TTF DA *	7.6	21.6	186	24.7	17.5	28.8
GPL DA*	8.0	21.7	171	24.8	17.7	28.8
PPX*	9.8	24.0	144	26.9	20.2	30.6

Source: In-house analysis based on external data.

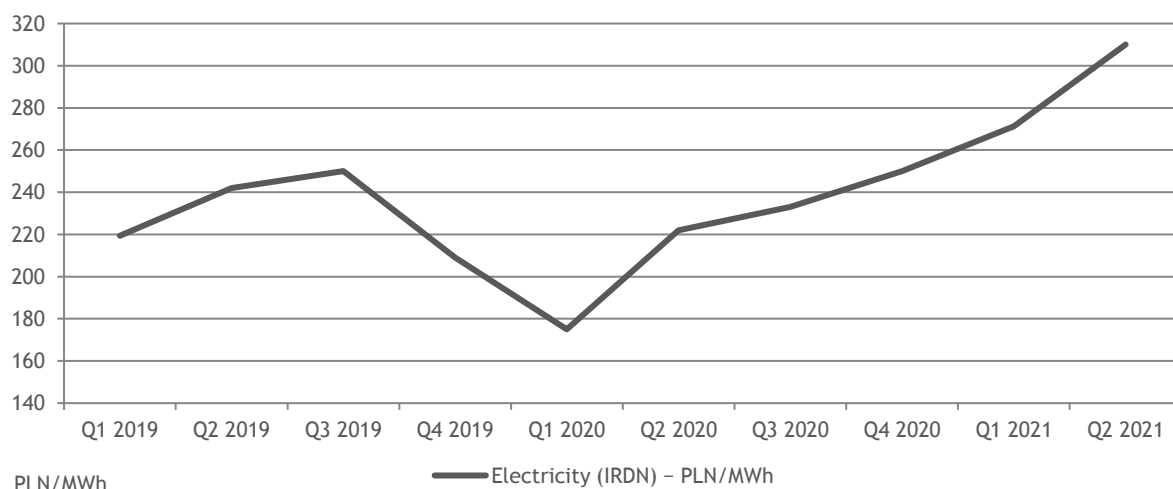
Electricity

In the first half of 2021, prices of electricity continued the growth trend that began in the first quarter of 2020. The second quarter of 2021 saw average electricity prices grow by 14% relative to the previous quarter. Year on year, the price increase was over 63% for the first half of 2021. The growth was led mainly by higher prices of CO₂ emission allowances (in the second quarter of 2021, they reached their new highs), volatility of demand, and changes in the structure of generation sources (with an increased share of renewables).

Electricity prices are mainly driven by:

- Significant price fluctuations on other commodity markets;
- Changes in the RES support system, measures taken to achieve climate neutrality;
- Sensitivity of electricity prices to prices of CO₂ emission allowances.

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: In-house analysis based on external data.

Average electricity prices

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	PLN/MWh	PLN/MWh	%	PLN/MWh	PLN/MWh	PLN/MWh
Electricity	177.45	289.57	63	353.56	133.94	410.84

Source: In-house analysis based on external data.

Coal

The second quarter of 2021 saw a continuation of the upward trend in coal prices. Quarter on quarter, the average price grew by more than 30%. The price was almost constantly rising, with only a minor correction in the second half of June, to reach the maximum at the end of that month. Year on year, the average price was up by more than 46%, reaching the mid-2018 level.

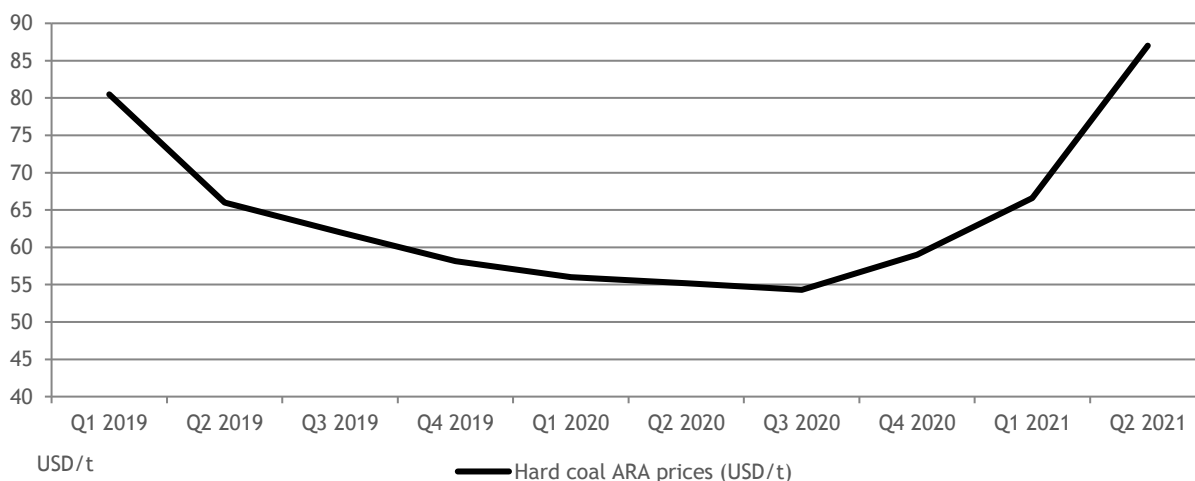
One of the main reasons behind the price spike is the growing demand for this raw material in Asian countries (China, India, Indonesia), the economies recovering from the COVID-19 crisis. In addition, the coal market is supported by reports on China's plans to increase its stocks by approximately 15% of demand and change in supply directions.

The key price drivers include:

- The European policy aimed at reducing coal consumption in favour of the green mix;
- Weakening demand for coal in Europe;
- Price fluctuations in other commodity markets.

Analysts expect the average ARA prices to remain above USD 80 per tonne in 2021.

Prices of hard coal



Source: In-house analysis based on external data.

Average hard coal prices

	Average H1 2020	Average H1 2021	yoy	June 2021	MIN 2021	MAX 2021
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Coal	52.9	77.34	46	101.6	62.2	108.65

Source: In-house analysis based on external data.

2.3. Key financial and economic data

2.3.1. Consolidated financial information

Consolidated data

Item	H1 2021	H1 2020	change	% change
Revenue	6,534,655	5,372,618	1,162,037	21.6
Cost of sales	(5,244,064)	(4,193,867)	(1,050,197)	25.0
Gross profit	1,290,591	1,178,751	111,840	9.5
Selling expenses	(492,393)	(480,124)	(12,269)	2.6
Administrative expenses	(407,570)	(406,984)	(586)	0.1
Profit on sales	390,628	291,643	98,985	33.9
Net other income/(expenses)	(8,087)	80,724	(88,811)	(110.0)
Operating profit	382,541	372,367	10,174	2.7
Net finance income/(costs)	(48,983)	(62,442)	13,459	(21.6)
Share of profit of equity-accounted investees	8,046	7,080	966	13.6
Profit before tax	341,604	317,005	24,599	7.8
Income tax	(87,888)	(94,900)	7,012	(7.4)
Net profit	253,716	222,105	31,611	14.2
EBIT	382,541	372,367	10,174	2.7
Depreciation and amortisation	383,798	380,424	3,374	0.9
EBITDA	766,339	752,791	13,548	1.8

Source: Company data.

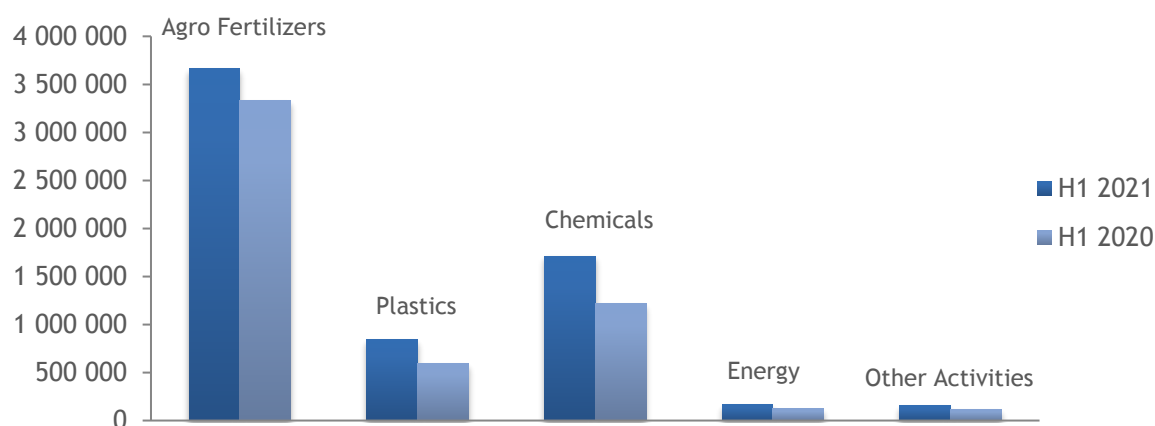
2.3.2. Segment results

EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities
External revenue	3,660,581	842,155	1,711,716	167,927	152,276
Profit/(loss) on sales	250,169	1,215	128,996	(1,283)	11,531
EBIT	249,920	(5,177)	131,068	(779)	7,509

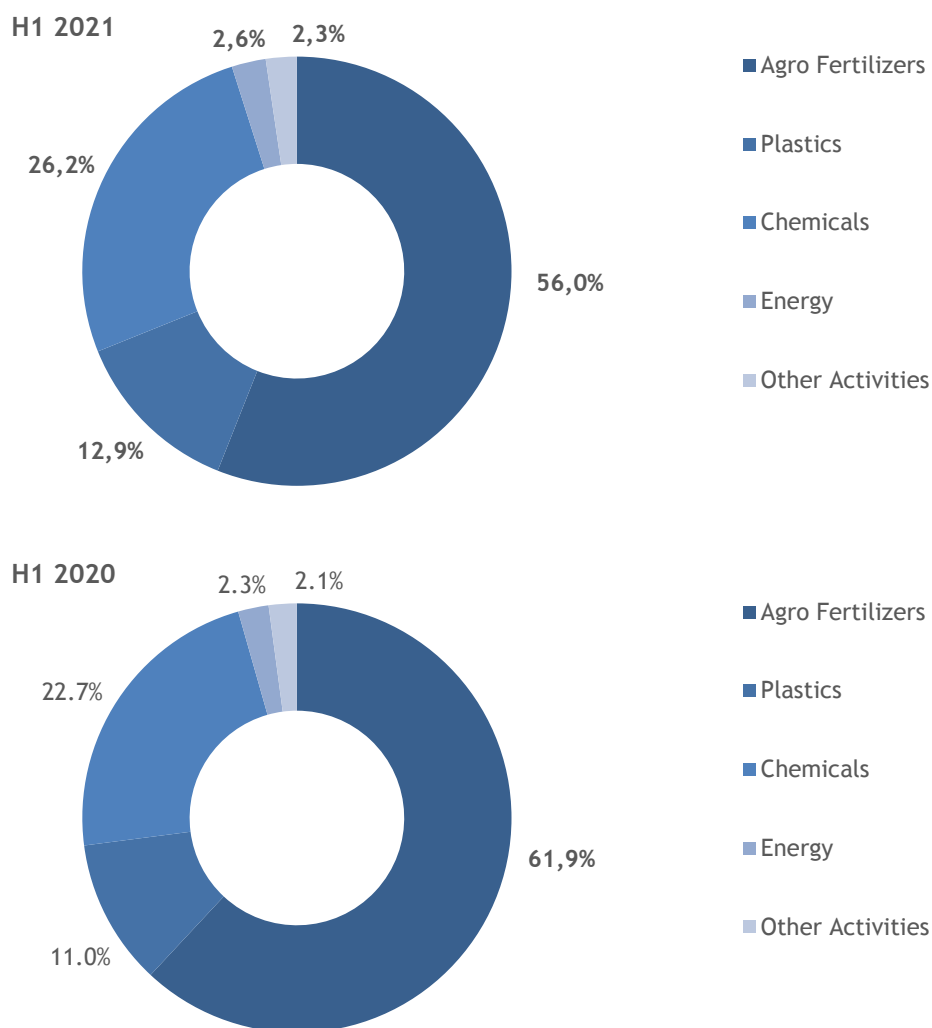
Source: Company data.

Revenue by segment



Source: Company data.

Revenue by segment



Source: Company data.

Agro Fertilizers

In the first half of 2021, revenue in the Agro Fertilizers segment was PLN 3,660,581 thousand and accounted for 56.0% of the Group's total revenue. The segment posted a 10.0% increase in revenue year on year, with a concurrent decrease in the segment's share in the Group's total revenue.

The Agro Fertilizers segment reported a profit on sales and positive EBIT of PLN 249,920 thousand.

Sales on the domestic market accounted for approximately 53.1% of the segment's revenue.

Plastics

In the first half of 2021, revenue in the Plastics segment was PLN 842,155 thousand and accounted for 12.9% of the Group's total revenue. Year on year, the segment's revenue increased by 42.4%. The segment reported a profit on sales and negative EBIT.

Approximately 86.9% of revenue from sale of the segment's products was derived from sales on foreign markets.

Chemicals

In the first half of 2021, revenue in the Chemicals segment amounted to PLN 1,711,716 thousand, having increased 40.8% year on year. The segment's revenue accounted for 26.2% of the Group's total revenue. The segment reported a profit on sales and positive EBIT of PLN 131,068 thousand.

Sales on foreign markets accounted for approximately 59.1% of the Chemicals segment's revenue.

Energy

In the first half of 2021, revenue in the Energy segment was PLN 167,927 thousand and accounted for approximately 2.6% of the Group's total revenue. Year on year, the segment's revenue increased by 35.7%. Its EBIT was negative.

Other Activities

In the first half of 2021, the Other Activities segment reported revenue of PLN 152,276 thousand, up 34.2% year on year, accounting for 2.3% of the Group's total revenue. Its EBIT was positive.

Structure of operating expenses

Operating expenses by nature of expense

	H1 2021	H1 2020	y/y change	% change
Depreciation and amortisation	381,460	378,047	3,413	0.9
Raw materials and consumables used	3,871,695	2,710,860	1,160,835	42.8
Services	639,788	581,239	58,549	10.1
Salaries and wages, including surcharges, and other benefits	957,135	932,603	24,532	2.6
Taxes and charges	294,261	275,825	18,436	6.7
Other expenses	78,698	83,835	(5,137)	(6.1)
Total	6,223,037	4,962,409	1,260,628	25.4

Source: Company data.

Structure of operating expenses [%]

	H1 2021	H1 2020
Depreciation and amortisation	6.1	7.6
Raw materials and consumables used	62.2	54.6
Services	10.3	11.7
Salaries and wages, including surcharges, and other benefits	15.4	18.8
Taxes and charges	4.7	5.6
Other expenses	1.3	1.7
Total	100.0	100.0

Source: Company data.

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

- raw materials and consumables used - increase in prices and consumption volumes of gas and petroleum products,
- services - increase in transport costs as a result of a higher weight of products sold, higher R&D expenditure, and higher spending on subcontractors engaged to carry out maintenance works,
- salaries and wages - increase caused mainly by hiring staff to execute new investment projects,
- taxes and charges - increase in prices of CO₂ emission allowances,
- other expenses - decrease in business travel expenses as well as advertising and entertainment costs.

2.3.3. Assets, equity and liabilities

Structure of assets

	H1 2021	H1 2020	y/y change	% change
Non-current assets, including:	14,463,144	11,813,828	2,649,316	22.4
Property, plant and equipment	11,534,222	8,771,262	2,762,960	31.5
Intangible assets	1,004,230	1,003,243	987	0.1
Right-of-use assets	835,115	836,362	(1,247)	(0.1)
Other receivables	524,749	641,051	(116,302)	(18.1)
Goodwill	320,620	322,035	(1,415)	(0.4)
Current assets, including:	5,732,719	4,635,284	1,097,435	23.7
Inventories	1,548,238	1,551,827	(3,589)	(0.2)
Trade and other receivables	3,079,793	1,535,367	1,544,426	100.6
Cash and cash equivalents	972,038	906,759	65,279	7.2
Property rights	81,455	500,820	(419,365)	(83.7)
Total assets	20,195,863	16,449,112	3,746,751	22.8

Source: Company data.

Structure of equity and liabilities

	H1 2021	H1 2020	y/y change	% change
Equity	8,509,169	8,102,557	406,612	5.0
Non-current liabilities, including:	5,897,809	4,801,956	1,095,853	22.8
Borrowings	3,431,418	2,978,677	452,741	15.2
Deferred tax liabilities	540,570	510,021	30,549	6.0
Employee benefit obligations	477,899	503,745	(25,846)	(5.1)
Lease liabilities	350,284	354,237	(3,953)	(1.1)
Provisions	214,606	214,569	37	0.0
Government grants received	197,203	196,491	712	0.4
Current liabilities, including:	5,788,885	3,544,599	2,244,286	63.3
Trade and other payables	2,915,492	2,303,468	612,024	26.6
Other financial liabilities	1,623,135	442,751	1,180,384	266.6
Borrowings	414,611	345,191	69,420	20.1
Government grants received	618,095	238,545	379,550	159.1
Total equity and liabilities	20,195,863	16,449,112	3,746,751	22.8

Source: Company data.

2.3.4. Financial ratios

Profitability ratios [%]

	H1 2021	H1 2020
Gross profit margin	19.7	21.9
EBIT margin	5.9	6.9
EBITDA margin	11.7	14.0
Net profit margin	3.9	4.1
ROA	1.3	1.4
ROCE	2.7	2.9
ROE	3.0	2.7
Return on non-current assets	1.8	1.9

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

	H1 2021	H1 2020
Current ratio	1.0	1.3
Quick ratio	0.7	0.9
Cash ratio	0.2	0.3

Source: Company data.

Ratio formulas:

Current ratio = current assets / current liabilities

Quick ratio = (current assets - inventories) / current liabilities

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

Profitability ratios

	H1 2021	H1 2020
Inventory turnover	53	67
Average collection period	85	51
Average payment period	101	100
Cash conversion cycle	37	18

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	H1 2021	H1 2020
Total debt ratio	57.9	50.7
Long-term debt ratio	29.2	29.2
Short-term debt ratio	28.7	21.5
Equity-to-debt ratio	72.8	97.1
Interest cover ratio	984.3	831.3

Source: Company data.

Ratio formulas:

Total debt ratio = total liabilities / total assets

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

Short-term debt ratio = current liabilities / total assets

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

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

2.4. Financial liquidity

The Parent and the other 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. In the six months ended June 30th 2021, the Group paid all of its liabilities under borrowings 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 (the purpose of which is to effectively distribute funds among the key Group companies).

The Group is monitoring the spread of the COVID-19 pandemic and its impact on the Group's economic environment. The Group has identified and monitors the following risk areas related to the pandemic 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, and the relatively weaker impact of the new waves of the pandemic on Poland's economy offers prospects of gradual improvement in the economic situation in 2021.

2.5. Borrowings

In the first half of 2021, 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. Additionally, the Group has access to bilateral overdraft limits and multi-purpose facilities available to its companies.

The amount of limits under overdraft and multi-purpose credit facilities available to the Group as at June 30th 2021 was PLN 1,054m. At the same time, as at the reporting date, the Group had unused limits under corporate credit facilities of approximately PLN 1,366m and PLN 30m in funds available under special purpose loans.

In addition, the amount of credit limits available to Grupa Azoty POLYOLEFINS under the Credit Facilities Agreement for the financing of the Polimery Police project was PLN 4,984m.

As at June 30th 2021, the amounts available to be drawn by the Group under the agreements specified above totalled approximately PLN 7,434m (of which undrawn amounts under Grupa Azoty POLYOLEFINS special purpose credit facilities for the financing of the Polimery Police project were PLN 4,984m, and other undrawn amounts available to Grupa Azoty amounted to PLN 2,450m).

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

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

In the reporting period, an expected free allocation of CO₂ emission allowances was recognised, which had a positive effect on financial performance by reducing the estimated cost of CO₂ emissions. For more information on this matter, see Notes 13 and 19 to the interim condensed consolidated financial statements for the six months ended June 30th 2021.

Other than the matter described above, there were no one-off items in the first half of 2021 that would materially affect the Group's assets, equity and liabilities, capital, net profit/loss or cash flows.

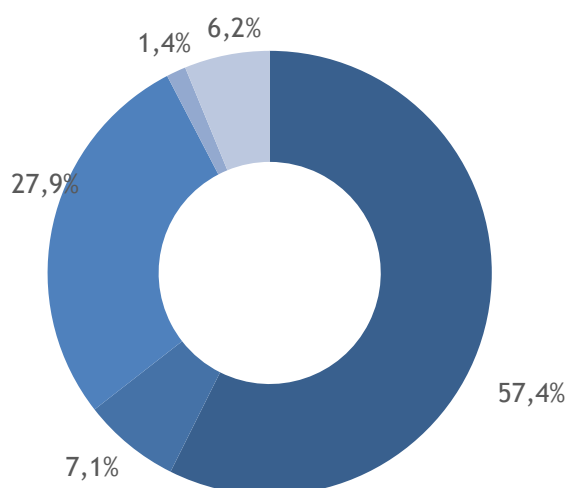
2.7. Key investment projects

In the first half of 2021, the Group incurred expenditure of PLN 1,346,834 thousand to purchase intangible assets and property, plant and equipment.

Structure of capital expenditure:

• Growth capex	PLN 772,611 thousand
• Maintenance capex	PLN 95,561 thousand
• Mandatory capex	PLN 375,761 thousand
• Purchase of finished goods	PLN 19,198 thousand
• Other (components, catalysts, etc.)	PLN 83,703 thousand

Structure of the Group's capital expenditure in the first half of 2021



Source: Company data.

The Group's capital expenditure in the first half of 2021:

• Parent	PLN 76,152 thousand
• Grupa Azoty POLYOLEFINS	PLN 580,226 thousand
• Grupa Azoty PUŁAWY Group	PLN 558,833 thousand

- Grupa Azoty POLICE Group PLN 57,708 thousand
- Grupa Azoty KĘDZIERZYN Group PLN 49,028 thousand
- Grupa Azoty KOLTAR PLN 6,104 thousand
- COMPO EXPERT PLN 11,126 thousand
- Grupa Azoty SIARKOPOL PLN 3,513 thousand
- Grupa Azoty PKCH PLN 2,163 thousand
- Grupa Azoty COMPOUNDING PLN 1,095 thousand
- Grupa Azoty ATT POLYMERS PLN 886 thousand

Key investment projects implemented by the Group

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2021	Project purpose	Scheduled completion date
Grupa Azoty POLYOLEFINS					
Polimery Police	7,210,957	2,857,570	580,226	The project is to build an on-purpose 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
Grupa Azoty PUŁAWY					
Construction of coal-fired power generation unit	1,200,000	753,259	341,182	To bring Grupy Azoty PUŁAWY's energy generation units in line with the latest environmental requirements, while increasing the share of the autoproducer CHP plant in the electricity volumes consumed by the production units, and to ensure uninterrupted supplies of energy (process steam and heating water).	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, Puławy	695,000	388,623	36,152	Increase in the efficiency of nitric acid production and the economics of production of nitric acid-based fertilizers Any excess of nitric acid will be processed on the new line for the production of speciality fertilizers (magnesium nitrate, calcium nitrate and potassium nitrate), with a capacity of 600 tonnes per day.	2028
Facility for production of granulated fertilizers based on ammonium nitrate, Puławy	430,000	407,991	19,626	Improvement of the quality of fertilizers by applying modern mechanical granulation The key element of the complex is two lines for manufacturing granulated fertilizers based on ammonium nitrate melt as the feedstock for granulated ammonium nitrate and calcium ammonium nitrate.	2021*
Upgrade of steam generator OP-215 No. 2 to reduce NO _x emissions, Puławy	145,000	69,985	9,689	The project stems from the need to bring the steam generator, which along with generators Nos. 4 and 5 will become the primary generating unit of the CHP Plant, into compliance with the new NO _x emission standards and to restore the generator's proper technical condition.	2022

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2021	Project purpose	Scheduled completion date
Replacement of the TG-1 turbine generator set	85,000	45,737	17,146	To increase the efficiency of electricity and heat cogeneration by replacing the TG-1 30 MWe pass-out and condensing turbine with a new 34 MWe turbine as part of the power system upgrade	2022
Grupa Azoty POLICE					
Making production of demineralised water independent of variable salinity of the Oder River and increasing the ability to produce special waters in the water preparation units	108,000	73,847	13,675	The upgrade and expansion of the water treatment and demineralisation station will help protect Grupa Azoty POLICE against periods of elevated salinity in the Oder river and will enable the use of the Oder river as the only supply source. The project will also secure the supply of demineralised water to Grupa Azoty POLYOLEFINS units.	2022
Grupa Azoty KĘDZIERZYN					
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant, Kędzierzyn	140,000	68,502	1,894	Rebuilding the synthesis gas compression capacities for the Ammonia Plant through the installation of new compressors	2023
Purchase and installation of a new oxygen compressor	72,800	45,599	11,305	The objective is to replace old steam turbine driven oxygen compressors K-101 A and K-101 B with one electric compressor.	2022
Peak-load/reserve boilers	110,087	9,747	447	The peak-load/reserve boiler house as a peak-load source will operate in conjunction with steam generators in the existing CHP plant; in the event of downtime of coal-fired boilers, the peak-load/reserve boiler house will operate as a stand-alone reserve steam generator.	2024

* The project has been completed.

Source: Company data.

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

Exchange rates

In the six months to June 30th 2021, the PLN exchange rate was still more volatile than the EUR and the USD exchange rates, which was a direct effect of information on the forecast increase or reduction of the size of new COVID-19 waves.

The current developments in the financial markets, related to the progress of the vaccination programme, a strong economic recovery following the lifting of COVID-19 restrictions and the expected containment of the pandemic, allow for increased exposure to higher risk assets. At the same time, the new variants of the coronavirus and the forecasts of the next wave of the COVID-19 pandemic in the second half of 2021 should have a lesser impact on the global and national economies.

The Group expects that the weak PLN exchange rate may continue in the short term also as a result of the National Bank of Poland's position to continue its policy of keeping interest rates close to zero despite an increase in Poland's inflation rate, in a situation of simultaneous GDP growth and subsequent central banks' decisions to gradually raise interest rates, which leads to domestic deposits bearing actually negative interest rates and investments in Polish debt assets becoming less attractive, despite the fundamental undervaluation of the Polish currency.

In the medium term, the Group expects the zloty to strengthen slightly by the end of 2021 as the economy continues to grow, the number of vaccinated people increases, herd immunity against COVID-19 is reached, and the market and consumer optimism relatively rises.

It is assumed that the forecast currency trends should not have a material bearing on the Group's performance in 2021.

Interest rates in Poland

In the six months ended June 30th 2021, the interest rates in Poland were at their all-time low of approximately 0.2% p.a. and are expected to continue so until 2022, helping stabilise the Group's borrowing costs at a very low level and reinforce its debt service capacity, also if the Group plans to increase debt to finance its investing activities.

Taking into consideration the adverse effect of the COVID-19 pandemic on the eurozone countries, the European Central Bank continues its quantitative easing programme and a policy of negative interest rates, which should remain at current levels until the end of 2021, considering that core inflation in the eurozone remains low following a long period of deflation.

In the six months ended June 30th 2021, the US FED also kept interest rates close to zero in order to counteract the effects of the COVID-19 pandemic in the US. A slow and prudent change towards tightening of the monetary policy by the FED is expected towards the end of 2021.

To conclude, any adverse changes to the current very low interest rates on debt in currencies used by the Group to finance its business (PLN and EUR) are unlikely before the end of 2021. Therefore, the risk of the Group's financial condition or results of operations deteriorating on higher debt service costs is considered low, and borrowing costs will remain historically low until the end of 2021.

Based on statements from the President of the National Bank of Poland and members of the Monetary Policy Council, in their further actions they will focus on maintaining monetary policy easing instruments until the COVID-19 pandemic ends, assuming that the increase in Poland's inflation is mainly due to supply shocks.

A limited rise of WIBOR and/or EURIBOR rates may occur early in 2022 if inflation continues to escalate and the strong economy is maintained in Poland and globally after the COVID-19 pandemic is over and global population immunity is reached.

Regulatory area

The European Commission is continuing its work on delegated acts to Regulation (EU) 2019/1009 of the European Parliament and of the Council of June 5th 2019 (New Fertilizers Regulation) in order to make the provisions more precise. According to the document, the Regulation will take full effect in July 2022 after a three-year vacatio legis period:

- The European Commission published a Communication of April 7th 2021 on the visual appearance of the label on EU fertilising products, referred to in Annex III to Regulation (EU) 2019/1009 of the European Parliament and of the Council.
- The Joint Research Centre of the European Commission submitted its periodic report of June 14th 2021 entitled 'Technical proposals for by-products and high-purity materials as component materials for EU Fertilising Products' for feedback. The report is an update of the second version and contains proposals of preliminary criteria for new component material categories (CMC).
- On June 23rd 2021, the European Commission adopted delegated regulations amending, for the purpose of their adaptation to technical progress, Annexes I, II, III and IV to Regulation (EU) 2019/1009 of the European Parliament and of the Council. Once the Commission adopts an act, the European Parliament and the Council of the EU generally have two months to formulate any objections. If they do not, the delegated act enters into force.

The European Commission is continuing its work on the implementation of the provisions contained in the Communication on the European Green Deal, which is aimed at helping the European Union achieve climate neutrality by 2050:

- On April 19th 2021, the European Commission adopted revised EU guidelines on regional state aid, setting out the rules under which Member States can grant state aid to companies to support the economic development of disadvantaged areas in the EU, while ensuring a level playing field between Member States.
- On April 21st 2021, the European Commission adopted a package of measures to help improve the flow of money towards sustainable activities across the European Union. The package comprises:

- first delegated act to the Taxonomy Regulation, which sets out the technical screening criteria to define which activities contribute substantially to two of the environmental objectives under the Regulation, i.e. climate change mitigation and climate change adaptation,
 - revision of the Non-Financial Reporting Directive (NFRD). The draft Directive proposes amendments to several existing legal acts, including the Accounting Directive, the Transparency Directive, the Audit Directive and the Audit Regulation. The revision seeks to ensure public access to information on the risks, the sustainable development requirements imposed on undertakings and on the impact the undertakings themselves have on the society and environment.
- Consultations concerning the Corporate Sustainability Reporting Directive (CSRD) were held from April 21st to July 14th 2021.
 - On April 23rd 2021, the European Commission closed the consultation on the draft implementing regulation on organic farming, which lists products and substances authorised in organic production. The regulation is designed to set up clear rules for producing organic goods across the EU.
 - On April 26th 2021, consultation on the draft regulation on artificial intelligence was opened. It lasted until August 6th 2021.
 - On April 27th 2021, the public consultation on the EU's new strategy for soil protection, which is critical to achieving the European Green Deal climate and biodiversity objectives, was closed.
 - May 4th 2021 saw the opening of public consultation on the draft Act amending the Act on Wind Farm Investment Projects and Certain Other Acts.
 - From May 4th to June 1st 2021, public consultations were held on the preliminary assessment of the effects of legislation on chemicals (revision of the REACH Regulation to help achieve a toxic-free environment) and classification of hazards, labelling and packaging of chemicals (CLP Regulation).
 - On May 5th 2021, public consultations on amendment of the trans-European transport network (TEN-T) guidelines were closed. TEN-T is to facilitate transport across Europe and reduce regional, economic and social disparities by developing an integrated air, road, rail and maritime transport infrastructure.
 - From May 7th to June 2nd 2021, consultations were held on the draft delegated act under Article 8 of the Taxonomy Regulation, which is to specify the content, methodology and presentation of information to be disclosed by large financial and non-financial undertakings within the scope of the NFRD and its legislative revision (CSRD) concerning their taxonomy-aligned economic, investment or credit activities.
 - On May 18th 2021, the European Parliament's Committee on the Environment, Public Health and Food Safety published a draft report on the EU Methane Strategy. The Strategy aims to reduce/eliminate and measure anthropogenic methane emissions and stresses the EU's role in tackling the problem at the global level.
 - On May 18th 2021, the public consultation held by the European Commission on the Sustainable Products Initiative were closed.
 - On May 18th 2021, an agreement was reached at the plenary session of the European Parliament setting up the Just Transition Fund (JTF) aimed at offsetting the social and economic consequences of the transition to climate neutrality by supporting regions that are highly dependent on coal.
 - From June 7th to August 2nd 2021, consultation was held on the draft guidelines for the state aid for climate and environmental protection and energy.
 - From June 17th to June 25th 2021, the Ministry of Climate and Environment held consultation meetings on the extended packaging producer responsibility scheme.
 - June 18th 2021 saw the closing of public consultations on the European Commission's proposal to revise the Directive concerning common rules for the internal market in natural gas and the Regulation on conditions for access to the natural gas transmission networks.
 - On July 6th 2021, the European Commission published the Renewed Sustainable Finance Strategy along with a proposal for a standard for European green bonds and a delegated act to Article 8 of the Taxonomy Regulation for undertakings within the scope of the NFRD/CSRD on a package

of measures to help improve the flow of money towards financing the transition to a sustainable economy.

- On July 12th 2021, the public consultation on the expanded taxonomy report began. It will be closed on August 27th 2021.
- In the six months ended June 30th 2021, the European Union bodies continued to work on the final shape of legislation concerning the EU Emission Trading Scheme (EU ETS), the Carbon Border Adjustment Mechanism (CBAM), the Renewable Energy Directive, the Energy Efficiency Directive, the Energy Taxation Directive, the Effort Sharing Regulation, the Regulation on land use, forestry and agriculture, the FuelEU Maritime and ReFuelEU Aviation Initiative, the Alternative Fuel Infrastructure Regulation, and the stricter CO₂ emission standards for passenger cars and delivery vehicles. The regulations are part of the European Commission's flagship package 'Fit for 55', aimed at helping the European Union achieve climate neutrality and published as part of public consultations on July 15th 2021.

From April 7th to April 27th 2021, the Ministry of Development, Labour and Technology issued an opinion on a draft regulation concerning restrictions on the production, marketing or use of hazardous substances and mixtures as well as the placing on the market or use of products containing such substances or mixtures. The draft only provided for a change in the nomenclature but did not introduce any substantive changes.

On May 5th 2021, the Ministry of Infrastructure commenced public consultation on the draft Regulation of the Minister of Infrastructure concerning assessment of applications in determinative proceedings. The draft Regulation sets out detailed assessment criteria for the applications, including scoring, detailed criteria and the qualification minimum in determinative proceedings. To date, applications in determinative proceedings were assessed on the basis of the Act on Maritime Areas of the Republic of Poland and Maritime Administration of March 21st 1991, which only provided for an open catalogue of assessment criteria. The fast-growing offshore wind power market revealed the need for making the existing regulations on assessment of applications more specific. The Regulation is published directly under Art. 27.g.2 of the Act on Maritime Areas of the Republic of Poland and Maritime Administration of March 21st 1991, as amended.

In accordance with a Communication of the European Food Safety Authority (EFSA) of May 6th 2021, EFSA updated its safety assessment recommendations demonstrating that E171 (titanium dioxide (TiO₂)) is not safe to use as a food additive. EFSA relied on scientific data and acted following health concern reports by various authorities, including a request for re-evaluation submitted by the European Commission in 2020. In view of EFSA's opinion, it is necessary to take steps to ensure that E171 is no longer used in food. TiO₂ is mostly used by other sectors, namely paints and plastics, which are not obliged to follow the recommendation. Some countries stopped using TiO₂ as a food additive earlier.

On May 31st 2021, the Ministry of Agriculture and Rural Development started a 30-day public consultation on the draft act on organic farming. The act is to enter into force on January 1st 2022.

Between June 2nd and June 23rd 2021, the Ministry of Climate and Environment held public consultations on the draft law amending the Energy Law and the Renewable Energy Sources Act.

From June 15th to July 2nd 2021, a final meeting of the Technical Working Group was held to give the BAT WGC Conclusion (for common waste gas treatment in the chemical sector) its final shape.

The Ministry of Finance submitted the draft Act of June 18th 2021 Amending the Personal Income Tax Act and the Corporate Income Tax Act for preliminary consultation. The draft provides for a package of incentives supporting innovation and production processes (R&D credit, prototype credit, relief for employing innovative staff, robotisation relief). The consultation ended on June 21st 2021.

International trade policy

On January 1st 2021, following the end of the transitional period after Brexit, the UK left the single market and customs union. The drawn-out ratification of the Trade and Cooperation Agreement between the European Union and the United Kingdom, negotiated in late December 2020, which guarantees zero tariffs and zero quotas on traded goods, as well as the security of information agreement, was brought to a close on April 29th 2021. The agreements shall take full force and effect as of May 1st 2021. However, relations between the EU and the UK are tense. In March, the European Commission launched an infringement procedure against the United Kingdom for breaching the provisions of the Protocol on Ireland and Northern Ireland by unilaterally extending the 'grace periods', which constitutes a breach of obligations under the Withdrawal Agreement.

The end of the Trump era created a new opportunity to strengthen transatlantic links and potentially opened the way to working together on reforming the WTO Appellate Body, which had lost its ability to rule on trade disputes as the former US President blocked reappointments to that panel. On March 5th 2021, the EU and the US agreed to temporarily suspend retaliatory tariffs on EU and US exports imposed in the Airbus and Boeing disputes. The tariffs were suspended for four months. On June 15th 2021, at the US-EU Summit both parties decided to suspend retaliatory tariffs for five years. At the Summit, the EU and the US also launched the Trade and Technology Council to lead values-based global digital transformation.

Proceedings are pending to challenge the European Commission's 2019 decision to impose anti-dumping duties on UAN imports from Russia, the US and Trinidad and Tobago by Methanol Holdings (of Trinidad and Tobago) and Eurochem (of Russia).

On March 1st 2018, the European Union-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) formally entered into force; CEPA had been provisionally applied since June 2018.

On March 1st 2021, Ngozi Okonjo-Iweala of Nigeria assumed office as Director-General of the World Trade Organization (WTO). On April 26th 2021, during the EU Trade policy Day, an event held by the European Commission, WTO Director-General Ngozi Okonjo-Iweala held a discussion with EC representatives on the need to reform the WTO and adapt it to the reality of the 21st century.

On March 11th 2021, the United States International Trade Commission decided to impose countervailing duties on phosphate fertilizer imports from Russia and Morocco for a period of five years. The duties were imposed following the anti-subsidy investigation initiated in June 2020 at the request of Mosaic. The duties imposed on individual companies are as follows: 9.19% for PhosAgro, 47.05% for EuroChem, 17.2% for other Russian manufacturers and 19.97% for OCP. On May 12th 2021, Mosaic also filed petitions to review the countervailing duties, stating that the calculation made by the US Department of Commerce were incorrect. According to press publications, both PhosAgro and OCP appealed against the decision of the US International Trade Commission.

On March 22nd 2021, the Council of the European Union decided to impose sanctions on individuals and entities responsible for serious human rights violations in China. China retorted by imposing counter-sanctions. As a result, on May 20th 2021 the European Parliament passed a resolution to freeze the ratification of the EU-China investment deal. CAI - the Comprehensive Agreement on Investment between the EU and China was agreed in principle in December 2020.

On May 5th 2021, the European Commission published a proposal for a Regulation on foreign subsidies in the Single Market. Public consultations were held between May 7th and July 22nd 2021. On May 27th and May 28th 2021, a meeting of the Competitiveness Council was held to discuss the proposal. As in the White Paper published on June 17th 2020, the European Commission proposes to establish three instruments: for concentrations, for public procurement, and a general instrument for investigating all other market situations. The proposal differs from the White Paper with regard to, for instance, powers: in the case of all of the instruments enforcing the regulation is to rest solely with the Commission. The solution differs from previous ideas contained in the White Paper, where in the case of certain instruments powers were to be shared with member states. The European Commission also determined that a foreign subsidy the total amount of which is below EUR 5 million over any consecutive period of three fiscal years is unlikely to distort the internal market. The amount is much higher than that provided for in the EU state aid regulations, that is EUR 200 thousand in a three-year period.

At the virtual summit held on May 8th 2021, the European Union and India decided to resume negotiations on free trade, which came to a standstill in 2013. The meeting was attended by all the 27 EU leaders, which is a sign of the EU's revived interest in the Indo-Pacific region.

By decision of Australia's Anti-Dumping Commission, the anti-dumping duties on imports of ammonium nitrate originating in Russia (imported directly or via Estonia) expired on May 24th 2021.

On June 11th 2021, the G7 Summit (France, Italy, Germany, the United Kingdom, the United States, Canada, and Japan) was held. The leaders agreed to step up their efforts to contain the pandemic and strengthen resilience against future pandemics, continue supporting economies in their recovery from the crisis, promote more free and fair trade with a fairer tax system, tackle climate change, including to reach zero net emissions by 2050, assist in infrastructure projects in developing countries, and to champion global shares values, such as democracy, equality and human rights.

On June 14th 2021, the EU-Canada Summit was held in Brussels, at which the parties set up a strategic partnership on raw materials. The strategic partnership is to focus on integrating the EU-Canada supply chains, while strengthening cooperation in science, technology and innovation. This is the first agreement of this type concluded by the EU.

On June 16th this year, the US and Russian Presidents met at a summit in Geneva to discuss relations between the two countries. Although both leaders declared their willingness to reach an agreement, no specific decisions or actions were announced.

On June 24th, the European Council announced Regulation (EU) 2021/1030 that imposes restrictive measures in respect of Belarus. Under the Regulation, it is prohibited to import, purchase or transfer potassium chloride (excluding code 3104 20 50) and compound fertilizers from Belarus. The prohibition applies to contracts executed after June 25th 2021. After the incident involving a forced landing in Minsk of the Ryanair flight travelling from Athens to Vilnius and arresting Roman Protasevich, a leader of the Belarusian opposition, the European Union also imposed sectoral sanctions against Belarus, which significantly affected the supply of petroleum products.

On June 30th 2021, CF Industries Holding filed a request with the US Department of Commerce and the US International Trade Commission to initiate an anti-dumping and anti-subsidy investigation concerning UAN imports from Russia and Trinidad and Tobago.

Negotiations of the European Union's trade agreements with the following third countries are in progress: Australia (the tenth round of negotiations was held in June, another round of negotiations is scheduled for October 2021), New Zealand (the eleventh round of negotiations was held between June 28th and July 2nd), Chile (the tenth round of negotiations was held in late April and early May, the date of the next round of negotiations has not yet been set; at present the parties meet in between the sessions, both at the technical and the main negotiator levels, to discuss the chapters of the agreement) and Indonesia (the last round of negotiations was held in late February and early March, the next round is scheduled for July 2021) - the texts of the agreements are being negotiated bilaterally.

No significant progress has been made in ratifying the trade agreement with MERCOSUR countries (Argentina, Brasil, Paraguay and Uruguay). Negotiations concerning the agreement ended in 2019 (the European Commission expects MERCOSUR to become involved in the Paris Agreement and to tackle the problem of deforestation in the Amazon rainforest).

3. Risks and threats

Risks related to employee health, disruption in the Group's operations, and financial consequences due to SARS-CoV-2 epidemic

Group - medium risk / Parent - medium risk

Risk related to health and safety of employees, potential disruptions in production and supply chain, and adverse financial consequences resulting from the public health emergency caused by the SARS-CoV-2 epidemic.

The Group is constantly monitoring the epidemic situation in Poland and analysing various scenarios relating to the current and projected consequences of the public health emergency affecting the Parent's and the Grupa Azoty Group's operations. The analyses and forecasts consider the introduced legislative changes and changes in behaviour in the market environment.

In order to enable the Parent and other Grupa Azoty Group companies to operate in a possibly smooth manner, procedures have been put in place to ensure prompt response by relevant units. In addition, recommendations were issued to disinfect premises, work from home and maintain social distancing in order to reduce the risk of employees contracting the coronavirus. A team has also been set up at the Parent to coordinate activities undertaken in connection with the public health emergency.

No significant decrease in sales was seen in any of the segments in the reporting period. There were no major disruptions in the supply chains of raw materials or products. In the six months to June 30th 2021, the Parent was not affected by an increase in employee sick absence rates which would disrupt operations nor did any production cuts associated with public health emergency occur.

In the first half of 2021, the Parent did not report any material adverse effects of the COVID-19 pandemic on its financial results.

The Grupa Azoty Group is taking steps to minimise the impact of the COVID-19 pandemic on its 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.

The Group's financial condition is stable. In the opinion of the Parent's Management Board, the preventive measures taken have minimised the economic impact of the COVID-19 pandemic and mitigated the risk to business continuity. Last year's experience shows that the effects of the COVID-19 pandemic do not jeopardise the Group's market position, its liquidity or ability to pursue strategic investment projects.

Risks associated with the execution of investment projects

Group - medium risk / Parent - medium risk

Risk that key investment projects will not be completed according to plan and/or will not deliver the expected results. Risk that a given investment project may not be executed at all, may be delayed and/or may be over budget.

Implementation of strategic investment projects is among the Group's major areas of activity, critical to its value growth. The Group's strategy envisages both investment projects in the core business areas of the Group and expansion of its new business segments.

Investment decisions are made on a case-by-case basis in the context of compliance with the Group's strategy, the project's expected economic viability, and the level of risk associated with achieving the expected results. In consequence, considering the nature of the Group's investment projects, including the time required for their preparation and implementation and the effect of new regulations on their profitability, there is a risk that some of the investment projects included in the Group's investment programme will be modified, their completion will be delayed or that they will not be carried out at all.

Each investment project is implemented in line with internal procedures. Monthly reporting by Project Managers and quarterly corporate reporting have been put in place at the Grupa Azoty Group. The reports contain analysis identifying potential increases in the risk of exceeding the deadline and/or overrunning the budget of a specific project.

Risk associated with price and availability of key raw materials

Group - medium risk / Parent - medium risk

Risk that production may be stopped or significantly constrained due to disruptions in supplying a key raw material or a significant increase in its price.

Continuity of the Group's production depends on availability and quality of key raw materials.

No assurance can be given that terms of business with some suppliers will not deteriorate or that the supply of raw materials used in production will not be interrupted. In particular, a limited number of potential suppliers and the presence of oligopolies with a dominant position of a single entity on some of the markets for the commodities used by the Group may be a source of risk.

The continuity of supply of raw materials to the Group may also be disrupted by factors such as technical failures, natural disasters, adverse market conditions resulting from the lack or short supply of certain raw materials, significant adverse weather conditions or events of force majeure. Furthermore, no assurance can be given that contracts for the supply of raw materials will not contain clauses unfavourable to the Group companies, which would unduly or ineffectively protect the Group companies' interests in the event that a given supplier fails to perform or improperly performs its obligations under such contracts.

The key raw materials and feedstocks for production at the Parent include ammonia, phenol, sulfur, natural gas and coal. The raw materials and feedstocks used by the Grupa Azoty Group's subsidiaries also include benzene, propylene, phosphate rock and potassium chloride. It should be noted that ammonia and sulfur are largely supplied from the Group's internal sources, which significantly mitigates this risk.

Risk related to price and availability of natural gas

Group - medium risk / Parent - medium risk

Risk related to prices and operational disruptions caused by a lower-than-expected or restricted supply of adequate volumes of natural gas of the right grade and quality required for production.

In the search for competitive sources of gas in order to diversify both the geographical regions and suppliers of gas, the Grupa Azoty Group companies provide details of executed contracts and their terms and conditions in press releases and reports. Negotiations with gas suppliers are conducted at the Group level, which allows the Group to leverage its stronger bargaining position. The Grupa Azoty Group takes steps to satisfy its overall gas demand through a combination of a long-term contract

with its strategic supplier, annual or shorter contracts with a number of other suppliers, and transactions on energy exchanges and the OTC market to meet short-term demand of the companies, secure gas supplies and lower cost of gas.

To this end, the Parent and the subsidiaries have concluded a long-term contract with a reliable strategic partner. The contract secures 80-100% of the needs, making it possible to partially diversify supplies. The contract provides for a price formula based on market quotations and allows the Parent to hedge future prices based on forward products. The conclusion of a long-term contract with pricing formulas based on the German market (the largest gas market in Europe) has limited the risk of having to pay significantly higher prices than the direct EU competitors.

Furthermore, the risk of supply constraints due to disruption in gas supplies to Poland has been mitigated by the extension of cross-border interconnectors, launch of the LNG terminal, and by Regulation (EU) 2017/1938 of the European Parliament and of the Council concerning measures to safeguard the security of gas supply. Moreover, the gas availability and price risk at the Parent is mitigated by the supplies of substitute and cheaper gas from local sources. They ensure that in the event of limited grid gas supply production may be continued at satisfactory levels, and if supplies from local sources are lower than needed, grid gas is purchased on the Polish Power Exchange and supplied as part of within-day capacity.

Factors that shape the gas market and their impact are changing rapidly. Gas prices are increasingly influenced by the volatile demand caused by the growing share of renewable energy sources in power generation, supplemented by flexible gas-fired generation units. The global LNG market, with Europe's own production declining, is also putting an increasing pressure on prices through price arbitrage between the European and Asian markets, perceived by many suppliers as competing markets.

Due to exceptionally cold winter weather in the northern hemisphere in 2021, gas stocks fell to very low levels. The stocks could not be rebuilt afterwards as spring was cold and winds were weak. Growing coal prices, triggering high demand for LNG, and LNG prices in Asia translated into low LNG export volumes to Europe. As a result, at the end of the second quarter gas prices on European commodity exchanges were set by the competitive Asian market and were several times higher than in the previous year.

Therefore, in order to alleviate the impact of significant gas price movements on the spot market on the gas costs paid by the Group companies, measures mitigating the risk were taken in the first half of 2021, consisting in locking in gas prices through forward contracts covering a portion of purchased volumes.

Risk of major industrial accidents or technical failures disrupting the continuity of processes and operation of key production units

Group - medium risk / Parent - medium risk

The risk of major industrial accidents defined in accordance with the Environmental Protection Law or technical failures disrupting the continuity of processes and operation of production units of key importance for the implementation of the enterprise's objects.

The Parent is classified as an establishment with a high risk of a major industrial accident (upper-tier establishment - UTE). Therefore, the Company has developed and implemented incident prevention programmes and regularly monitors and implements legal safety requirements, including requirements of the SEVESO III Directive. The Grupa Azoty Group has reliable safety systems and preventive and prediction measures in place at all organisational and technological levels, including occupational health and safety as well as protection against industrial accidents. The relevance of adopted safety measures is assessed by internal and external inspection authorities as well as by accreditation/certification bodies.

The strategy for managing the risk of major industrial accidents or technical failures focuses in the first place on measures to prevent critical situations, and if any such event occurs, the risk is shared with the insurer.

Measures to prevent emergency situations at the Grupa Azoty Group companies include ongoing monitoring of hazards related to technological processes and operation of machinery and equipment, ongoing assessment of their technical condition, and monitoring of threats in storage and transport. The Parent's plants and units are equipped with safety and protection systems to minimise the risk of major accidents and environmental contamination, as well as risks to human life and health. The Group's units are Best Available Techniques (BAT) compliant. The units are kept in a proper working order also by carrying out scheduled technical stoppages and maintenance shutdowns, periodic

inspections and routine rounds as required in the technological and job instruction manuals. The relevant execution resources are provided.

If a failure or accident occur, they are thoroughly analysed in order to identify their causes. Based on such analysis, preventive measures are taken to minimise the risk of such incidents taking place again.

Risk of higher fertilizer imports

Group - high risk / Parent - high risk

Risk of failure to achieve target revenue from sales of fertilizers due to higher fertilizer imports. Risk related to periodic increases in volumes of fertilizers imported into Poland from other EU countries and from third countries as well as to a decline in economic performance as a result of squeezed product margins caused by the emergence of new market players and significant volumes of imported fertilizers. Consequently, there is a risk of failure to achieve targeted revenue from sales of fertilizers.

Recent years saw a significant increase in imports of NP and NPK fertilizers as well as UREA, AN, UAN and CAN fertilizers both to the EU and Poland. Competitors from eastern markets have access to cheap raw materials, such as natural gas, potassium chloride and phosphate rock, which are the key cost components in fertilizer production. Fertilizer production costs in the European Union are driven by a number of regulations, including limits on CO₂ emissions, which are not applied in Eastern European or Asian markets.

The Group's efforts focus on mitigating the risks and on strengthening and consolidating its position in the segment of fertilizer production and sale. The Group monitors the volume of fertilizer imports by adapting its sale/pricing policies to prevailing market conditions, for instance by adjusting price paths to current trends on the European and key global markets and taking steps to optimise the production costs and expand the portfolio of products and services offered to customers.

Risk of tightening regulations restricting the use or application of the Group's products

Group - medium risk / Parent - medium risk

The Group monitors and implements new requirements on an ongoing basis. The Group takes an active part in the work of registration consortia and European associations, and cooperates with Polish institutions to respond to upcoming changes in legislation.

The impact of new regulations on operations and marketed products is reviewed by the Grupa Azoty Group on a case by case basis. Amendments to EU directives and regulations applicable to the Group's key manufacturing and trading activities give rise to a potential risk that the use of the Group's products by customers in the EU countries may be restricted.

The Grupa Azoty Group is currently analysing the risks associated with regulatory trends and proposed changes or planned new regulations, including delegated acts under the New Fertilizers Regulation (Regulation (EU) 2019/1009 of the European Parliament and of the Council of June 5th 2019), as well as Commission Implementing Regulation (EU) 2020/2151 of December 17th 2020 laying down rules on harmonised marking specifications on single-use plastic products, and regulatory packages under the European Green Deal.

Also the risks of more stringent EU regulations on the content of heavy metals in fertilizer products and restrictions on sales of certain plastic materials due to stricter requirements on plastic recycling are being particularly closely monitored by the Grupa Azoty Group.

Risk of rising prices of carbon emission allowances

Group - medium risk / Parent - medium risk

Potential threats related to this risk include higher market prices of CO₂ emission allowances or failure to purchase sufficient volumes of CO₂ emission allowances due to unavailability of cash or trading limits at banks.

To monitor this risk, the Group has established an EU ETS Management Committee and an EU ETS Executive Team. In order to mitigate the risk of a negative impact of CO₂ emissions trading prices on the results delivered by the Parent and other key Group companies, the emission allowances market is continuously monitored and emission allowances are purchased on the futures market on a rolling basis. Additional futures transactions are executed when the market conditions are favourable. Such approach ensures mitigating the risk that allowances would be purchased at unfavourable prices.

In addition, a part of future emission allowances is secured by means of purchases of emission allowances in transactions that give rise to an obligation to deliver allowances on future dates, to be settled in future periods. The Group has signed framework agreements with three banks, under which it is granted limits to hedge futures transactions to purchase greenhouse gas emission allowances under futures contracts. The potential risk related to full utilisation of existing trading limits at banks has been mitigated by negotiating new, increased limits.

The policies and procedures in place are designed to ensure smooth trading in CO₂ emission allowances, ensure its efficiency, minimise the cost of operation of the EU Emissions Trading Scheme at the Group, and reduce the risks associated with participation in the scheme. They also aim to reduce spending on the purchase of emission allowances by entry into forward transactions, which maximally delay the related cash outflows, thus minimising an increase in the net debt to EBITDA ratio at the end of a reporting period.

Currency risk

Group - medium risk / Parent - medium risk

Risk of excessive finance costs resulting from foreign exchange losses.

The first half of 2021 saw increased volatility of the PLN/EUR and PLN/USD exchange rates along with changes in the EUR/USD exchange rate.

The Group companies hedge their currency exposures using natural hedging, factoring and discounting of foreign currency receivables, currency forwards and, to a lesser extent, options. Since 2014, the Group has applied the Financial (Currency and Interest Rate) Risk Management Policy. In 2015, a centralised financing model was put in place at the Group, supporting a long-term hedge horizon by contracting a portion of long-term financing in the form of a euro-denominated credit facility. As of 2017, the Group also reduces its euro-denominated currency exposure by increasing natural hedging.

The Group also has in place a Risk Committee which analyses and determines the consolidated currency exposure of the Group, and recommends target levels and time horizons of hedges, types of hedging instruments, and exchange rates for hedge transactions. Hedge transactions are executed by the Group companies with the hedged currency exposure. The methods applied by the Grupa Azoty Group enable it to significantly limit risk by using selected currency risk hedging instruments and strategies, based on long-term and one-year currency exposure plans and their updates to account for quarterly operational plans and short-term projections of currency inflows and currency expenditures, and based on the results of transactions already registered in the financial and accounting system. However, these methods do not eliminate that risk completely. The risk is also increased by the spread of the COVID-19 pandemic. Strong fluctuations in exchange rates may affect the Group's business, financial condition or performance.

Interest rate risk

Group - low risk / Parent - low risk

From the Parent's perspective, net exposure to interest rate risk is partly limited as the Parent's credit facilities bear variable interest at 1M WIBOR plus the banks' margin and, at the same time, the Parent has granted the Group companies loans bearing interest at the same variable rate and a slightly higher margin. From the Group's perspective, this risk is not hedged, and it is mitigated by the fact that some credit facility agreements are denominated in the euro and have fixed interest rates.

The Group also uses surplus cash in PLN and EUR to balance the debt owed by the Group companies in PLN and EUR under overdraft agreements connected with physical cash pooling agreements. This limits the Group's net exposure to the PLN/EUR exchange rate and EUR and PLN interest rate risk. Moreover, the Group had utilised the first long-term loan with the EIB by 2017 and plans to end the utilisation of the second loan from the EIB by September 2021. Both loans bear interest at a fixed rate and are repayable over a period of 10 years. The Group also has access to transaction limits with banks, which enable it to enter into fixed-rate hedging transactions if the risk of a significant increase in financing costs due to higher variable market interest rates grows.

The Group has implemented the Financial (Currency and Interest Rate) Risk Management Policy. The Group has a Risk Committee which periodically assesses the consolidated exposure to interest rate risk of the Parent and its key subsidiaries, and examines the validity of measures designed to mitigate that risk.

When market interest rates are low, risk indicators are calculated and risk assessment is performed based on a scenario analysis with regard to the Parent's and the subsidiaries' actual exposure to that risk. If the risk exposure and/or market interest rates significantly increase, the Risk Committee considers calculating the value exposed to interest rate risk in accordance with the VaR methodology. Interest rate risk hedges should be executed by the Parent as the entity which centrally manages the Group's finances. Under the loan agreement with the EIB, the Group is obliged to keep its consolidated EBITDA to net interest expense ratio at no less than 6x.

In the first six months of 2020, due to the COVID-19 pandemic, interest rates in PLN were significantly reduced. In particular, the NBP base rate was cut from 1.5% to 0.1%. At the same time, base interest rates in EUR continue to be negative. Despite growing inflation, current market forecasts and efforts taken by the governments of developed countries worldwide to support the economy and ensure financial liquidity of enterprises do not imply any significant interest rate increases in the near term.

Liquidity risk

Group - low risk / Parent - low risk

Liquidity risk is the risk of unexpected cash shortage or unavailability of credit facilities, resulting in temporary loss of ability to meet financial liabilities or the need to raise financing on unfavourable terms.

The Group is exposed to financial liquidity risk consisting in the Group's inability to repay its financial liabilities when they fall due. Risk of failure to raise new financing or refinance existing debt can increase liquidity risk.

The Group has put in place the Grupa Azoty Group Financing and Liquidity Risk Management Policy. Under the central financing model, the Group has implemented a package of financing agreements and amended its umbrella overdraft and multi-purpose credit facility agreements which secure current liquidity of the Group companies. The Parent is the agent under the umbrella agreements, authorised to allocate sub-limits of those credit facilities to individual Group companies. In 2015, the Parent and its key subsidiaries entered into an Intra-Group Financing Agreement (amended in 2018) under which it set financing limits of PLN 1bn for each of the subsidiaries. On October 1st 2016, the Group launched a physical cash pooling service in PLN and, and on November 2nd 2018 - in EUR. The services enable the Group companies to take advantage of the Group's overall liquidity position, including for short-term financing of deficits at some of the companies with surpluses at others. As a result, the Group has access to credit facilities (surplus cash) as well as mechanisms for their free redistribution, which significantly reduces the probability of short-term liquidity loss by the Group or its individual companies. The mechanism also significantly reduces the Group's finance costs. In addition, the Group concluded reverse factoring agreements, which offer a lower cost of financing and full contracting and repayment flexibility, and make it possible to reduce the cost of traditional debt financing.

The above instruments effectively satisfy the Group's current liquidity needs and provide financing for its investment programme. However, if there is an accumulation of both external and internal negative factors, the liquidity risk mitigation methods applied by the Group may prove insufficient, which may have a material adverse effect on the Group's operations, financial condition and results. Therefore, the key issue is to ensure compliance with the covenants provided for in the credit facility agreements, in particular the ratio of the Group's net debt to consolidated EBITDA. This ratio is calculated on a rolling 12 month basis and monitored semi-annually, i.e. at the end of the first half of a calendar year and at the end of the year. The Group monitors projections concerning changes in this ratio on the basis of its annual budget and by preparing long-term budgets taking into account both base-case and conservative scenarios.

At present, none of the covenants under the credit facility agreements are expected to be breached, but in the event of accumulation of adverse macro- and microeconomic factors, especially in the event of a sudden material deterioration of the Group's financial performance, such risk may materialise. Therefore, operating and financial performance must be monitored on an ongoing basis, and operating expenses and capital expenditure at individual Group companies must be monitored and managed effectively.

Risk related to the security of IT systems

Group - medium risk / Parent - medium risk

In their operations, the Group companies use IT systems whose operation can be disrupted by errors in software or ICT infrastructure failures. In addition, some of the systems may be subject of cyber attacks, in particular those taking advantage of defects or security gaps in ICT systems, not yet identified by their manufacturers or providers of ICT security solutions.

Despite the implementation of ICT security systems and procedures as well as constant efforts to minimise the risk of failure and breaking the security barriers in place, the technical and organisational solutions applied may prove ineffective, and failures or ICT security breach incidents may pose a threat to the systems' uninterrupted operation and to the confidentiality and integrity of the data processed in these systems, which in turn may have a material adverse effect on the Group's business, financial position or growth prospects.

The Parent has in place a number of solutions governing information security management: Information Security Policy, ICT system security policy, Instructions for secure use of email, and internal orders concerning the protection of business secrets and handling of information security incidents. The Group has established a Data Protection Committee, as well as a security testing team and an ICT security procedure team. The Group's Security Operations Center monitors the security of ICT systems and handles ICT security incidents.

4. Other information

4.1. Other significant events

Progress of the Polimery Police project

In the six months ended June 30th 2021, Grupa Azoty POLYOLEFINS continued to implement the Polimery Police project to build propylene and polypropylene units with auxiliary systems and associated infrastructure, as well as a port terminal with feedstock storage facilities (the "Project"). The General Contractor for the Project is Hyundai Engineering Co., Ltd. ("HEC", "General Contractor" or "Hyundai"), in accordance with the contract for turnkey execution of the Polimery Police project of May 11th 2019 (the "EPC Contract"). The start of its commercial operation was scheduled for the first quarter of 2023.

- **Progress of construction work**

As at August 15th 2021, the overall stage of completion under the EPC Contract was 72%. The overall stage of completion is understood as design, procurement and supply, delivery of equipment with long lead times (Long Lead Items), applications for necessary administrative permits and decisions, construction and assembly work.

- **Handling and storage terminal (marine gas terminal, HST)**

In the reporting period, installation of the outer shell on an ethylene tank and propane tanks was completed, and the roof dome of one propane tank was installed. Installation of roofs on the ethylene tank and on two propane tanks was completed.

Concurrently, hydraulic engineering work in the offshore part of the HST subproject (construction of the wharf and dredging work) is underway. Piling work on the wharf was completed. Assembly of a part of pipe bridges was completed and pipeline laying and welding began. Work was also under way to construct the main terminal building, transformer station building, and a fire and cooling water pumping station building.

On February 22nd 2021, Annex 1 was signed to the contract with Przedsiębiorstwo Robót Czerpalnych i Podwodnych Sp. z o.o. for the 'Planning and performance of dredging work to increase depth from 10.5 to 12.5 metres as part of the Polimery Police project', reducing the value of the contract and changing its scope.

On June 29th 2021, the hoisting of the 290-tonne roof of the propane tank was completed.

- **PDH and PP units with a logistics base**

In the first half of 2021, the deliveries of plant and equipment continued. The operation of mounting in place the 96-metre-tall propane-propylene splitter, a key component of the PDH unit, was successfully completed. In addition, equipment items such as depropanizer, PDH reactors, and PP section reactors were placed on the foundations. A furnace for the PDH unit was being installed.

Prefabrication of another 30 storage silos was completed. On August 9th–27th 2021, 60 storage silos were installed.

- **Financial stream**

On January 29th 2021, Grupa Azoty POLYOLEFINS made a representation on the establishment of mortgages over track properties acquired from Grupa Azoty POLICE in January 2021, where the Project is being implemented, in favour of the Security Agent (Bank Polska Kasa Opieki S.A.). The mortgages supplement the security package under the Credit Facilities Agreement of May 31st 2020.

On February 22nd 2021, a notarial deed was signed to establish an easement on Grupa Azoty POLICE's properties in favour of Grupa Azoty POLYOLEFINS.

On February 25th 2021, Grupa Azoty POLYOLEFINS was notified by Bank Polska Kasa Opieki S.A., as the Facility Agent, of the receipt (in form and content satisfactory to the Lenders) of all necessary documents and/or information constituting conditions precedent to Financial Close under the Credit Facilities Agreement (as defined in Current Report No. 23/2020 of May 31st 2020), as amended.

Financial Closing was thus achieved, enabling Grupa Azoty POLYOLEFINS to apply for disbursement of funds under the credit facilities, subject to the fulfilment of specific conditions for the first disbursement of each credit facility and additional conditions for each subsequent disbursement, similar to conditions commonly applied with respect to financing of this type.

On March 4th 2021, Grupa Azoty POLYOLEFINS sold perpetual usufruct rights to land and ownership rights to properties located on the premises of the Police Maritime Port to Zarząd Morskiego Portu Police Sp. z o.o. ("ZMPP"). Together with the agreement referred to above, an additional agreement was concluded to maintain the existing security *in rem* over the properties, established in favour of the financing institutions. In addition, a conditional lease contract with ZMPP concerning the properties took effect. The transactions were required to be carried out under the Credit Facilities Agreement.

Following fulfilment of a number of requirements defined by the financing institutions in the Credit Facilities Agreement, on April 27th 2021 the first tranche of the term facility was disbursed to finance the Project.

The VAT facility for financing or refinancing VAT on the Project costs during the construction phase was disbursed on March 22nd 2021.

At present, Grupa Azoty POLYOLEFINS draws funds under the facilities (term and VAT facilities) to meet its liquidity needs related mainly from the progress in implementation of the Project.

In connection with the compounding of interest for the next interest period on subordinated loans granted under agreements concluded by Grupa Azoty POLYOLEFINS with the Parent, Grupa Azoty POLICE, Grupa LOTOS S.A. and Korea Overseas Infrastructure & Urban Development Corporation in July 2021 (event subsequent to the reporting date), Annexes 2 to the loan agreements of May 31st 2020 were executed between the above entities.

- **Hyundai's proposal to amend the EPC Contract**

After the reporting date, on August 27th 2021, the Parent's Management Board announced that on August 27th 2021 Grupa Azoty POLYOLEFINS received a letter from Hyundai concerning initiation of a procedure to amend (the "Amendment Proposal") the EPC Contract.

The Contractor proposes to amend the EPC Contract by:

- increasing the Contractor's fee by a total amount of EUR 127.4m,
- changing the Polimery Police project execution schedule through extension of the project's execution period by 181 days.
- amending an appendix to the EPC Contract where it relates to, among others, the scope of work provided for in the EPC Contract.

In the Contractor's opinion, the reason for submitting the Amendment Proposal is, in particular, the impact of the COVID-19 pandemic on the Polimery Police project.

The Amendment Proposal will be thoroughly reviewed and verified in terms of its appropriateness under the EPC Contract, in accordance with the procedure provided for in the EPC Contract, and under other agreements between Grupa Azoty POLYOLEFINS and the Contractor, as well as in the light of facts.

Information on the effects of the COVID-19 pandemic

The Group is constantly monitoring the epidemic situation in Poland and analysing various scenarios relating to the current and projected consequences of the public health emergency affecting the

Parent's and the Group's operations. The analyses and forecasts consider the introduced legislative changes and changes in behaviour in the market environment.

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

The pandemic situation led to changes in the work organisation systems, designed to limit physical contacts between employees in order to minimise the risk of infection.

The Grupa Azoty Group companies provided additional protective and hygienic materials for the employees of the Group companies, and also enabled employees to do rapid COVID-19 tests in cases of suspected infection or contact with an infected person.

In June 2021, the Grupa Azoty Group organised preventive vaccinations against COVID-19 for employees of the Parent and its subsidiaries and for their families.

In the six months to June 30th 2021, the Grupa Azoty Group was not affected by an increase in employee sick absence rates which would disrupt operations nor did any production cuts associated with the public health emergency occur.

The Grupa Azoty Group is taking steps to minimise the impact of the COVID-19 pandemic on its 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.

No significant decrease in sales was seen in any of the segments in the first half of 2021. There were no major disruptions in the supply chains of raw materials or products.

In the first half of 2021, the Group did not report any material adverse effects of the COVID-19 pandemic on its financial results.

In the opinion of the Parent's Management Board, the preventive measures taken have minimised the economic impact of the COVID-19 pandemic and mitigated the risk to business continuity. Last year's experience shows that the effects of the COVID-19 pandemic do not jeopardise the Group's market position, its liquidity or ability to pursue strategic investment projects.

Execution of a cooperation agreement with the Małopolska Region regarding integrated project LIFE EKOMAŁOPOLSKA

On February 23rd 2021, the Parent and the Małopolska Region signed an agreement on cooperation in implementing the integrated project LIFE EKOMAŁOPOLSKA (the "Agreement").

In the Agreement, the parties define the main principles of cooperation in implementing a climate protection policy and the integrated project LIFE EKOMAŁOPOLSKA - "Implementation of the Regional Action Plan for Climate and Energy" (the "LIFE EKOMAŁOPOLSKA Project"), financed with a LIFE financial instrument and European Union funds.

The Parent committed itself to:

- a) Strive to achieve climate neutrality in its production processes and activities carried out in the Małopolska Region by 2050;
- b) Implement projects supporting the energy transformation process, especially those involving the use of renewable energy sources, and reduction of greenhouse gas emission by 2030;
- c) Seek to decarbonise industrial activity and minimise the carbon footprint;
- d) Develop green ammonia and green hydrogen technologies;
- e) Implement R&D projects that will contribute to the achievement of environmental and climate objectives set out in the European Green Deal;
- f) Provide expertise and support for the purposes of implementing the integrated project LIFE EKOMAŁOPOLSKA - 'Implementation of the Regional Climate and Energy Action Plan for the Małopolska Region'.

The Małopolska Region declared that it will use its own funds and resources in order to meet the LIFE EKOMAŁOPOLSKA Project requirements and achieve its main objectives.

The Parties to the Agreement represented that they will collaborate in developing/preparing assessments, expert opinions and plans regarding transformation of the energy-intensive industry in the Małopolska Region, which are being drawn up as part of the LIFE EKOMAŁOPOLSKA Project.

The agreement does not provide for any financial flows between its parties and no transfer of funds will take place as part of the cooperation.

The Agreement has been made for an indefinite period and until the completion of the LIFE EKOMAŁOPOLSKA Project - "Implementation of the Regional Action Plan for Climate and Energy", assuming that the project will be completed in December 2030.

Either party may withdraw from the agreement by giving written notice to the other party.

The Parent, being aware of air pollution and climate change as well as the inevitable energy transition in industry and the economy as a whole, wishes to engage in all initiatives conducive to achieving climate and environmental goals. One of the initiatives taken is the above project of the Małopolska Region.

Launch of a granulated fertilizer unit in Grupa Azoty PUŁAWY

On June 11th 2021, Grupa Azoty PUŁAWY brought online a granulated fertilizer plant. Apart from the production lines, it includes Poland's most modern packing and seasoning facilities. This means completion of one of the largest fertilizer projects in Poland in recent years, which guarantees not only top quality products but also new jobs created at Grupa Azoty PUŁAWY.

The production capacities of the two lines are up to 820,000 tonnes per year. The granulated ammonium nitrate line (AN - 32% N) and the calcium ammonium nitrate line (CAN - 27% N) have the daily production capacities of 1,200 tonnes and 1,400 tonnes, respectively. The project's total budget is PLN 430m.

In addition to the production units, the project also involved the construction of infrastructure and logistics facilities for unloading and processing of raw materials, as well as a warehouse for finished products and a packing plant, which was equipped with fully automated machines for packing fertilisers into flexible containers (big bags), the only solution of this type deployed in Poland.

Discontinuation of polyoxymethylene (POM) business by the Parent

On June 9th 2021, the Management Board of the Parent decided that the Parent's activity in the polyoxymethylene (POM) business would be discontinued.

An analysis revealed that the POM business would not be economically viable in the foreseeable future, which was an indication that the Plastics Segment's POM business should be discontinued and its selected assets should be disposed of.

Consolidated revenue from external sales of POM products in 2020 amounted to PLN 54.1m, accounting for 0.5% of Grupa Azoty Group's total revenue. The discontinuation of POM production will reduce total CO₂ emissions by the Grupa Azoty Group.

The POM business was discontinued as of August 2021 and its assets are being gradually disposed of or utilised otherwise.

The decision to exit the POM business has no impact on any other operations of the Plastics Segment.

Grupa Azoty in Łukasiewicz Index

Grupa Azoty has been included in the Łukasiewicz Index, which aims to promote listed companies involved in R&D activities. The index portfolio includes companies listed on the WSE's regulated market and in its alternative trading system (New Connect) which have collaborative ties with the Łukasiewicz Research Network. The list of the index constituents was announced on April 1st 2021, and the index quotations have been published daily since April 12th 2021.

One of the conditions for a company's inclusion in the index is its cooperation with the Łukasiewicz Research Network between April 1st 2019 and January 31st 2021. Grupa Azoty has a continuous track record of joint initiatives with the Łukasiewicz Research Network since the institute's inception. Such joint initiatives include the ongoing project to develop a new generation catalyst for a low-temperature hydrogen and syngas production process, co-financed under the Smart Growth Operational Programme 2014-2020. In addition, the Łukasiewicz Research Network is running several large R&D projects commissioned by the Parent to comprehensively develop technologies for manufacturing speciality plastics.

4.2. Significant agreements

The agreements are presented in chronological order.

In the first half of 2021 and as at the date of this Report for the first half of 2021, none of the Group companies defaulted on credit facilities or other borrowings or breached any material covenants under significant credit facility or other loan agreements.

Material agreements

Agreements and annexes to contracts of a financial nature

Annexes to credit facility agreements with EIB

On January 12th 2021, the Parent and the European Investment Bank executed Annex 5 to the Financing Agreement of May 28th 2015, as amended (EIB Agreement I) and Annex 4 to the Financing Agreement of January 25th 2018 (EIB Agreement II).

Given the expiry on January 25th 2021 of the availability period of the credit facility granted under EIB Agreement II, Annex 4 to the above credit facility agreement extended the availability period until January 25th 2022, concurrently extending the deadlines for the delivery of the project for which it was granted by one year.

Premium multi-purpose credit facility agreement with BNP Paribas Bank Polski S.A.

On December 29th 2020, the Parent, its key subsidiaries and other Group companies entered into a PLN 240m premium multi-purpose credit facility agreement with BNP Paribas BP S.A. The funds made available under the credit facility, valid for three years from the date of the agreement, are to be used for opening and handling letters of credit and guarantees.

On February 4th 2021 Amendment 1 to the agreement was signed to exclude from the definition of EBITDA (applicable to the net debt to EBITDA ratio) one-off items resulting from recognition or reversal of impairment losses on non-current assets.

Annex 3 to the Payments Servicing Agreement of December 14th 2018 with Banco Santander S.A., with the wording as established under the Agreement of September 23rd 2019 Amending and Superseding the Payments Servicing Agreement

On April 15th 2021, the Parent, its key subsidiaries and COMPO EXPERT executed Annex 3 to the payments servicing agreement of December 14th 2018 with Banco Santander S.A. and Santander Factoring Sp. z o.o., with the wording as established under the Agreement Amending and Superseding the Payments Servicing Agreement of September 23rd 2019, with a maximum limit of EUR 122m, to harmonise the terms of financing with other factoring agreements.

Reverse factoring agreement with ING Commercial Finance Polska S.A.

On April 29th 2021, the Parent and its subsidiaries Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed an indefinite-term Reverse Factoring Agreement for PLN 500m (or its equivalent in EUR or USD) with ING Commercial Finance Polska S.A.

Payment services and financing agreement with CaixaBank S.A. Polish Branch

On April 29th 2021, the Parent and its subsidiaries Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed an indefinite-term payment services and financing agreement (reverse factoring agreement) for PLN 500m (or its equivalent in EUR or USD) with CaixaBank S.A., Polish Branch.

Supplementary Agreement No. 1 to debt purchase agreement with ING BSK S.A.

On April 30th 2021, the Parent and ING BSK S.A. executed Supplementary Agreement No. 1 to the debt purchase agreement of June 10th 2019, with a maximum limit of EUR 25m, to harmonise the terms of financing with other factoring agreements.

Factoring agreements with Pekao Faktoring Sp. z o.o.

On May 31st 2021, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed with Pekao Faktoring Sp. z o.o. a Factoring Agreement for PLN 250m

(or its equivalent in EUR or USD) and a Reverse Factoring Agreement for PLN 250m (or its equivalent in EUR or USD). The agreements were concluded for an indefinite period.

Factoring Agreement with BNP Paribas Bank Polska S.A.

On May 31st 2021, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed with BNP Paribas Bank Polska S.A. an indefinite-term Factoring Agreement for PLN 500m (or its equivalent in EUR or USD).

Agreement with mBank S.A. for electronic purchase of receivables

On May 21st 2021, mBank S.A. (the "Bank") issued to the Parent a document in which it stated that the Agreement for electronic purchase of receivables of September 24th 2014, as amended, concluded with the Parent, expired on January 1st 2021, and the security created thereunder by the Bank was released. There are no receivables which have been purchased by the Bank and not repaid by the Client's trading partners under the agreement.

Insurance agreements

Consolidated Group Insurance Programme with TUW PZUW

Under a Master Agreement for the Consolidated Property Insurance Programme (executed with mutual insurance company Towarzystwo Ubezpieczeń Wzajemnych Polskiego Zakładu Ubezpieczeń Wzajemnych (TUW PZUW) by Grupa Azoty Group companies - members of the Grupa Azoty Mutual Insurance Union of TUW PZUW, for a period of three years, i.e. from March 1st 2019 to February 28th 2022), policies were issued for the third year, i.e. from March 1st 2021 to February 28th 2022, covering the following lines of insurance:

- all-risk property insurance (ALLR),
- all-risk electronic equipment insurance (EEI),
- loss of profit insurance (ALLR (BI)),
- all-risk machinery insurance (MB).

On June 29th 2021, TUW PZUW issued a property insurance policy for domestic and international transport (CARGO) for the third year, i.e. from July 1st 2021 to June 30th 2022 under the Master Agreement concluded with TUW PZUW for a period of three years, from July 1st 2019 to June 30th 2022.

On June 30th 2021, for the period July 1st–July 31st 2021 Annexes were signed to the Master Agreement for business and property owner's liability insurance (OC) concluded with TUW PZUW for a period of two years, from July 1st 2019 to June 30th 2021, and to a policy issued under the agreement.

After the reporting date, on July 28th 2021 a new master agreement for business and property owner's liability insurance (OC) was concluded with TUW PZUW for a period of two years, from August 1st 2021 to July 31st 2023, and policies were subsequently issued under the agreement.

Trade credit insurance at Grupa Azoty PUŁAWY

On February 16th 2021, Grupa Azoty PUŁAWY and Towarzystwo Ubezpieczeń Euler Hermes S.A. signed trade credit insurance policies for the period from February 1st 2021 to January 31st 2022.

In June 2021, Towarzystwo Ubezpieczeń Euler Hermes S.A. issued a trade credit insurance policy for the period from July 1st 2021 to June 30th 2022. The insurance cover (up to the credit limits set by TUEH, excluding security transactions in the form of bank guarantees and letters of credit) extends to domestic sales of fertilizers and other chemical products.

Trade credit insurance at the Parent and Grupa Azoty KĘDZIERZYN

After the reporting date, on July 23rd 2021, trade credit insurance policies of the Parent (with coinsurance cover for Grupa Azoty SIARKOPOL, Grupa Azoty Zakłady Azotowe Chorzów S.A., Grupa Azoty Fosfory Sp. z o.o., Agrochem Puławy Sp. z o.o., Grupa Azoty COMPOUNDING and Grupa Azoty KOLTAR) and on July 29th 2021 - trade credit insurance policies of Grupa Azoty KĘDZIERZYN, taken out with Korporacja Ubezpieczeń Kredytów Eksportowych S.A. and providing global cover for the companies' receivables, were renewed for the period August 1st 2021 - July 31st 2023.

Project co-financing agreements

On April 16th 2021, Grupa Azoty PUŁAWY signed a co-financing agreement for the project "Supporting plant growth and immunity by using liquid fertilizers with bioactive compounds. Acronym: FertiUp" under the Smart Growth Operational Programme 2014-2020. Total co-financing granted to Grupa Azoty PUŁAWY is PLN 1.6m.

In the first half of 2021, Grupa Azoty Zakłady Azotowe PUŁAWY was party to the agreement with the National Fund for Environmental Protection and Water Management on co-financing of the project to upgrade steam generator OP-215 No. 2 to reduce NO_x emissions. The loan amount is PLN 52.5m. As at June 30th 2021, the outstanding balance was PLN 22.6m.

On June 15th 2021, Annex 2 to the Agreement was signed with the National Fund for Environmental Protection and Water Management to amend the time and payment schedule.

In the first half of 2021, Grupa Azoty PUŁAWY's bank account was credited with grants totalling PLN 2,338 thousand, including:

- PLN 1,541 thousand under agreements with the Ministry of Investment and Economic Development;
- PLN 597 thousand under agreements with the Lublin Agency for the Support of Entrepreneurship (LAWP);
- PLN 200 thousand under agreements with the National Centre for Research and Development.

4.3. Sureties for credit facilities or loans, guarantees issued

In the first half of 2021, the Grupa Azoty Group did not issue any guarantees with a significant aggregate value.

In the first half of 2021, the Grupa Azoty Group did not sign any annexes to its 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 32,317 thousand.

Intragroup loans

Loan agreement between Grupa Azoty PUŁAWY and Grupa Azoty Zakłady Azotowe Chorzów S.A.

On February 9th 2021, Annex 1 was signed to the short-term loan agreement of January 8th 2020, whereby Grupa Azoty Puławy granted a PLN 5m loan to Grupa Azoty Zakłady Azotowe Chorzów S.A. Under the Annex, the repayment date was postponed from May 31st 2021 to May 31st 2023.

Annexes to the loan agreement of May 31st 2020 with GA POLYOLEFINS S.A.

Grupa Azoty Polyolefins S.A. concluded with:

- the Parent:
 - on February 10th 2021, Annex 1 to the PLN 344,464 thousand loan agreement, concerning compounding of one third of commission and interest accrued as at December 31st 2020. In accordance with the Annex, as a result of the compounding, the loan principal as of December 31st 2020 is PLN 355,120 thousand.
 - after the reporting date, on July 7th 2021, Annex 2 to the loan agreement in connection with compounding of interest for the next interest period. In accordance with the Annex, as a result of the compounding, the loan principal as of June 30th 2021 is PLN 367,729 thousand;
- Grupa Azoty POLICE:
 - on February 10th 2021, Annex 1 to the PLN 388,438 thousand loan agreement, concerning compounding of one third of commission and interest accrued as at December 31st 2020. In accordance with the Annex, as a result of the compounding, the loan principal as of December 31st 2020 is PLN 400,454 thousand.
 - after the reporting date, on July 7th 2021, Annex 2 to the loan agreement in connection with compounding of interest for the next interest period. In accordance with the Annex, as a result of the compounding, the loan principal as of June 30th 2021 is PLN 414,673

thousand.

Settlement of loan agreements between Grupa Azoty POLICE and Supra Agrochemia Sp. z o.o.

Following the entry in the National Court Register, on July 6th 2021, of the merger of Grupa Azoty POLICE with its subsidiary Supra Agrochemia Sp. z o.o. pursuant to Art. 492.1.1 of the Commercial Companies Code, i.e. through the transfer of all of Supra Agrochemia Sp. z o.o.'s assets to Grupa Azoty POLICE, mutual liabilities, including under loan agreements, totalling PLN 15,068 thousand as at June 30th 2021, were settled.

4.4. 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 May 13th 2021 (in accordance with the information provided in the interim report for the first quarter of 2021)

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

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

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.

In the period from May 13th 2021 to the issue date of this Report, the Parent was not officially notified of any changes in major holdings of its shares.

4.5. Parent shares held by management and supervisory personnel

As at the date of this Report, none of the Management Board members or supervisory personnel held any shares in the Parent.

4.6. Composition of the management and supervisory bodies

Management Board of the Parent

The Management Board is the Parent's executive and managing body conducting all of Parent's affairs not reserved by law or by the Articles of Association for the General Meeting or the Supervisory Board, and representing the Parent in relations with third parties.

As at January 1st 2021, the Management Board was composed of:

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

On completion of two processes to recruit and select members of the Management Board of the new 12th term of office, on April 19th 2021 the Supervisory Board resolved to appoint, with effect from May 18th 2021, Tomasz Hinc as President of the Parent's Management Board and Filip Grzegorzczuk, Mariusz Grab, Tomasz Hryniewicz and Grzegorz Kądziałowski as Vice Presidents of the Parent's Management Board. On May 13th 2021, the Supervisory Board resolved to appoint, with effect from May 18th 2021, Marek Wadowski as Vice President of the Parent's Management Board and to approve the results of the election of a candidate for the position of member of the Parent's Management Board of the 12th term of office elected by Parent employees, whereby the election of Zbigniew Paprocki to that position was confirmed. On May 13th 2021, the Supervisory Board resolved to remove from office Witold Szczypiński, Vice President of the Management Board, and Artur Kopeć, Member of the Management Board, with effect from May 17th 2021.

As a result, from May 18th 2021 to the filing date of this Report, the composition of the Parent's Supervisory Board was as follows:

- Tomasz Hinc - President of the Management Board,
- Mariusz Grab - Vice President of the Management Board,
- Filip Grzegorzczuk, PhD - Vice President of the Management Board,
- Tomasz Hryniewicz - Vice President of the Management Board,
- Grzegorz Kądziałowski - Vice President of the Management Board,
- Marek Wadowski - Vice President of the Management Board,
- Zbigniew Paprocki - Member of the Management Board.

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

As at January 1st 2021, the overall division of responsibilities between the Management Board members was as follows:

- Thomas Hinc - President of the Management Board; management of the Management Board's activities; responsible for strategy, management of the Group and corporate supervision, information policy, HR policy, reputation and communication (including sponsorship and CSR), internal audit, coordination of legal activities, compliance, representation of the Company vis-à-vis its shareholders, governing bodies, state and local government authorities and institutions;
- Witold Szczypiński - Vice President of the Management Board, Chief Executive Officer of the Parent, responsible for the Agro Segment, Plastics Segment, Organic Synthesis Segment, production integration and infrastructure;
- Mariusz Grab - Vice President of the Management Board, responsible for procurement strategy, strategic procurement, tender procedures, feedstock/raw material and product integration, IT (including cyber security), GDPR;
- Filip Grzegorzczuk, Dr. Habil. - Vice President of the Management Board, responsible for logistics, public affairs, risk management, structural and capital transformation, strategic supervision and coordination of issues relating to energy, energy service and emissions allowances;
- Tomasz Hryniewicz - Vice President of the Management Board, responsible for controlling, finance and investor relations; President of the Grupa Azoty PUŁAWY Management Board;
- Grzegorz Kądziałowski - Vice President the Management Board, responsible for innovation, R&D programmes, investments and technical purchases;
- Artur Kopeć - Member of the Management Board, responsible for production assets, plant safety, environmental protection and social dialogue.

Following appointment of members to the Management Board of the 12th term of office, on May 19th 2021 the Parent's Management Board passed a resolution establishing the following division of powers and responsibilities between the members of the Management Board of the 12th term of office:

- Tomasz Hinc - President of the Management Board, responsible for managing the Parent Management Board's operation and for corporate governance, corporate supervision, communication and PR, human resources management, sponsorship activities, compliance management, internal audit, CSR, representing the Parent in relations with its stakeholders, including shareholders, governing bodies, central and local government authorities, integration and coordination of supervised areas and processes within the Group;
- Mariusz Grab - Vice President of the Management Board, responsible for procurement process management, ICT process management, security and cybersecurity management, raw material and semi-finished product integration, integration and coordination of supervised areas and processes within the Group;
- Filip Grzegorzczak, Dr. Habil. - Vice President of the Management Board, responsible for strategic management of energy transition projects, logistics process management, corporate risk management, market regulations and protection, market analyses, integration and coordination of supervised areas and processes within the Group, coordination of efforts designed to meet the requirements of the Green New Deal in the area of energy;
- Tomasz Hryniewicz - Vice President of the Management Board, responsible for management of sales and customer service standards, product portfolio management, integration and coordination of supervised areas and processes within the Group;
- Grzegorz Kądzielawski, Ph.D. - Vice President of the Management Board, responsible for research and development, protection of intellectual and industrial property, technology transfer and cooperation with universities and institutions in the area of innovation, preparation and implementation of investment projects at the Parent, monitoring of the implementation of investment projects at the Group, social dialogue, strategic planning and monitoring of strategy implementation, strategic management of projects with the exception of energy transition, integration and coordination of supervised areas and processes within the Group, coordination of the Group's efforts designed to meet the requirements of the Green New Deal (excluding the energy area) and Circular Economy;
- Marek Wadowski - Vice President of the Management Board, responsible for finance and accounting policy management, monitoring of the implementation of plans, planning, budgeting and controlling, mergers and acquisitions, investor relations, integration and coordination of supervised areas and processes within the Group;
- Zbigniew Paprocki - Member of the Management Board, Chief Executive Officer of the Parent, responsible for management of integration and coordination of production processes, management of maintenance of production assets, shutdowns, repair and overhauls, critical infrastructure management, technical safety, fire and environmental safety, integration and coordination of supervised areas and processes within the Group.

Division of responsibilities between the Management Board members as at the date of this Report



Source: Company data

Supervisory Board

As at January 1st 2021, the Supervisory Board was composed of:

- Wojciech Krysztofik - Deputy Chair of the Supervisory Board,
- Zbigniew Paprocki - Secretary 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,
- Michał Maziarka - Member of the Supervisory Board,
- Marcin Mauer - Member of the Supervisory Board,
- Roman Romaniszyn - Member of the Supervisory Board.

On January 8th 2021, the Extraordinary General Meeting appointed Magdalena Butrymowicz, LL D, to the Supervisory Board as Chair of the Supervisory Board. As a result, as of January 8th 2021 the Supervisory Board is composed of:

- Magdalena Butrymowicz, LL D - Chair of the Supervisory Board,
- Wojciech Krysztofik - Deputy Chair of the Supervisory Board,
- Zbigniew Paprocki - Secretary 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,
- Michał Maziarka - Member of the Supervisory Board,
- Marcin Mauer - Member of the Supervisory Board,
- Roman Romaniszyn - Member of the Supervisory Board.

On May 13th 2021, Zbigniew Paprocki resigned as member of the Supervisory Board. On May 13th 2021, the Supervisory Board appointed Robert Kapka as new Secretary of the Supervisory Board. As a result, from May 13th 2021 to the filing date of this Report, the composition of the Supervisory Board was as follows:

- Magdalena Butrymowicz, Doctor of Laws - Chair of the Supervisory Board,
- Wojciech Krysztofik - Deputy Chair of the Supervisory Board,
- Robert Kapka - Secretary of the Supervisory Board,
- Monika Fill - Member of the Supervisory Board,
- Bartłomiej Litwińczuk - Member of the Supervisory Board,
- Michał Maziarka - Member of the Supervisory Board,
- Marcin Mauer - Member of the Supervisory Board,
- Roman Romaniszyn - Member of the Supervisory Board.

As at the date of this report, by-elections were underway at the Parent to elect a member of the Supervisory Board of the 11th term of office appointed from among persons elected by the Grupa Azoty Group employees.

The Supervisory Board operates on the basis of:

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

The Supervisory Board's key powers and responsibilities under Art. 32 of the Parent's Articles of Association include:

- appointing and removing from office Management Board members,
- assessing the Management Board's proposals on distribution of profit or coverage of loss,
- assessing the Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group, as well as of the separate financial statements of the Parent and the consolidated financial statements of the Grupa Azoty Group for their consistency with the accounting records and supporting documents and their accuracy,

- appointing an audit firm to review and audit the financial statements of the Parent and the consolidated financial statements of the Group,
- approving the Parent's long-term strategic plans,
- approving annual budgets including capital expenditure budgets,
- issuing opinions on all matters submitted by the Management Board for consideration to the General Meeting,
- granting approval for the Management Board to execute material legal transactions.

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.

As at January 1st 2021, the Audit Committee consisted of:

- Michał Maziarka - Member,
- Zbigniew Paprocki - Member.

In the first half of 2021, the composition of the Audit Committee changed. On January 4th 2021, Mr Marcin Mauer was appointed to the Committee. On February 1st 2021, Ms Monika Fill was appointed to the Committee. On May 13th 2021, Mr Zbigniew Paprocki resigned as Member of the Supervisory Board (and the Committee) and on the same day Mr Robert Kapka was appointed to the Committee. Following these changes, as at the date of this report, the Audit Committee was composed of:

- Marcin Mauer - Chair,
- Monika Fill - Member,
- Michał Maziarka - Member,
- Robert Kapka - Member.

Until March 7th 2021, the Audit Committee operated pursuant to the Rules of Procedure for the Audit Committee adopted by the Supervisory Board under a resolution of September 17th 2018. On March 8th 2021, the Supervisory Board passed a resolution to approve the consolidated text of the Rules of Procedure for the Audit Committee adopted by a resolution of the Supervisory Board's Audit Committee of February 11th 2021. The Committee's main tasks are those provided for the Audit Committee in the Act on Statutory Auditors, Audit Firms, and Public Oversight of May 1st 2017, the Parent's Articles of Association, and resolutions of the Supervisory Board.

The Committee has the right to demand from the Parent's Management Board any information, materials and explanations required for the performance of the Committee's tasks.

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 January 1st 2021, the Strategy and Development Committee consisted of:

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

In the first half of 2021, the composition of the Strategy and Development Committee changed. On February 1st 2021, Mr Bartłomiej Litwińczuk was appointed to the Committee. On May 13th 2021, Mr Zbigniew Paprocki resigned as Member of the Supervisory Board (and the Committee). Following these changes, as at the date of this report, the Strategy and Development Committee was composed of:

- Wojciech Krysztofik - Chair,
- Robert Kapka - Member,
- Bartłomiej Litwińczuk - Member.

Until March 7th 2021, the Strategy and Development Committee operated in accordance with the Committee's Rules of Procedure adopted by the Supervisory Board on July 18th 2018. On March 8th 2021, the Supervisory Board approved the consolidated text of the Rules of Procedure for the Strategy and Development Committee adopted by the Committee's resolution of March 2nd 2021.

As at January 1st 2021, the Nomination and Remuneration Committee consisted of:

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

In the first half of 2021, the composition of the Nomination and Remuneration Committee changed. On February 1st 2021, Ms Magdalena Butrymowicz was appointed to the Committee. Following these changes, as at the date of this report, the Nomination and Remuneration Committee was composed of:

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

In the three months ended March 31st 2021, the Nomination and Remuneration Committee operated in accordance with the Committee's Rules of Procedure adopted by the Supervisory Board on July 18th 2018. On April 19th 2021, the Supervisory Board approved the consolidated text of the Rules of Procedure for the Nomination and Remuneration Committee adopted by the Committee's resolution of March 24th 2021.

Meetings of the Supervisory Board Committees are held as needed

5. Additional information

Management Board's position on the achievement of forecasts

As no forecasts for 2021 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), other than the following proceedings:

- Proceedings instigated by a Shareholder of the Parent to repeal Resolution No. 5 of the Parent's Extraordinary General Meeting of August 20th 2020 to grant consent for legal transactions which could result in disposal of the Parent's non-current assets. The value of the claim is PLN 599,283 thousand. The proceedings were initiated on September 23rd 2020 (date of filing the claim with the Court). The parties to the proceedings are Jacek Lampart and the Parent. The Parent considers the claim to be unfounded. The plaintiff claims that the majority of votes required to pass a resolution of the Parent's General Meeting on the disputed matter was not achieved, and in order to substantiate his claim the plaintiff referred to a provision of the Commercial Companies Code as the legal basis, while in the Parent's opinion the provision does not apply to the contested resolution. On April 1st 2021, the Regional Court of Kraków issued a judgment dismissing the claim and awarding litigation costs in line with the result of the proceedings. The judgement is not final.
- Proceedings instigated by the Parent against Cenzin Sp. z o.o. - claim for payment of PLN 79,821 thousand. The case concerns a claim for payment of contractual penalty for delay, extension of CAR/EAR insurance by the Parent, repayment of an outstanding advance, loss of co-financing under the Norwegian Financial Mechanism, cost of work in progress inventory taking following withdrawal from the Contract, cost of completion of the Project, compensation for the purchase of more expensive coal, compensation for lost benefits from sale of magnesium sulfate, compensation for purchase of magnesium oxide, and determination of the defendant's liability for losses which may arise in the future. The claim was filed with the Regional Court of Kraków on May 7th 2021.

Parent's branches

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

Shares, share issues

In the first half of 2021, the Parent did not issue, redeem or repay any debt or equity securities. The Parent 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 Parent which may cause future changes in the percentages of shares held by the existing shareholders and bondholders.

The Parent does not operate any employee stock option schemes.

Distribution of profit

On June 30th 2021, the Parent's Annual General Meeting passed a resolution to allocate the entire amount of the Parent's net profit for the financial year 2020, of PLN 125,627,538.01, to the Parent's reserve funds.

The decision was in line with the Management Board's resolution of May 5th 2021 in which the Management Board proposed that, despite the dividend distribution policy in place, the entire net profit generated in 2020 be retained by the Parent,

On May 31st 2021, the Parent's Supervisory Board gave a favourable opinion on the proposal of the Parent's Management Board for the Annual General Meeting to allocate the entire net profit for the financial year 2020 of PLN 125,627,538.01 to the Parent's reserve funds.

The retained profit would be held as a liquidity buffer enabling the implementation of further investment plans after the entire equity contribution to the strategic Polimery Police project was made by December 31st 2020.

Furthermore, dividend payment restrictions are laid down in credit facility agreements concluded by the Parent.

Signatures of members of the Management Board

.....
Tomasz Hinc
President of the Management Board

.....
Mariusz Grab
Vice President of the Management Board

.....
Filip Grzegorzczuk, PhD
Vice President of the Management Board

.....
Tomasz Hryniewicz
Vice President of the Management Board

.....
Grzegorz Kądziaławski, PhD
Vice President of the Management Board

.....
Marek Wadowski
Vice President of the Management Board

.....
Zbigniew Paprocki
*Member of the Management Board Director
General*

Tarnów, September 9th 2021