



Interim condensed consolidated financial statements
for the six months ended June 30th 2019
prepared in accordance with IAS 34
Interim Financial Reporting
as endorsed by the European Union

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

	Note	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
Profit/loss		<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue	1	6,102,509	4,877,029	2,737,625	2,379,927
Cost of sales	2	(4,649,905)	(3,969,147)	(2,133,328)	(2,046,519)
Gross profit		1,452,604	907,882	604,297	333,408
Selling and distribution expenses	2	(457,543)	(310,160)	(221,788)	(161,650)
Administrative expenses	2	(426,902)	(382,405)	(224,088)	(197,470)
Other income	4	28,657	24,330	14,353	12,941
Other expenses	5	(61,328)	(43,192)	(45,373)	(29,204)
Operating profit/(loss)		535,488	196,455	127,401	(41,975)
Finance income	6	13,301	48,163	7,453	42,050
Finance costs	7	(43,741)	(84,145)	(25,967)	(72,227)
Net finance costs		(30,440)	(35,982)	(18,514)	(30,177)
Share of profit of equity-accounted investees		6,127	7,191	3,233	3,296
Profit before tax		511,175	167,664	112,120	(68,856)
Income tax	8	(116,221)	(43,191)	(40,038)	5,351
Net profit/(loss)		394,954	124,473	72,082	(63,505)
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial losses from defined benefit plans		(12,988)	(13,016)	(12,988)	(13,016)
Tax on items that will not be reclassified to profit or loss	8	2,468	2,472	2,468	2,472
		(10,520)	(10,544)	(10,520)	(10,544)

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

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

	Note	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
		<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Items that are or may be reclassified to profit or loss					
Cash flow hedging - effective portion of fair value changes		8,067	(24,244)	8,286	(19,464)
Exchange differences on translating foreign operations		(10,939)	2,728	(11,775)	2,593
Tax on items that are or may be reclassified to profit or loss	8	(1,533)	4,607	(1,575)	3,699
		(4,405)	(16,909)	(5,064)	(13,172)
Total other comprehensive income		(14,925)	(27,453)	(15,584)	(23,716)
Comprehensive income for the year		380,029	97,020	56,498	(87,221)
Net profit attributable to:					
Owners of the Parent		362,782	123,638	68,006	(48,293)
Non-controlling interests		32,172	835	4,076	(15,212)
Comprehensive income for the year attributable to:					
Owners of the Parent		348,600	99,431	53,167	(69,146)
Non-controlling interests		31,429	(2,411)	3,331	(18,075)
Earnings per share:	9				
Basic (PLN)		3.66	1.25	0.69	(0.49)
Diluted (PLN)		3.66	1.25	0.69	(0.49)

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Interim condensed consolidated statement of financial position

	Note/ Section	as at Jun 30 2019 <i>unaudited</i>	as at Dec 31 2018 restated* <i>audited</i>
Assets			
Non-current assets			
Property, plant and equipment	10	7,741,348	7,757,071
Perpetual usufruct of land	2.2	-	470,178
Right-of-use assets	12	877,423	-
Investment property		42,329	43,799
Intangible assets	11	1,006,792	1,048,461
Goodwill	17	308,168	311,280
Shares		9,113	9,113
Equity-accounted investees		82,501	89,496
Other financial assets		2,457	2,377
Other receivables	17	179,979	185,397
Deferred tax assets	8	91,794	75,579
Other assets		482	363
Total non-current assets		10,342,386	9,993,114
Current assets			
Inventories		1,499,693	1,505,024
Property rights	17	458,939	261,767
Derivative financial instruments		3,405	2,017
Other financial assets		98,180	15,061
Current tax assets		39,822	67,217
Trade and other receivables	17	1,598,491	1,551,652
Cash and cash equivalents	13	550,613	846,532
Other assets		14,953	14,578
Assets held for sale		21,469	9,050
Total current assets		4,285,565	4,272,898
Total assets		14,627,951	14,266,012

* In accordance with the information provided in sections 2.2.a and 2.2.c

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

Interim condensed consolidated statement of financial position (continued)

	Note/ Section	as at Jun 30 2019 <i>unaudited</i>	as at Dec 31 2018 restated* <i>audited</i>
Equity and liabilities			
Equity			
Share capital		495,977	495,977
Share premium		2,418,270	2,418,270
Hedging reserve		8,395	1,861
Translation reserve		(8,148)	2,789
Retained earnings, including:		4,136,944	3,783,874
<i>Net profit for the year</i>		362,782	9,869
Equity attributable to owners of the Parent		7,051,438	6,702,771
Non-controlling interests		655,424	625,188
Total equity		7,706,862	7,327,959
Liabilities			
Borrowings	14	2,401,830	2,488,353
Lease liabilities	2.2	382,452	16,806
Other financial liabilities	17	18,726	21,930
Employee benefit obligations	15	425,565	394,677
Trade and other payables		3,317	12,446
Provisions	16	157,492	143,772
Government grants received		198,433	136,002
Deferred tax liabilities	8.4	480,798	448,600
Total non-current liabilities		4,068,613	3,662,586
Borrowings	14	264,809	362,620
Lease liabilities	2.2	50,115	8,866
Derivative financial instruments		-	188
Other financial liabilities	17	278,670	189,272
Employee benefit obligations	15	48,833	45,630
Current tax liabilities		27,787	18,178
Trade and other payables	17	2,011,314	2,598,289
Provisions	16	31,435	44,425
Government grants received		139,513	7,999
Total current liabilities		2,852,476	3,275,467
Total liabilities		6,921,089	6,938,053
Total equity and liabilities		14,627,951	14,266,012

* In accordance with the information provided in sections 2.2.a and 2.2.c

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

Interim condensed consolidated statement of changes in equity for the period ended June 30th 2019

	Share capital	Share premium	Hedging reserve	Translation reserve	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2019	495,977	2,418,270	1,861	3,166	3,783,764	6,703,038	625,188	7,328,226
Correction of errors	-	-	-	(377)	110	(267)	-	(267)
Balance as at January 1st 2019, adjusted	495,977	2,418,270	1,861	2,789	3,783,874	6,702,771	625,188	7,327,959
<i>Profit or loss and other comprehensive income</i>								
Net profit	-	-	-	-	362,782	362,782	32,172	394,954
Other comprehensive income	-	-	6,534	(10,937)	(9,779)	(14,182)	(743)	(14,925)
Total profit or loss and other comprehensive income	-	-	6,534	(10,937)	353,003	348,600	31,429	380,029
<i>Transactions with owners, recognised directly in equity</i>								
Dividends	-	-	-	-	-	-	(2,716)	(2,716)
Total contributions by and distributions to owners							(2,716)	(2,716)
Changes in the Group's structure	-	-	-	-	67	67	1,523	1,590
Total transactions with owners	-	-	-	-	67	67	(1,193)	(1,126)
Balance as at June 30th 2019 (unaudited)	495,977	2,418,270	8,395	(8,148)	4,136,944	7,051,438	655,424	7,706,862

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Interim condensed consolidated statement of changes in equity (continued) for the period ended June 30th 2018

	Share capital	Share premium	Hedging reserve	Translation reserve	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2018	495,977	2,418,270	15,407	(233)	3,918,949	6,848,370	587,238	7,435,608
<i>Profit or loss and other comprehensive income</i>								
Net profit	-	-	-	-	123,638	123,638	835	124,473
Other comprehensive income	-	-	(19,637)	4,218	(8,788)	(24,207)	(3,246)	(27,453)
Total profit or loss and other comprehensive income	-	-	(19,637)	4,218	114,850	99,431	(2,411)	97,020
<i>Transactions with owners, recognised directly in equity</i>								
Dividends	-	-	-	-	(123,995)	(123,995)	(20,369)	(144,364)
Total contributions by and distributions to owners	-	-	-	-	(123,995)	(123,995)	(20,369)	(144,364)
Changes in the Group's structure	-	-	-	-	(12,243)	(12,243)	2,145	(10,098)
Total transactions with owners	-	-	-	-	(136,238)	(136,238)	(18,224)	(154,462)
Loss of control over a subsidiary	-	-	-	-	-	-	60,889	60,889
Other	-	-	-	-	(218)	(218)	212	(6)
Balance as at June 30th 2018 (unaudited)	495,977	2,418,270	(4,230)	3,985	3,897,343	6,811,345	627,704	7,439,049

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

Interim condensed consolidated statement of cash flows

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from operating activities		
Profit before tax	511,175	167,664
<i>Adjustments for:</i>	<i>443,726</i>	<i>398,439</i>
Depreciation and amortisation	405,449	332,485
Impairment losses	19,121	7,065
Loss on investing activities	4,471	54,392
Gain on disposal of financial assets	(478)	(109)
Share of profit of equity-accounted investees	(6,127)	(7,191)
Interest, foreign exchange gains or losses	23,533	4,704
Dividends	(653)	(296)
Net change in fair value of financial assets at fair value through profit or loss	(1,590)	7,389
	954,901	566,103
Increase in trade and other receivables	(146,370)	(101,215)
Increase in inventories and property rights	(195,810)	(84,765)
Decrease in trade and other payables	(365,876)	(149,958)
Increase in provisions, accruals and government grants	172,733	51,303
Other adjustments	299,830	(377)
Cash generated from operating activities	719,408	281,091
Income tax paid	(49,897)	(25,616)
Net cash from operating activities	669,511	255,475

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Interim condensed consolidated statement of cash flows (continued)

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	5,605	833
Acquisition of property, plant and equipment, intangible assets and investment property	(439,048)	(448,610)
Dividend received	11	-
Acquisition of financial assets	(146,252)	(38,178)
Proceeds from sale of financial assets	59,564	234,350
Interest received	11,156	9,702
Government grants received	244	3,807
Repayments of loans advanced	54	-
Other disbursements	(1,147)	(1,528)
Net cash from investing activities	(509,813)	(239,624)
Cash flows from financing activities		
Dividends paid	(2,718)	(3,431)
Proceeds from borrowings	5,009	134,070
Repayment of borrowings	(169,558)	(131,548)
Acquisition of non-controlling interests	-	(15,757)
Interest paid	(39,709)	(37,042)
Payment of lease liabilities	(31,759)	(5,391)
Other cash (used in)/provided by financing activities	(214,608)	36,739
Net cash from financing activities	(453,343)	(22,360)
Total net cash flows	(293,645)	(6,509)
Cash and cash equivalents at beginning of period	846,532	1,085,885
Effect of exchange rate fluctuations on cash held	(2,274)	9,420
Cash and cash equivalents at end of period, including:	550,613	1,088,796
Restricted cash	1,178	2,424

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Supplementary information to the interim condensed consolidated financial statements

1. Description of the Group

1.1. The Group's organisational structure

As at June 30th 2019, the Grupa Azoty Group (the "Group") comprised: Grupa Azoty S.A. (the Parent), direct subsidiaries:

- Goat TopCo GmbH (Goat TopCo) - wholly-owned,
- Grupa Azoty ATT Polymers GmbH - wholly-owned,
- Grupa Azoty Compounding Sp. z o.o. - wholly-owned,
- Grupa Azoty Folie Sp. z o.o. - wholly-owned,
- Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKOPOL) - a 99.37% interest,
- Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY) - a 95.98% interest,
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty KĘDZIERZYN) - a 93.48% interest,
- Grupa Azoty Zakłady Chemiczne Police S.A. (Grupa Azoty POLICE) - a 66% interest,
- Grupa Azoty Koltar Sp. z o.o. (Grupa Azoty KOLTAR) - a 60% interest, with Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN each holding a 20% interest,
- Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. (Grupa Azoty PKCh Sp. z o.o.) - a 63.27% interest, with Grupa Azoty KĘDZIERZYN holding a 36.73% interest,

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

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

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

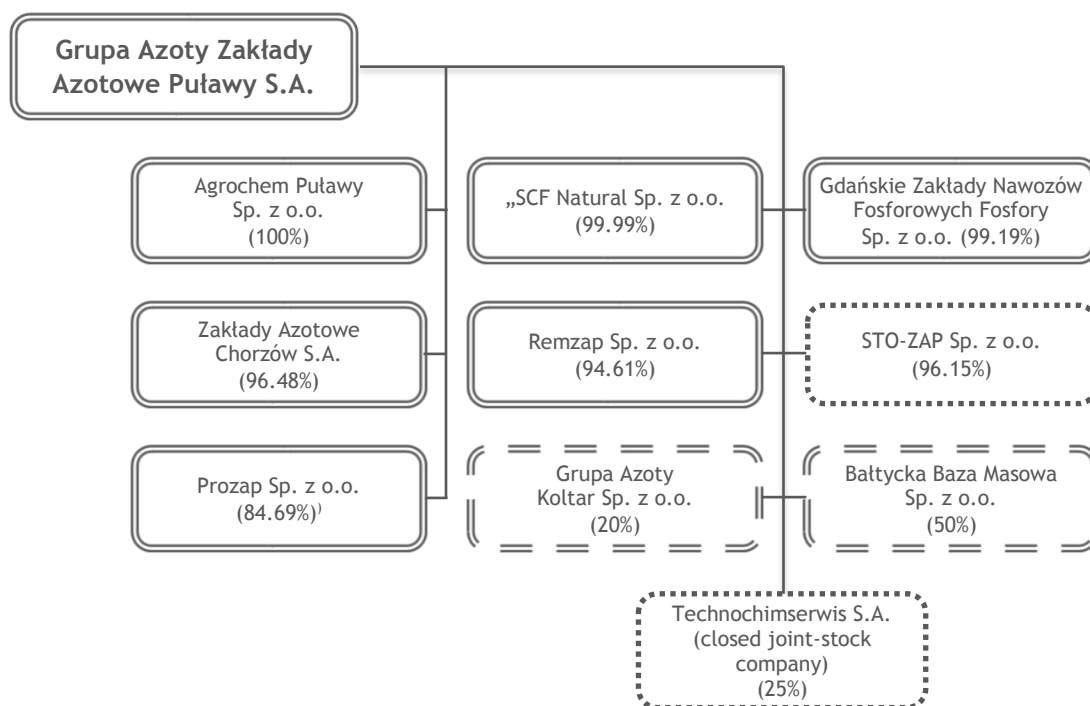
The Group's business includes in particular:

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

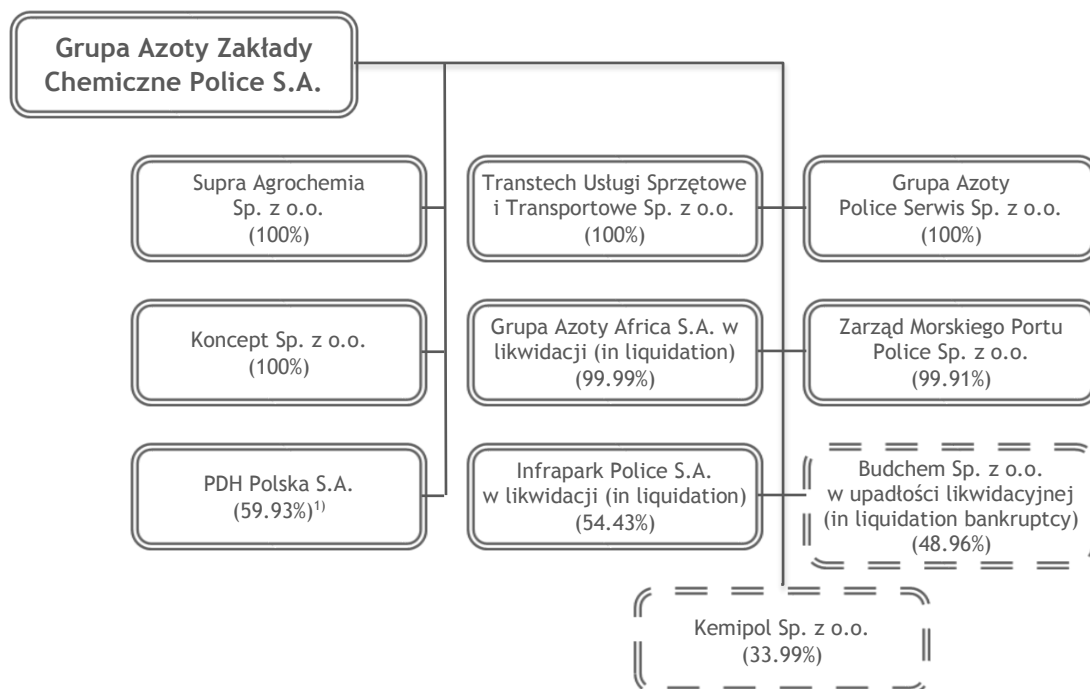
The Parent and the Group companies were incorporated for unlimited period.

The interim condensed consolidated financial statements were authorised for issue by the Parent's Management Board on September 4th 2019.

Structure of Grupa Azoty PUŁAWY as at June 30th 2019:



Structure of Grupa Azoty POLICE as at June 30th 2019:



¹⁾ The Parent holds 40.07% of shares in PDH Polska S.A.

Legend:

Fully-consolidated entities

Equity-accounted entities

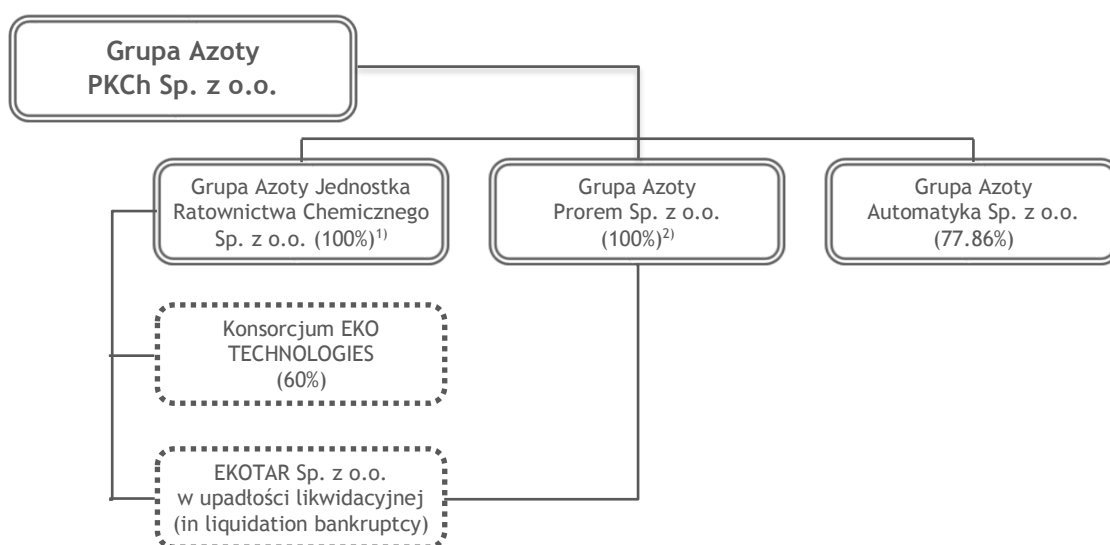
Non-consolidated entities

Structure of Grupa Azoty KĘDZIERZYN as at June 30th 2019:



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

Structure of Grupa Azoty PKCh Sp. z o.o. as at June 30th 2019:




¹) Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. holds 60% of the shares in Konsorcjum EKO TECHNOLOGIES and 12% of the shares in EKOTAR Sp. z o.o. w upadłości likwidacji (in liquidation bankruptcy).

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

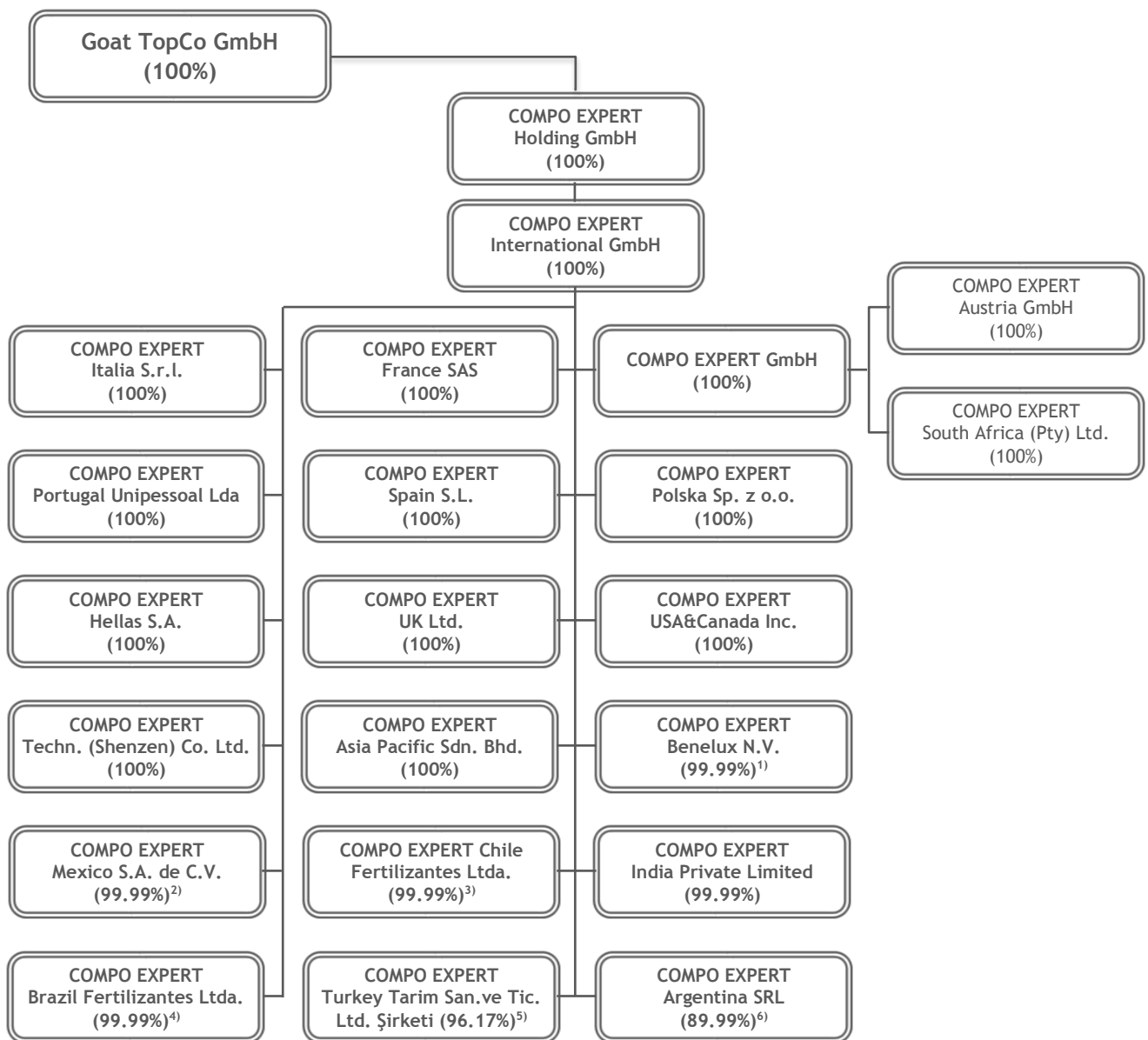
Legend:

 Fully-consolidated entities

 Equity-accounted entities

 Non-consolidated entities

Structure of the Goat TopCo Group as at June 30th 2019:



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

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

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

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

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

⁶⁾ COMPO EXPERT Argentina SRL - COMPO EXPERT GmbH holds 10.000024% of the shares.

Legend:

 Fully-consolidated entities

 Equity-accounted entities

 Non-consolidated entities

1.2. Changes in the Group's structure

Changes in the Group's structure, including changes resulting from business combinations, acquisitions or disposals of Group entities, as well as long-term investments, demergers, restructuring or discontinuation of operations in the reporting period.

Registration of merger between Grupa Azoty PUŁAWY and Elektrownia Puławy Sp. z o.o.

On January 2nd 2019, a merger between Grupa Azoty PUŁAWY and Elektrownia Puławy Sp. z o.o. was registered in the National Court Register.

The merger was effected pursuant to a simplified procedure under Art. 492.1.1 of the Commercial Companies Code (merger by acquisition), i.e. by way of transfer of all the assets of Elektrownia Puławy Sp. z o.o. to Grupa Azoty PUŁAWY. The merger has no effect on these interim condensed consolidated financial statements.

Registration of share capital increase at Grupa Azoty KOLTAR Sp. z o.o.

On January 8th 2019, an increase of Grupa Azoty KOLTAR's share capital to PLN 54,600 thousand was entered in the National Court Register.

Consequently, Grupa Azoty S.A. now holds a 60% equity interest in the company, while Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN hold a 20% interest each.

Change in percentage of voting rights held in PROZAP Sp. z o.o.

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

Increase of Grupa Azoty POLICE's share capital

On March 4th 2019, the Management Board of Grupa Azoty POLICE resolved to increase the company's share capital through an issue of new shares with pre-emptive rights and to amend the Articles of Association.

Proceeds from the share issue will be used to support the implementation of the Grupa Azoty Group's strategy for the coming years, in particular to diversify revenue streams and increase profitability, and to step up the efforts to expand the non-fertilizer business lines. The key task undertaken in the pursuit of these strategic goals is the Polimery Police project ("Polimery Police Project") implemented by PDH Polska S.A. The proceeds from the issue are to be used to finance the capital contribution of the Polimery Police Project.

On April 26th 2019, the Extraordinary General Meeting of Grupa Azoty POLICE passed a resolution to increase the company's share capital. The share capital increase will be effected through a secondary public offering ("SPO") for an amount not higher than PLN 1,100,000, addressed to existing shareholders (pre-emptive rights).

On May 29th 2019, in connection with the planned issue of Grupa Azoty POLICE shares, the Parent's Management Board resolved to take up shares, in a private placement, through the exercise of pre-emptive rights and placement of additional subscription orders for the issue price determined by the Grupa Azoty POLICE Management Board, or to take up shares not taken up by investors in the rights issue, for the issue price set forth by the Grupa Azoty POLICE Management Board in the invitation addressed to the Parent to subscribe for such shares, with the proviso that immediately after the issue the Company should retain at least 50% plus one vote at the General Meeting of Grupa Azoty POLICE.

Given the identified risks (the risk of refusal to register allotment certificates in the Central Securities Depository of Poland: failure to register allotment certificates would prevent the introduction of the shares to trading on the WSE, which would in turn prevent investors from trading in their allotment certificates and shares, and the use of an incorrect procedure concerning the powers of the National Agriculture Support Centre (the "KOWR") under the Act on Shaping the Agricultural System would invalidate the entire share issue, which cannot be fully ruled out due to the interpretative doubts concerning the provisions of the amended Act on Shaping the Agricultural System) in the regulatory environment regarding the matters related to the rights of the KOWR under the Act on Shaping the Agricultural System, on June 5th 2019 the Management Board of Grupa Azoty POLICE decided to suspend the performance of the Extraordinary General Meeting's resolution. Based on the above decision, on June 27th 2019 the Annual General Meeting of the Parent resolved to remove from the agenda the vote on a resolution to acquire shares in the increased share capital of Grupa Azoty POLICE.

Grupa Azoty POLICE has announced that it will keep monitoring the situation on the capital market and any changes in the regulatory environment regarding KOWR's rights.

On August 26th 2019, the Management Board of Grupa Azoty POLICE decided to resume the SPO and passed a resolution to increase the company's share capital through issue of new shares with pre-emptive rights and to amend the Articles of Association and repealed the previous resolution of March 4th 2019.

The share capital will be increased by way of an SPO addressed to the existing shareholders, by an amount not higher than PLN 1,100,000. The proposed share capital increase should be effected by the end of 2019.

Acquisition of shares in PDH Polska S.A.

On March 27th 2019, the Parent's Management Board passed a resolution to acquire 9,782,808 new shares in PDH Polska S.A. at the issue price of PLN 10.00, i.e. for a total amount of PLN 97,828,080.00. On March 28th 2019, the Management Board of Grupa Azoty POLICE passed a resolution to acquire 6,551,092 new shares in PDH Polska S.A. at the issue price of PLN 10.00, i.e. for a total amount of PLN 65,510,920.

On April 8th 2019, the Supervisory Board of Grupa Azoty POLICE passed a resolution to approve the acquisition by Grupa Azoty POLICE of 6,551,092 shares in PDH Polska S.A.

On April 25th 2019, the Parent's Supervisory Board passed a resolution to approve the acquisition of 9,782,808 shares in PDH Polska S.A. by the Parent.

On April 26th 2019, the General Meeting of PDH Polska S.A. passed a resolution to increase the company's share capital by PLN 163,339 thousand through an issue of 16,333,900 new shares with a par value of PLN 10 per share.

The new shares will be acquired in a private placement, with the pre-emptive rights of the existing shareholders waived in full, by:

- The Parent, which will acquire shares with a par value of PLN 97,828,080;
- Grupa Azoty POLICE, which will acquire shares with a par value of PLN 65,510,920.

Payments towards the share capital on account of acquisition of new shares in PDH Polska S.A. were made in full by July 19th 2019.

The share capital increase at PDH Polska S.A., from PLN 304,000 thousand to PLN 467,339 thousand, was registered on August 8th 2019.

As a result, the Parent's ownership interest in PDH Polska S.A. rose from 40.07% to 47%, while Grupa Azoty POLICE's interest fell to 53%.

Share capital increase at Grupa Azoty SIARKOPOL

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

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

On May 20th 2019, in the exercise of its pre-emptive rights the Parent subscribed for 179,153 Series C ordinary registered shares in Grupa Azoty SIARKOPOL, paying PLN 9,563,187.14 for the shares. A request for registering the PLN 1,791,530 share capital increase was filed with the Registry Court on July 17th 2019. The increase was registered on August 13th 2019.

Change of companies' names

By way of resolutions of their respective General Meetings, dated June 13th 2019,

- the names of Goat HoldCo GmbH and Goat BidCo GmbH were changed to
- COMPO EXPERT Holding GmbH and COMPO EXPERT International GmbH, respectively.

Changes in corporate governance rules

The Compo Expert Group companies came under the corporate governance rules applicable at the Grupa Azoty Group following amendment of the articles of association of COMPO EXPERT Holding GmbH, COMPO EXPERT International GmbH and Compo Expert GmbH. The amendments included:

- changing the above companies' financial year so that it is the same as that of the Grupa Azoty Group,
- establishment of Supervisory Boards,
- introduction of corporate governance rules compliant with the Act on State Property Management.

The amendments are effective as of July 9th 2019.

Merger

The merger of Goat TopCo GmbH and COMPO EXPERT Holding GmbH as the acquirer was completed. On July 29th 2019, the deed of merger between COMPO EXPERT Holding GmbH (formerly Goat HoldCo GmbH) and Goat TopCo GmbH was signed, with COMPO EXPERT Holding GmbH as the acquirer. The acquiree (Goat TopCo GmbH) transferred all its assets, rights and obligations to the acquirer by way of a merger. The merger was carried out based on balance sheets prepared as at December 31st 2018 and became official upon its registration on August 6th 2019, with effect as of January 1st 2019. Upon registration of the merger, Goat TopCo GmbH was deleted from the register.

1.3. Accounting for the acquisition of Goat TopCo GmbH

On November 26th 2018, the Parent acquired 100% of the shares (representing 100% of the votes) in Goat TopCo GmbH (currently COMPO EXPERT) of Münster, Germany, from Goat Netherlands B.V. of Amsterdam, the Netherlands, a member of the Chinese XIO Group.

Thus, Grupa Azoty took control of COMPO EXPERT, whose key operating subsidiaries are members of COMPO EXPERT of Münster, Germany.

The amount paid by Grupa Azoty for the COMPO EXPERT shares was EUR 226,637 thousand (PLN 973,966 thousand). On November 26th 2018, the transaction closing date, Grupa Azoty paid the full price for and acquired the ownership title to the shares.

The acquisition was accounted for in accordance with IFRS 3 *Business Combinations*. As at December 31st 2018, the provisional accounting for the acquisition of assets, liabilities and contingent liabilities assumed in the acquisition of COMPO EXPERT was applied to account for the acquisition of COMPO EXPERT. The acquisition was accounted for based on the carrying amounts sourced from the COMPO EXPERT consolidation package as at November 30th 2018, which were adopted as the best available estimate of fair value as at the acquisition date.

Final accounting for the acquisition of COMPO EXPERT:

Acquisition date	<i>Amounts in PLN '000 unless indicated otherwise</i>		
	Preliminary accounting	Adjustments	Final accounting
Net assets of acquired entities	424,998	269,176	694,174
Net assets attributable to non-controlling interests	-	-	-
Elimination of liabilities	-	-	-
The Grupa Azoty Group's share in net assets of acquired entities	424,998	269,176	694,174
Transferred cash	973,966	-	973,966
Subrogation of liabilities	-	-	-
Total acquisition price	973,966	-	973,966
Goodwill on consolidation	548,968	(269,176)	279,792
Goodwill in EUR	127,579	(62,739)	64,840
Exchange differences on translation	-	-	(1,602)
Goodwill presented in the statement of financial position as at acquisition date	-	-	278,190

Goodwill disclosed above will not be amortised and impairment losses, if any, will not be deemed tax-deductible cost.

Key adjustments relate to the identification and measurement of the fair value of the acquired assets, liabilities and contingent liabilities of COMPO EXPERT as at the date of acquisition of control, i.e. November 26th 2018.

The following items were measured:

Property, plant and equipment

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

Intangible assets

- The fair value of trademarks, including the Compo Expert trademark, and the trademarks of 21 other key products. The trademarks were measured at PLN 300m,
- Compo Expert's relationships with customers, both those purchasing Compo Expert products directly or through distributors. Relationships with customers were measured using the Multi-Period Excess Earnings Method (MEEM) at PLN 344m,
- the fair value of technologies was measured at PLN 57m,
- the fair value of other intangible assets was measured at PLN 8m.

Inventories

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

Trade and other receivables

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

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

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

	<i>Amounts in PLN '000 unless indicated otherwise</i>		
	Preliminary accounting as at November 26th 2018	Adjustments	Final accounting as at November 26th 2018
<i>Property, plant and equipment</i>	404,186	90,347	494,533
<i>Intangible assets</i>	423,724	285,488	709,212
<i>Trade and other receivables</i>	338,049	(2,252)	335,797
<i>Deferred tax assets</i>	14,386	-	14,386
<i>Inventories</i>	334,286	1,124	335,410
<i>Other assets</i>	9,070	-	9,070
<i>Cash and cash equivalents</i>	50,931	-	50,931
TOTAL ASSETS	1,574,632	374,707	1,949,339
<i>Trade payables</i>	326,950	-	326,950
<i>Liabilities under borrowings</i>	587,411	-	587,411
<i>Other obligations</i>	42,265	-	42,265
<i>Provisions</i>	10,460	-	10,460
<i>Deferred tax liability</i>	182,548	105,531	288,079
TOTAL LIABILITIES	1,149,634	105,531	1,255,165
NET VALUE OF ACQUIRED ASSETS	424,998	269,176	694,174

As a result of the fair value measurement of net assets and the final accounting for the acquisition, the net profit/(loss) for the period November 26th–December 31st 2018 was adjusted for PLN 110 thousand. The restatement of comparative period data is presented in section 2.2c of these financial statements.

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

2.1. Statement of compliance and general basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements of the Group cover the six months ended June 30th 2019 and contain comparative data for the six months ended June 30th 2018 and as at December 31st 2018.

The interim condensed consolidated statement of profit or loss and other comprehensive income as well as notes to the interim condensed consolidated statement of profit or loss and other comprehensive income for the three months ended June 30th 2019 as well as the comparative data for the three months ended June 30th 2018 have not been reviewed by an auditor.

Interim condensed consolidated financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31st 2018, which were authorised for issue on April 25th 2019.

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

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

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

2.2. Changes in applied accounting policies

The accounting policies applied to prepare these interim condensed consolidated financial statements are consistent with those applied to draw up the full-year consolidated financial statements for the year ended December 31st 2018, except for those presented below and related to IFRS 16 *Leases* having taken effect.

a) Implementation of IFRS 16 *Leases*

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

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

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

Effect on the Group's accounting - the Group as a lessor

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

Effect on the Company accounting - the Company as a lessee

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

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

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

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

Effect of implementation of IFRS 16 on the financial statements

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

	Amount
Future minimum lease payments under operating leases, disclosed in the financial statements prepared as at December 31st 2018 (disclosure in accordance with IAS 17)	420,469
Future minimum lease payments under perpetual usufruct rights to land as at December 31st 2018, not included above	528,702
Any other future minimum lease payments not recognised in the financial statements as at December 31st 2018 under IAS 17, but recognised for the purposes of IFRS 16	17,913
Total all future lease payments as at December 31st 2018	967,084
Exemptions from recognition requirements under IFRS 16 - short-term leases (-)	(19,098)
Exemption from recognition requirements under IFRS 16 - low-value leases (-)	(405)
Change due to change in charges for perpetual usufruct rights to land	21,345
Other (-/+)	1,501
Future lease payments under operating leases recognised in accordance with IFRS 16 as at January 1st 2019	970,427
Discount	(544,258)
Additional lease liabilities recognised as at January 1st 2019	426,169
Finance lease liabilities under IAS 17 as at December 31st 2018	25,181
Lease liabilities as at January 1st 2019	451,350

Presentation changes related to the implementation of IFRS 16 are set out below.

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

* Data before restatement related to final accounting for the acquisition price of COMPO EXPERT in accordance with the published report for 2018.

	Dec 31 2018*	Presentation changes	Dec 31 2018* restated	Impact of change	Jan 1 2019
Liabilities					
Lease liabilities	-	16,806	16,806	383,193	399,999
Other financial liabilities	38,736	(16,806)	21,930	-	21,930
Total non-current liabilities	3,556,776	-	3,556,776	383,193	3,939,969
Lease liabilities	-	8,866	8,866	42,976	51,842
Other financial liabilities	198,138	(8,866)	189,272	-	189,272
Total current liabilities	3,275,467	-	3,275,467	42,976	3,318,443
Total liabilities	6,832,243	-	6,832,243	426,169	7,258,412
Total equity and liabilities	14,160,469	-	14,160,469	426,169	14,586,638

* Data before restatement related to final accounting for the acquisition price of COMPO EXPERT in accordance with the published report for 2018.

For more information on the effect of the amendments to IFRS 16 on the financial statements for the first half of 2019, see *Notes 3 and 12 in Selected notes and supplementary information*.

b) Other standards and interpretations

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

- IFRIC 23 Uncertainty over Income Tax Treatments (issued on June 7th 2017) - effective for annual periods beginning on or after January 1st 2019;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued on October 12th 2017) - effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued on October 12th 2017) - effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on February 7th 2018) - effective for annual periods beginning on or after January 1st 2019;
- *Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2015-2017 Cycle* (issued on December 12th 2017) - effective for annual periods beginning on or after January 1st 2019;

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

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) - pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the

standard will not be initiated until the issue of its final version (not endorsed by the EU by the date of authorisation of these financial statements for issue) - effective for annual periods beginning on or after January 1st 2016;

- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) - work leading to endorsement of the amendments was deferred by the EU for an indefinite period - effective date was deferred by the IASB for an indefinite period;
- IFRS 17 *Insurance Contracts* (issued on May 18th 2017) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2021;
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 3 *Business Combinations* (published on October 22nd 2018) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2020;
- Amendments to IAS 1 and IAS 8: *Definition of materiality* (published on October 31st 2018) - not endorsed by the EU as at the date of authorisation of these financial statements for issue - effective for annual periods beginning on or after January 1st 2020.

c) Corrections of errors or comparative data presentation

No errors requiring corrections regarding previous financial years were identified in the reporting period.

As described in section 1.3 of these financial statements, in the reporting period the Group finally accounted for the acquisition of COMPO EXPERT's assets and liabilities. As a result of the fair value measurement of assets performed by external expert appraisers, there were changes to the values determined in preliminary accounting for the acquisition as at November 28th 2018 as well as to the result for the period November 28th-December 31st 2018.

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

Correction 1 - recognition of the effect of final accounting for the acquisition price of COMPO EXPERT.

Correction 2 - conversion of new values which are the effect of final accounting for the acquisition price of COMPO EXPERT.

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

Consolidated statement of profit or loss and other comprehensive income

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

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

Consolidated statement of financial position

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

	as at Dec 31 2018 published	Correction 1	Correction 2	Correction 3	as at Dec 31 2018 restated
Equity and liabilities					
Equity					
Share capital	495,977	-	-	-	495,977
Share premium	2,418,270	-	-	-	2,418,270
Hedging reserve	1,861	-	-	-	1,861
Translation reserve	3,166	(1,602)	1,225	-	2,789
Retained earnings, including:	3,783,764	-		110	3,783,874
<i>Net profit for the year</i>	9,759	-		110	9,869
Equity attributable to owners of the Parent	6,703,038	(1,602)	1,225	110	6,702,771
Non-controlling interests	625,188	-	-	-	625,188
Total equity	7,328,226	(1,602)	1,225	110	7,327,959
Liabilities					
Borrowings	2,488,353	-	-	-	2,488,353
Other financial liabilities	38,736	-	-	-	38,736
Employee benefit obligations	394,677	-	-	-	394,677
Trade and other payables	12,446	-	-	-	12,446
Provisions	143,772	-	-	-	143,772
Government grants received	136,002	-	-	-	136,002
Deferred tax liabilities	342,790	105,531	236	43	448,600
Total non-current liabilities	3,556,776	105,531	236	43	3,662,586
Borrowings	362,620	-	-	-	362,620
Derivative financial instruments	188	-	-	-	188
Other financial liabilities	198,138	-	-	-	198,138
Employee benefit obligations	45,630	-	-	-	45,630
Current tax liabilities	18,178	-	-	-	18,178
Trade and other payables	2,598,289	-	-	-	2,598,289
Provisions	44,425	-	-	-	44,425
Government grants received	7,999	-	-	-	7,999
Total current liabilities	3,275,467	-	-	-	3,275,467
Total liabilities	6,832,243	105,531	236	43	6,938,053
Total equity and liabilities	14,160,469	103,929	1,461	153	14,266,012

d) Changes in estimates

A change in accounting estimates is recognised in the period in which the change is made or in current and future periods if the change in estimates affects both the current period and the future periods. There were no corrections of errors in the reporting period. In H1 2019, the Parent changed the estimates concerning calculation of the income tax asset relating to its operations in the special economic zone (SEZ). The change resulted from the experience gathered in accounting for operations in the SEZ, taking into account margins in setting transfer prices used for tax accounting purposes, and also from updating market and financial plans and extending the period of the tax projection for operations in the SEZ from three to five years. These factors had a partially offsetting effect, therefore the amount of tax assets related to operations in the SEZ as at June 30th 2019 was reduced by PLN 4.4m relative to December 31st 2018.

3. Selected notes and supplementary information

3.1. Notes

Business segment reporting

Operating segments

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

Operations of the Company's reporting segments:

- Agro Fertilizers segment comprises the manufacturing and marketing of the following products:
 - Speciality (fertilizing/fertilizer) products (liquid fertilizers for foliar feeding and fertigation, biostimulants, SRF and CRF fertilizers for precise fertilization, dedicated NPK fertilizers),
 - Nitrogen fertilizers (solid: nitro-chalk, ammonium nitrate, urea; liquid: RSM® - urea-ammonium nitrate solution),
 - Nitrogen fertilizers with sulfur (solid: ammonium sulfate, ammonium sulfonitrite, urea-ammonium sulfate, calcium nitrate with sulfur; liquid: RSMS® - urea-ammonium nitrate solution, urea-ammonium sulfate solution),
 - Compound fertilizers (NPK: Polifoski® and Amofoski®; NP: DAP),
 - Nitrogen fertilizers,
 - Ammonia,
 - Technical-grade and concentrated nitric acid,
 - Industrial gases;
- Plastics segment comprises the manufacturing and marketing of the following products:
 - caprolactam (an intermediate product used to manufacture polyamide 6 (PA6)),
 - Natural engineering plastics (PA 6, POM - polyacetal),
 - Modified plastics (PA 6, PA66, POM, PPC - polypropylene, PPH, PBT- polybutylene terephthalate),
 - Plastic products (PA pipes, PE pipes, polyamide casings);
- Chemicals segment comprises the manufacturing and marketing of the following products:
 - Melamine,
 - OXO products (OXO alcohols, plasticizers),
 - Sulfur,
 - Titanium white,
 - Iron sulfate,
 - Solutions based on urea and ammonia;
- Energy segment includes the production of energy carriers (electricity, heat, water, process and instrument air, nitrogen) for the purposes of chemical units and, to a lesser extent, for resale (mainly of electricity) to external customers. As part of its operations, the segment also purchases and distributes natural gas for process needs;
- Other Activities segment comprises the remaining activities:
 - Research and Development Centre
 - Laboratory services,
 - Catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts),
 - property rental,
 - and other activities not allocated to any of the segments specified above.

Operating segments

Operating segments' revenue, expenses and financial results for the six months ended June 30th 2019 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	3,668,992	790,562	1,434,120	125,606	83,229	6,102,509
Intersegment revenue	1,136,088	187,611	491,772	1,457,390	432,162	3,705,023
Total revenue	4,805,080	978,173	1,925,892	1,582,996	515,391	9,807,532
Operating expenses, including: (-)	(4,353,413)	(929,345)	(1,801,857)	(1,594,167)	(560,591)	(9,239,373)
<i>selling and distribution expenses (-)</i>	(337,619)	(34,035)	(84,948)	(328)	(613)	(457,543)
<i>administrative expenses (-)</i>	(189,954)	(71,886)	(92,491)	(9,036)	(63,535)	(426,902)
Other income	11,070	697	2,321	5,878	8,691	28,657
Other expenses (-)	(3,934)	(1,482)	(15,349)	(15,179)	(25,384)	(61,328)
Segment's EBIT*	458,803	48,043	111,007	(20,472)	(61,893)	535,488
Finance income	-	-	-	-	-	13,301
Finance costs (-)	-	-	-	-	-	(43,741)
Share of profit of equity-accounted investees	-	-	-	-	-	6,127
Profit before tax	-	-	-	-	-	511,175
Income tax	-	-	-	-	-	(116,221)
Net profit	-	-	-	-	-	394,954
EBIT	458,803	48,043	111,007	(20,472)	(61,893)	535,488
Depreciation and amortisation	161,935	33,045	56,207	56,425	52,264	359,876
Unallocated depreciation and amortisation	-	-	-	-	-	45,573
EBITDA	620,738	81,088	167,214	35,953	(9,629)	940,937

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

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

Operating segments' revenue, expenses and financial results for the six months ended June 30th 2018 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	2,316,928	831,251	1,514,250	140,669	73,931	4,877,029
Intersegment revenue	1,208,227	181,766	473,986	1,434,422	442,886	3,741,287
Total revenue	3,525,155	1,013,017	1,988,236	1,575,091	516,817	8,618,316
Operating expenses, including: (-)	(3,520,473)	(922,193)	(1,828,028)	(1,578,448)	(553,857)	(8,402,999)
<i>selling and distribution expenses (-)</i>	<i>(187,398)</i>	<i>(34,149)</i>	<i>(87,848)</i>	<i>(205)</i>	<i>(560)</i>	<i>(310,160)</i>
<i>administrative expenses (-)</i>	<i>(151,762)</i>	<i>(63,290)</i>	<i>(92,840)</i>	<i>(9,325)</i>	<i>(65,188)</i>	<i>(382,405)</i>
Other income	3,193	920	2,252	4,533	13,432	24,330
Other expenses (-)	(12,010)	(375)	(1,486)	(4,312)	(25,009)	(43,192)
Segment's EBIT*	(4,135)	91,369	160,974	(3,136)	(48,617)	196,455
Finance income	-	-	-	-	-	48,163
Finance costs (-)	-	-	-	-	-	(84,145)
Share of profit of equity-accounted investees	-	-	-	-	-	7,191
Profit before tax	-	-	-	-	-	167,664
Income tax	-	-	-	-	-	(43,191)
Net profit	-	-	-	-	-	124,473
EBIT	(4,135)	91,369	160,974	(3,136)	(48,617)	196,455
Depreciation and amortisation	104,121	28,774	56,809	55,557	44,286	289,547
Unallocated depreciation and amortisation	-	-	-	-	-	42,938
EBITDA	99,986	120,143	217,783	52,421	(4,331)	528,940

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

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

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

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,571,948	381,191	681,681	59,193	43,612	2,737,625
Intersegment revenue	501,517	91,960	218,336	665,622	232,009	1,709,444
Total revenue	2,073,465	473,151	900,017	724,815	275,621	4,447,069
Operating expenses, including: (-)	(1,955,128)	(463,190)	(849,047)	(732,228)	(289,055)	(4,288,648)
<i>selling and distribution expenses (-)</i>	(160,053)	(16,644)	(44,137)	(298)	(656)	(221,788)
<i>administrative expenses (-)</i>	(96,938)	(41,409)	(48,621)	(4,818)	(32,302)	(224,088)
Other income	8,436	339	394	1,439	3,745	14,353
Other expenses (-)	(182)	(779)	(14,702)	(11,503)	(18,207)	(45,373)
Segment's EBIT*	126,591	9,521	36,662	(17,477)	(27,896)	127,401
Finance income	-	-	-	-	-	7,453
Finance costs (-)	-	-	-	-	-	(25,967)
Share of profit of equity-accounted investees	-	-	-	-	-	3,233
Profit before tax	-	-	-	-	-	112,120
Income tax	-	-	-	-	-	(40,038)
Net profit	-	-	-	-	-	72,082
EBIT	126,591	9,521	36,662	(17,477)	(27,896)	127,401
Depreciation and amortisation	82,351	17,358	28,175	28,254	26,141	182,279
Unallocated depreciation and amortisation	-	-	-	-	-	22,863
EBITDA	208,942	26,879	64,837	10,777	(1,755)	332,543

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

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

Operating segments' revenue, expenses and financial results for the three months ended June 30th 2018 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,104,489	420,245	745,401	57,786	52,006	2,379,927
Intersegment revenue	608,907	92,263	255,249	716,993	246,006	1,919,418
Total revenue	1,713,396	512,508	1,000,650	774,779	298,012	4,299,345
Operating expenses, including: (-)	(1,825,378)	(467,082)	(938,176)	(785,630)	(308,791)	(4,325,057)
<i>selling and distribution expenses (-)</i>	<i>(101,233)</i>	<i>(17,890)</i>	<i>(41,936)</i>	<i>(135)</i>	<i>(456)</i>	<i>(161,650)</i>
<i>administrative expenses (-)</i>	<i>(78,218)</i>	<i>(32,923)</i>	<i>(47,615)</i>	<i>(4,616)</i>	<i>(34,098)</i>	<i>(197,470)</i>
Other income	1,808	331	868	2,895	7,039	12,941
Other expenses (-)	(10,479)	(370)	(759)	(2,222)	(15,374)	(29,204)
Segment's EBIT*	(120,653)	45,387	62,583	(10,178)	(19,114)	(41,975)
Finance income	-	-	-	-	-	42,050
Finance costs (-)	-	-	-	-	-	(72,227)
Share of profit of equity-accounted investees	-	-	-	-	-	3,296
Profit before tax	-	-	-	-	-	(68,856)
Income tax	-	-	-	-	-	5,351
Net loss	-	-	-	-	-	(63,505)
EBIT	(120,653)	45,387	62,583	(10,178)	(19,114)	(41,975)
Depreciation and amortisation	52,473	14,705	28,513	28,220	22,268	146,179
Unallocated depreciation and amortisation	-	-	-	-	-	21,493
EBITDA	(68,180)	60,092	91,096	18,042	3,154	125,697

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

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

Operating segments' assets and liabilities as at June 30th 2019 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	6,213,029	1,415,928	1,656,087	1,818,035	1,374,583	12,477,662
Unallocated assets	-	-	-	-	-	2,067,788
Investments in associates	-	-	-	-	-	82,501
Total assets	6,213,029	1,415,928	1,656,087	1,818,035	1,374,583	14,627,951
Segment's liabilities	2,230,840	242,332	275,164	657,389	294,578	3,700,303
Unallocated liabilities	-	-	-	-	-	3,220,786
Total liabilities	2,230,840	242,332	275,164	657,389	294,578	6,921,089

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

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	5,595,657	1,286,042	1,620,134	1,873,204	1,344,933	11,719,970
Unallocated assets	-	-	-	-	-	2,456,546
Investments in associates	-	-	-	-	-	89,496
Total assets	5,595,657	1,286,042	1,620,134	1,873,204	1,344,933	14,266,012
Segment's liabilities	2,212,290	239,834	258,229	806,055	388,871	3,905,279
Unallocated liabilities	-	-	-	-	-	3,032,774
Total liabilities	2,212,290	239,834	258,229	806,055	388,871	6,938,053

Other segmental information for the six months ended June 30th 2019 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Expenditure on property, plant and equipment	170,780	39,179	46,093	39,188	38,599	333,839
Expenditure on intangible assets	3,688		507	24	14,581	18,800
Unallocated expenditure						33,241
Total expenditure	174,468	39,179	46,600	39,212	53,180	385,880
Segment's depreciation and amortisation	161,935	33,045	56,207	56,425	52,264	359,876
Unallocated depreciation and amortisation	-	-	-	-	-	45,573
Total depreciation and amortisation	161,935	33,045	56,207	56,425	52,264	405,449

Other segmental information for the six months ended June 30th 2018 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Expenditure on property, plant and equipment	180,535	28,127	51,116	49,899	61,827	371,504
Expenditure on investment property	-	-	-	-	143	143
Expenditure on intangible assets	673	2	224	178	18,584	19,661
Unallocated expenditure	-	-	-	-	-	32,382
Total expenditure	181,208	28,129	51,340	50,077	80,554	423,690
Segment's depreciation and amortisation	104,121	28,774	56,809	55,557	44,286	289,547
Unallocated depreciation and amortisation	-	-	-	-	-	42,938
Total depreciation and amortisation	104,121	28,774	56,809	55,557	44,286	332,485

Geographical areas

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

Revenue

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Poland	2,942,678	2,560,325	1,258,473	1,216,380
Germany	478,559	429,313	218,295	222,038
Other EU countries	1,751,325	1,410,275	804,623	696,797
Asia	243,867	103,751	123,968	42,839
South America	152,283	86,114	80,159	79,654
Other countries	533,797	287,251	252,107	122,219
Total	6,102,509	4,877,029	2,737,625	2,379,927

No single trading partner accounted for more than 10% of revenue in H1 2019 or H1 2018.

Note 1 Revenue from contracts with customers

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue from sale of products and services	5,976,361	4,727,053	2,676,390	2,303,903
Revenue from sale of merchandise and materials	118,146	142,293	59,068	72,335
Revenue from sale of property rights	6,132	7,683	297	3,689
Revenue from sale of licences	1,870	-	1,870	-
	6,102,509	4,877,029	2,737,625	2,379,927

The Group reported a year-on-year revenue growth as a result of consolidation of COMPO EXPERT as of November 26th 2018. The revenue growth was also driven by higher product prices.

The table below presents COMPO EXPERT results for H1 2019.

	All figures in PLN '000.
Revenue	868,114
Cost of sales	(811,590)
Other income	4,601
Other expenses	(1,917)
Operating profit (EBIT)	59,208
Finance income	6,329
Finance costs	(12,667)
Profit before tax	52,870
Net profit	37,553

For a detailed description of the policies on recognition of revenue from contracts with customers, see the consolidated financial statements prepared as at December 31st 2018.

for the period Jan 1 - Jun 30 2019 (unaudited)

	Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Main product lines						
Revenue from sale of products and services	3,601,145	790,002	1,412,741	98,716	73,757	5,976,361
Revenue from sale of merchandise and materials	65,977	395	21,379	20,923	9,472	118,146
Revenue from sale of property rights	-	165	-	5,967	-	6,132
Revenue from sale of licences	1,870	-	-	-	-	1,870
Total	3,668,992	790,562	1,434,120	125,606	83,229	6,102,509
Geographical regions						
Poland	2,062,308	100,254	577,973	125,606	76,537	2,942,678
Germany	245,232	86,481	146,248	-	598	478,559
Other EU countries	770,724	422,385	553,872	-	4,344	1,751,325
Asia	137,928	105,493	446	-	-	243,867
South America	133,025	12,199	7,059	-	-	152,283
Other countries	319,775	63,750	148,522	-	1,750	533,797
Total	3,668,992	790,562	1,434,120	125,606	83,229	6,102,509

for the period Jan 1 - Jun 30 2018 (unaudited)

	Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Main product lines						
Revenue from sale of products and services	2,243,774	831,250	1,501,247	87,555	63,227	4,727,053
Revenue from sale of merchandise and materials	72,979	1	12,705	45,905	10,703	142,293
Revenue from sale of property rights	60	-	298	7,324	1	7,683
Total	2,316,813	831,251	1,514,250	140,784	73,931	4,877,029
Geographical regions						
Poland	1,570,960	99,001	681,765	140,782	67,817	2,560,325
Germany	157,525	128,872	142,316	-	600	429,313
Other EU countries	434,854	454,328	516,576	2	4,515	1,410,275
Asia	1,078	100,346	1,978	-	349	103,751
South America	64,881	8,089	13,144	-	-	86,114
Other countries	87,516	40,615	158,471	-	650	287,251
Total	2,316,813	831,251	1,514,250	140,784	73,931	4,877,029

Note 2 Operating expenses

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Depreciation and amortisation	403,490	331,358	204,142	167,488
Raw materials and consumables used	3,354,697	2,906,061	1,507,695	1,423,597
Services	551,499	445,179	274,789	234,063
Taxes and charges	187,614	169,444	82,456	82,574
Remuneration	699,174	572,974	358,927	294,716
Social security and other employee benefits	183,066	151,050	94,835	77,090
Other expenses	81,715	56,634	49,765	33,151
Costs by nature of expense	5,461,255	4,632,700	2,572,609	2,312,679
Change in inventories of finished goods (+/-)	34,440	(39,311)	(8,917)	59,895
Work performed by the entity and capitalised (-)	(57,272)	(56,953)	(36,897)	(31,580)
Selling and distribution expenses (-)	(457,543)	(310,160)	(221,788)	(161,650)
Administrative expenses (-)	(426,902)	(382,405)	(224,088)	(197,470)
Cost of merchandise and materials sold	95,927	125,276	52,409	64,645
Cost of sales	4,649,905	3,969,147	2,133,328	2,046,519
including excise duty	2,626	10,501	1,241	4,901

The year-on-year increase in costs was attributable to the consolidation of COMPO EXPERT as of November 26th 2018. The table presenting COMPO EXPERT results is presented in Note 1. Other factors which had a bearing on costs included lower gas prices, higher prices of CO₂ emission allowances, higher employee salaries, implementation of IFRS 16, and higher costs of repair services.

Note 3 Reconciliation of lease costs

	for the period Jan 1– Jun 30 2019
	<i>unaudited</i>
Depreciation/amortisation of right-of-use assets (-)	(28,867)
Interest expense on lease liabilities (-)	(7,765)
Costs associated with short-term leases exempted from the scope of application of IFRS 16(-)	(5,590)
Costs associated with leases of low value assets exempted from the scope of application of IFRS 16(-)	(70)
Costs associated with variable lease payments not accounted for in the measurement of lease liabilities (-)	(265)
Costs associated with variable lease payments, not accounted for in the measurement of lease liabilities (-)	(3,581)
Total	(46,138)

Note 4 Other income

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Gains on disposal of assets:				
Gain on disposal of property, plant and equipment	174	762	(589)	190
Gain on disposal of intangible assets	-	500	-	500
	174	1,262	(589)	690
Reversed impairment losses on:				
Investment property	-	11	-	-
Other receivables	487	568	183	128
Other	-	74	-	68
	487	653	183	196
Other income:				
Income from lease of investment property	8,418	9,573	3,593	4,871
Received compensation	5,820	3,948	2,842	1,638
Provisions reversed	6,802	3,038	4,593	2,636
Government grants received	6,738	5,645	3,583	3,330
Other	218	211	148	(420)
	27,996	22,415	14,759	12,055
	28,657	24,330	14,353	12,941

The largest item of provisions reversed was partial reversal of the PLN 6,351 thousand provision recognised in 2018 for fines imposed due to Grupa Azoty PUŁAWY's CHP plant exceeding the permitted emission levels. Following an inspection, the Provincial Inspectorate for Environmental Protection in Lublin issued a decision imposing a PLN 4,852 thousand fine on Grupa Azoty PUŁAWY for excessive emissions.

Note 5 Other expenses

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Recognised impairment losses on:				
Property, plant and equipment	4,428	7,058	4,285	6,676
Intangible assets	126	776	126	439
Right-of-use assets	18,417	-	18,417	-
Other receivables	2,695	366	2,245	366
Other	549	106	539	106
	26,215	8,306	25,612	7,587
Other expenses:				
Investment property maintenance costs	5,743	4,974	2,718	2,179
Fines and compensations	2,525	3,126	1,384	538
Plant outages	1,307	1,501	650	755
Failure recovery costs	4,809	4,342	2,447	3,041
Recognised provisions	14,691	12,929	12,174	9,226
Other (aggregated items)	6,038	8,014	388	5,878
	35,113	34,886	19,761	21,617
	61,328	43,192	45,373	29,204

The largest item of impairment losses was the impairment loss of PLN 21,988 thousand at Zakłady Azotowe Chorzów. For details, see Note 10 Property, plant and equipment.

Provisions recognised include in particular an increase in provisions for environmental protection following an update of assumptions for estimating the provisions, including a discount rate decrease. Significant items include:

- PLN 7,383 thousand increase in the provision at Grupa Azoty Police,
- PLN 1,918 thousand increase in the provision at the Parent.

Note 6 Finance income

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Interest income:				
Interest on bank deposits	3,145	5,661	1,855	2,858
Interest on cash pooling	350	699	26	323
Interest on non-bank borrowings	4	6	2	1
Interest on trade receivables	1,089	716	711	339
Other interest income	193	48	170	15
	4,781	7,130	2,764	3,536
Profit from sale of financial investments:				
Profits from sale of financial investments	-	-	(478)	-
	-	-	(478)	-
Gains on measurement of financial assets and liabilities:				
Gains on measurement of financial assets at fair value through profit or loss	171	168	(429)	-
Gains on measurement of financial liabilities at fair value through profit or loss	991	-	921	-
	1,162	168	492	-
Other finance income:				
Foreign exchange gains	4,386	35,586	3,254	34,592
Dividends received	653	296	653	296
Discounting of liabilities	47	41	25	41
Other finance income	2,272	4,942	743	3,585
	7,358	40,865	4,675	38,514
	13,301	48,163	7,453	42,050

Note 7 Finance costs

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Interest expense:				
Interest on bank borrowings and overdraft facilities	24,994	16,634	12,613	8,325
Interest on cash pooling	211	27	187	(190)
Interest on non-bank borrowings	2,098	2,565	1,545	1,275
Interest on lease liabilities	7,765	738	5,102	406
Factoring interest	848	15	643	9
Interest on receivables discounting	566	508	62	234
Interest on trade payables	11	26	(68)	8
Interest on public charges	451	191	303	110
Other interest expense	2,809	3,037	2,731	2,978
	39,753	23,741	23,118	13,155
Loss on sale of financial investments:				
Loss on sale of financial investments	837	51,993	837	51,993
	837	51,993	837	51,993
Loss on measurement of financial assets and liabilities:				
Loss on measurement of financial assets at fair value through profit or loss	-	7,507	-	6,175
	-	7,507	-	6,175
Other finance costs:				
Unwind of discount on provisions and loans	1,495	722	1,481	722
Other finance costs	1,656	182	531	182
	3,151	904	2,012	904
	43,741	84,145	25,967	72,227

Note 8 Income tax

Note 8.1 Income tax disclosed in the statement of profit or loss

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Current income tax:				
Current income tax expense	96,093	27,437	28,353	(13,811)
Adjustments to current income tax for previous years	(244)	(2,229)	(244)	(2,229)
	95,849	25,208	28,109	(16,040)
Deferred income tax:				
Deferred income tax associated with origination and reversal of temporary differences	20,372	17,983	11,929	10,689
	20,372	17,983	11,929	10,689
Income tax disclosed in the statement of profit or loss	116,221	43,191	40,038	(5,351)

Note 8.2 Effective tax rate

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Profit before tax	511,175	167,664	112,120	(68,856)
Tax calculated at the applicable tax rate	97,121	31,856	21,301	(13,083)
Effect of tax rates in foreign jurisdictions	6,140	(138)	3,007	(69)
Effect of tax-exempt income (+/-)	(4,195)	(3,494)	(4,195)	(3,494)
Effect of non tax-deductible expenses (+/-)	9,694	9,573	5,739	2,061
Tax effect of inclusion of property, plant and equipment into operations in Special Economic Zone (+/-)	1,203	725	719	241
Tax effect of tax losses deducted in the period (+/-)	(7,602)	158	(7,602)	158
Recognition of state aid deductible in future periods (+/-)	3,263	(3,545)	4,425	(1,905)
Other (+/-)	10,597	8,056	16,644	10,740
Income tax disclosed in the statement of profit or loss	116,221	43,191	40,038	(5,351)
Effective tax rate	22.7%	25.8%	35.7%	7.8%

Note 8.3 Income tax disclosed in other comprehensive income

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Tax on items that will not be reclassified to profit or loss (+/-)				
	(2,468)	(2,472)	(2,468)	(2,472)
Remeasurement of net defined benefit obligation/asset	(2,468)	(2,472)	(2,468)	(2,472)
Tax on items that are or may be reclassified to profit or loss (+/-)				
	1,533	(4,607)	1,575	(3,699)
Measurement of hedging instruments through hedge accounting	1,533	(4,607)	1,575	(3,699)
Income tax disclosed in other comprehensive income	(935)	(7,079)	(893)	(6,171)

Note 8.4 Deferred tax assets and liabilities

	Assets (-)		Liabilities (+)	
	Jun 30 2019	Dec 31 2018 restated	Jun 30 2019	Dec 31 2018 restated
Property, plant and equipment	(94,077)	(91,508)	402,398	407,987
Perpetual usufruct of land	-	(98)	-	84,018
Right-of-use assets	-	-	136,982	-
Investment property	(1,566)	(1,540)	8,025	7,744
Intangible assets	(3,893)	(3,877)	249,305	259,677
Financial assets	(5,671)	(234)	12,362	12,283
Inventories and property rights	(15,792)	(13,699)	41,682	25,089
Trade and other receivables	(6,441)	(6,803)	88	1,202
Trade and other payables	(106,469)	(79,442)	1,067	1,183
Other assets	(428)	(402)	3	213
Employee benefits	(100,346)	(94,057)	625	623
Provisions	(46,872)	(44,517)	1,091	518
Borrowings	(1,861)	(198)	95	91
Other financial liabilities	(13,311)	(1,089)	204	432
Measurement of hedging instruments through hedge accounting	-	-	1,969	436
State aid deductible in future periods	(51,670)	(73,972)	-	-
Tax losses	(10,525)	(13,680)	17	-
Other	(8,094)	(3,379)	107	20
Deferred tax assets (-)/liabilities (+)	(467,016)	(428,495)	856,020	801,516
Offset	375,222	352,916	(375,222)	(352,916)
Deferred tax assets (-)/liabilities (+) recognised in the statement of financial position	(91,794)	(75,579)	480,798	448,600

Following the entry into force of IFRS 16 *Leases*, non-current assets in the form of the right to use land are presented in right-of-use assets.

Note 9 Earnings per share

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

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Net profit	362,782	123,638	68,006	(48,293)
Number of shares at beginning of period	99,195,484	99,195,484	99,195,484	99,195,484
Number of shares at end of period	99,195,484	99,195,484	99,195,484	99,195,484
Weighted average number of shares in the period	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per share:				
Basic (PLN)	3.66	1.25	0.69	(0.49)
Diluted (PLN)	3.66	1.25	0.69	(0.49)

Diluted earnings per share

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

Note 10 Property, plant and equipment

Carrying amount

	as at Jun 30 2019	as at Dec 31 2018 restated*
	<i>unaudited</i>	<i>audited</i>
Land	59,151	57,453
Mineral deposits	12,982	14,087
Buildings and structures	2,595,901	2,598,368
Plant and equipment	3,605,946	3,707,568
Vehicles	119,204	140,731
Other property, plant and equipment	155,199	136,714
	6,548,383	6,654,921
Property, plant and equipment under construction	1,192,965	1,102,150
	7,741,348	7,757,071

* In accordance with the information provided in section 2.2.c

Property, plant and equipment by type

	Land	Mineral deposits	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
As at June 30th 2019								
Gross carrying amount	60,770	49,009	3,905,304 (1,254,196)	6,866,806	279,085	363,625	1,271,043	12,795,642
Accumulated amortisation (-)	-	(3,495))	(3,134,220)	(114,320)	(194,967)	-	(4,701,198)
Impairment (-)	(1,619)	(32,532)	(55,207)	(126,640)	(45,561)	(13,459)	(78,078)	(353,096)
Net carrying amount as at June 30th 2019 (unaudited)	59,151	12,982	2,595,901	3,605,946	119,204	155,199	1,192,965	7,741,348
As at December 31st 2018								
Gross carrying amount	60,471	49,009	3,819,020 (1,155,882)	6,842,057	311,153	319,565	1,180,257	12,581,532
Accumulated amortisation (-)	-	(2,390))	(3,007,494)	(125,357)	(181,609)	-	(4,472,732)
Impairment (-)	(3,018)	(32,532)	(64,770)	(126,995)	(45,065)	(1,242)	(78,107)	(351,729)
Net carrying amount as at December 31st 2018 (audited) - restated	57,453	14,087	2,598,368	3,707,568	140,731	136,714	1,102,150	7,757,071

In the six months ended June 30th 2019, the Group purchased property, plant and equipment with a value of PLN 598,421 thousand (six months ended June 30th 2018: PLN 710,467 thousand). In the six months ended June 30th 2019, the Group sold property, plant and equipment with a total value of PLN 939 thousand (six months ended June 30th 2018: PLN 547 thousand). Gain on disposal of property, plant and equipment is presented in Note 4. The note on property, plant and equipment is also influenced by movements in the EUR exchange rate. In the six months ended June 30th 2019, exchange differences resulted in a PLN 6,357 thousand decrease in property, plant and equipment (six months ended June 30th 2018: PLN 3,874 thousand increase in property, plant and equipment).

Impairment testing

As at June 30th 2019, the trigger referred to in paragraph 12d of IAS 36 *Impairment of Assets* occurred with respect to the entire Group - the carrying amount of the Group's net assets was higher than its market capitalisation. Therefore, the Parent and its subsidiaries updated their impairment tests as at the reporting date, taking into account the current performance forecasts for 2019.

The test results showed no need to recognise impairment losses.

On the other hand, an impairment test at Zakłady Azotowe Chorzów showed the need to recognise impairment losses of PLN 21,988 thousand on the following non-current assets:

- property, plant and equipment - PLN 2,970 thousand;
- right-of-use assets - PLN 18,417 thousand;
- intangible assets - PLN 124 thousand;
- investment property - PLN 477 thousand.

Item	Parent	Grupa Azoty Puławy	Grupa Azoty Police
Identification of CGU	Fertilizers Plastics	Agro Chemicals	Fertilizers Pigments
Recognition of impairment loss	None	None	None
Reversal of impairment loss	None	None	None
Nominal weighted average cost of capital (WACC) (%)	6.77	7.01	6.77
Key assumptions	<p>Unlimited duration of the CGU. Prices of key raw materials were assumed based on market prices in the forecast period.</p> <p>EBITDA margin for the Plastics segment: 2019 - 8.0%; 2020 - 10.7%; 2021 - 10.5%; 2022 - 9.6%; 2023 - 12.2%. EBITDA margin for the Fertilizers segment: 2019 - 16.1%; 2020 - 13.4%; 2021 - 13.6%; 2022 - 11.6%; 2023 - 15.3%.</p> <p>Other assets and related costs were allocated to the core segments indirectly. The cost ratios were determined to by the most rational allocation ratios for corporate assets,</p> <p>The growth rate in the residual period was assumed at 2.3%.</p>	<p>The Company reviewed the validity of the assumptions adopted for the impairment tests performed as at December 31st 2018 and found that:</p> <ul style="list-style-type: none"> the adopted strategy and the key assumptions did not change; the H1 2019 financial performance and the financial performance projected for H2 2019 is better than that adopted for the tests; the risk-free interest rate is lower. <p>Considering the above, in the Management Board's opinion the estimated recoverable amounts resulting from the tests performed as at December 31st 2018 remain valid as at June 30th 2019.</p>	<p>In the case of the Fertilizers CGU, the forecast period was assumed to end by 2042. For the Pigments segment, forecasts with residual values were adopted. The corporate assets shared by both CGUs, recorded within the Support and Administration functions, were allocated to the CGUs on an indirect basis. It was concluded that the most reasonable way of allocating the corporate-level assets and liabilities was the cost basis.</p> <p>The key assumptions for cash flow projections beyond 2020 were consistent with those adopted to carry out the test as at December 31st 2018. However, the first period of the projection was updated and, given the date as at which the test was performed (end of the first half of the year), it only covered the current projection for the second half of 2019, and updated working capital ratios were taken into account.</p> <p>A long-term growth rate of 2.3% was assumed to determine the residual value.</p>
Value in use	Fertilizers - PLN 1,157,769 thousand Plastics - PLN 1,204,446 thousand	Agro - PLN 6,734,788 thousand Chemicals - PLN 1,272,048 thousand	Fertilizers - PLN 1,403,816 thousand Pigments - PLN 341,512 thousand

Sensitivity analysis of the performed tests for the Parent showed that no impairment losses need to be recognised on:

- the Fertilizers CGU if EBITDA decreases by no more than **17.0%** or WACC increases to no more than **7.77%**.
- the Plastics CGU if EBITDA decreases by no more than **10.8%** or WACC increases to no more than **7.38%**.

Sensitivity analyses of the performed tests show that Grupa Azoty PUŁAWY does not need to recognise impairment losses in the Agro segment in the event of an EBITDA decrease by no more than 56% or WACC discount rate increase to no more than 18.71%, and in the Chemicals segment - in the event of an EBITDA decrease by no more than 1% or no increase in the WACC discount rate above the level assumed for testing purposes, i.e. 7.01%.

It was found that with regard to Grupa Azoty POLICE the value in use would not fall below the carrying amount if the WACC discount rate (nominal net) increased to no more than 8.05 % for the Fertilizers CGU and to no more than 6.94% for the Pigments CGU.

Item	COMPO EXPERT	Zakłady Azotowe Chorzów
Identification of CGU	Fertilizers	Other activities
Recognition of impairment loss	NO	YES
Reversal of impairment loss	NO	NO
Nominal weighted average cost of capital (WACC) (%)	6.77	6.36 (including specific risks 2.7)
Key assumptions	Financial projections were based on a long-term plan prepared by the Goat TopCo Management Board for 2019-2026, taking into account the residual value. A long-term growth rate of 1.9% was assumed to determine the residual value (eurozone inflation forecast).	Unlimited duration of the CGU. The test was prepared based on 2019 constant prices and an updated 2019 budget, approved by the Supervisory Board of ZACH on June 17th 2019. The forecast for 2020-2027 was based on 2019 data adjusted for an estimated revenue growth of 5% in the following years. EBITDA margin for the Other Activities CGU: H2 2019: 10.0%; the following years: from 2.4% in 2020 to 8.8% in 2027. All assets not associated with the Organic Production Division CGU are allocated to Other Activities. The growth rate in the residual period was assumed at 0%.
Value in use	Group total: EUR 404.1m (PLN 1,718,233 thousand)	Other Activities CGU: PLN 32,442 thousand

Sensitivity analyses of the performed tests show that COMPO EXPERT does not need to recognise impairment losses in the event of an EBITDA decrease by no more than 1.62% or WACC increase to no more than 6.9%.

As regards Zakłady Azotowe CHORZÓW, the sensitivity analysis of the performed tests indicates that no impairment would have to be recognised for the Other Activities CGU if EBITDA increased by approximately 50% or if WACC decreased by 2 pp, i.e. to or below 4.36%.

The subsidiary PDH Polska S.A. monitors the projected profitability of the Polimery Police project using a financial model developed in cooperation with a financial adviser. The key assumptions developed for the purposes of the financial model, including technological assumptions and market forecasts, are based on independent studies, such as technical documentation provided by recognised engineering companies (including technology licensors) and market advisor reports on prices of raw materials and products. In H1 2019, a number of key assumptions of the financial model were revised. The revisions included:

- update of the project's capex based on the bid submitted by the general contractor selected in the tender procedure and the opex parameters that followed from the bid,
- update of the electricity price path based on a market report on electricity,
- update of the polypropylene, propane and ethylene price paths by the market advisor to the financing institutions,
- commercial strategy modifications.

At the same time, the Management Board expects to secure the financing necessary to implement the project in accordance with the schedule adopted in the financial model. In connection with the updated positive results yielded by the financial model, which are treated by PDH Polska S.A. as a recoverable amount estimate in the asset impairment test, the conclusion that the assets of the Polimery Police project are not impaired was maintained. As at June 30th 2019, the Polimery Police project/CGU Polimery included non-current assets, such as expenditure on property, plant and equipment under construction, intangible assets under construction, advance payments for property, plant and equipment and intangible assets, perpetual usufruct rights, and capitalised borrowing costs.

For the purposes of the impairment test, the value of the investment in the Polimery Police project was estimated based on the following key assumptions:

- a 35-year period of project operation, beginning from the production unit start-up scheduled for Q2 2022, without taking into account the residual value,
- the total project budget equivalent to EUR 1.5bn,
- maintaining the currently planned schedule, nature and amount of financing.

Note 11 Intangible assets

Carrying amount

	as at Jun 30 2019	as at Dec 31 2018 restated*
	<i>unaudited</i>	<i>audited</i>
Trade marks	269,073	271,108
Corporate logo	138,358	160,677
Customer portfolio	348,155	367,911
Patents and licences	89,918	94,425
Software	28,556	30,021
Development costs	1,826	2,425
Other intangible assets	56,956	66,319
	932,842	992,886
Intangible assets under construction	73,950	55,575
	1,006,792	1,048,461

* In accordance with the information provided in section 2.2.c

Note 12 Right-of-use assets
Carrying amount

	as at Jun 30 2019
	<i>unaudited</i>
Perpetual usufruct of land	662,464
Land	386
Buildings and structures	44,335
Plant and equipment	118,675
Vehicles	50,443
Other fixtures and fittings, tools and equipment	1,080
	877,383
Right-of-use assets under construction	40
	877,423

Net carrying amount of right-of-use assets

	Perpetual usufruct of land	Land	Buildings and structures	Plant and equipment	Vehicles	Other fixtures and fittings, tools and equipment	Right-of-use assets under construction	Total
Net carrying amount as at December 31st 2018	-	-	-	-	-	-	-	-
Effect of implementation of IFRS 16, including:	688,250	487	43,385	126,285	43,612	1,216	-	903,235
Value of assets disclosed as at Dec 31 2018 as finance leases in accordance with IAS 17	-	-	787	5,284	12,041	502	-	18,614
On-balance-sheet perpetual usufruct of land as at Dec 31 2018	470,178	-	-	-	-	-	-	470,178
Increases due to the implementation of IFRS 16	218,072	487	42,598	121,001	31,571	714	-	414,443
Net carrying amount as at December 1st 2019	688,250	487	43,385	126,285	43,612	1,216	-	903,235
Increase, including:	316	-	5,461	4,941	16,276	23	400	27,417
Increases due to execution of new agreements	193	-	5,454	4,891	10,471	21	376	21,406
Increases due to execution of new agreements (transfer from right-of-use assets under construction)	-	-	1	50	5,805	-	-	5,856
Other	123	-	6	-	-	2	24	155
Decrease, including:(-)	(26,102)	(101)	(4,511)	(12,551)	(9,445)	(159)	(360)	(53,229)
Depreciation and amortisation	(4,832)	(70)	(4,268)	(11,753)	(7,793)	(151)	-	(28,867)
Decrease due to placement in service (from right-of-use assets under construction)	-	-	-	-	-	-	(360)	(360)
Decrease due to translation of exchange differences	-	-	(139)	(63)	(68)	(8)	-	(278)
Recognition of impairment loss	(18,368)	(31)	-	-	(18)	-	-	(18,417)
Other decrease	(2,902)	-	(104)	(735)	(1,566)	-	-	(5,307)
Net carrying amount as at June 30th 2019	662,464	386	44,335	118,675	50,443	1,080	40	877,423

Note 13 Cash and cash equivalents

	as at Jun 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
Cash in hand	715	589
Bank balances in PLN	158,625	391,706
Bank balances in foreign currencies (translated to PLN)	142,177	151,460
Bank deposits – up to 3 months	242,835	302,166
Other bank deposits	4,486	482
Other	1,775	129
	550,613	846,532
Cash and cash equivalents in the statement of financial position	550,613	846,532
Cash and cash equivalents in the statement of cash flows	550,613	846,532

Note 14 Borrowings

	as at Jun 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
Bank borrowings	2,567,042	2,739,456
Non-bank borrowings	99,597	111,517
	2,666,639	2,850,973
including		
Long-term	2,401,830	2,488,353
Short-term	264,809	362,620
	2,666,639	2,850,973

Maturities and currencies of borrowings

As at June 30th 2019 (unaudited)

Currency	Reference rate	Amount as at the reporting date		Up to 1 year	1–2 years	2–5 years	Over 5 years
		in foreign currency	in PLN				
PLN	variable / fixed	1,049,513	1,049,513	52,382	43,856	152,961	800,314
EUR	variable / fixed	401,617	1,613,473	208,774	99,121	368,929	936,649
USD	fixed	622	2,322	2,322	-	-	-
BRL	fixed	1,362	1,331	1,331	-	-	-
			2,666,639	264,809	142,977	521,890	1,736,963

As at December 31st 2018 (audited)

Currency	Reference rate	Amount as at the reporting date		Up to 1 year	1-2 years	2-5 years	Over 5 years
		in foreign currency	in PLN				
PLN	variable / fixed	1,070,499	1,070,499	51,191	44,810	154,715	819,783
EUR	variable / fixed	415,171	1,778,521	309,476	100,496	367,602	1,000,947
USD	fixed	300	1,127	1,127	-	-	-
BRL	fixed	853	826	826	-	-	-
		2,850,973	362,620	145,306	522,317	1,820,730	

The Group's financing is based on variable and fixed interest rates. The variable interest rate is based on the WIBOR or EURIBOR reference rate plus a bank's margin.

As at June 30th 2019, the Group had access to credit limits of approximately PLN 3,255m (December 31st 2018: PLN 3,082m).

Note 15 Employee benefit obligations

	as at Jun 30 2019	as at Dec 31 2018
	<i>Unaudited</i>	<i>audited</i>
Pension benefit obligations	196,028	177,656
Jubilee benefit obligations	231,595	213,123
Pensioner Social Fund benefit obligations	19,894	22,425
Other obligations	26,881	27,103
	474,398	440,307
including		
Long-term	425,565	394,677
Short-term	48,833	45,630
	474,398	440,307

The increase in *employee benefit obligations* follows from changes in actuarial assumptions and a lower discount rate (2.39%) (December 31st 2018: 3.0%).

Note 16 Provisions

	as at Jun 30 2019	as at Dec 31 2018
	<i>Unaudited</i>	<i>audited</i>
Provision for litigation	6,977	8,171
Provision for environmental protection, including site restoration	139,328	130,484
Provision for demolition of mercury electrolysis facilities	9,526	9,002
Other provisions	33,096	40,540
	188,927	188,197
including		
Long-term	157,492	143,772
Short-term	31,435	44,425
	188,927	188,197

The provision for litigations relates mainly to employee matters at Grupa Azoty POLICE (PLN 3,321 thousand).

Other provisions include provisions for decommissioning of idle process units, property ordering, and potential losses, including penalties related to operating activities.

The largest items are:

- PLN 7,175 thousand in provisions for environmental penalties at Grupa Azoty PUŁAWY;
- PLN 4,299 thousand provision for decommissioning of an idle unit at Grupa Azoty SIARKOPOL;
- PLN 3,210 thousand provision for the costs of removal and disposal of waste;
- PLN 1,016 thousand provision for a complaint at COMPO EKSPERT.

Note 17 Other material changes in the statement of financial position

Following the final accounting for the acquisition of COMPO EXPERT, referred to in section 1.3, adjustments were made to the goodwill as at December 31st 2018. As at June 30th 2019, COMPO EXPERT's goodwill was PLN 275,700 thousand (December 31st 2018: PLN 278,812 thousand).

The PLN 197,172 thousand increase in **property rights** was mainly attributable to higher prices of CO₂ emission allowances, which also led to a rise in short-term grants, recognised to account for CO₂ emission allowances allocated free of charge.

The PLN 46,839 thousand increase in **trade and other receivables** was attributable to longer periods of collection of payments for fertilizers sold off-season.

The PLN 596,104 thousand decrease in **trade and other payables** was attributable to the settlement of the provision for 2018 CO₂ emission allowances and lower trade payables in respect of gas purchases reflecting lower gas consumption as a result of planned maintenance shutdowns and a plant failure at Grupa Azoty POLICE.

The PLN 86,194 thousand increase in **other financial liabilities** was attributable to the Group's use of reverse factoring.

Note 18 Financial instruments

Categories of financial instruments

Financial assets

	as at Jun 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
At fair value through profit or loss	3,405	2,017
At amortised cost	1,815,423	2,045,855
At fair value through other comprehensive income	22,447	16,374
	1,841,275	2,064,246
Recognised in the statement of financial position as:		
Derivative financial instruments	3,405	2,017
Shares	9,113	9,113
Trade and other receivables	1,177,507	1,189,146
Cash and cash equivalents	550,613	846,532
Other financial assets	100,637	17,438
	1,841,275	2,064,246

Financial liabilities

	as at Jun 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
At fair value through profit or loss	15	188
At amortised cost	4,719,896	4,882,266
	4,719,911	4,882,454
Recognised in the statement of financial position as:		
Long-term borrowings	2,401,830	2,488,353
Short-term borrowings	264,809	362,620
Derivative financial instruments	-	188
Trade and other payables	1,323,309	1,794,419
Other non-current financial liabilities	401,178	38,736
Other current financial liabilities	328,785	198,138
	4,719,911	4,882,454

Credit risk

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

Trade receivables

The credit risk structure of trade receivables by the Group's product groups is presented in the table below:

	as at Jun 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
Agro Fertilizers	639,857	576,439
Plastics	219,760	171,286
Chemicals	317,129	343,204
Energy	36,205	28,263
Other Activities	30,895	16,678
	1,243,846	1,135,870

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

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

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

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

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

Fair value of financial instruments

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

- Cash and cash equivalents, short-term bank deposits and short-term bank borrowings. Carrying amounts of these instruments approximate their fair values because of their short maturities.
- Trade and other receivables, trade payables. Carrying amounts of these instruments approximate their fair values due to their short-term nature.
- Long-term variable-rate borrowings. Carrying amounts of these instruments approximate their fair values due to the variable nature of their interest rates.
- Long-term fixed-rate borrowings. Carrying amount of these instruments is PLN 714,083 thousand, and their fair value is approximately PLN 721,315 thousand (Level 2 in the fair value hierarchy).
- Foreign currency derivatives - the carrying amounts of these instruments are equal to their fair values.
- Financial assets available for sale. The carrying amounts of these instruments are equal to their fair values.

The table below presents Grupa Azoty's financial instruments, carried at fair value, by levels in the fair value hierarchy, as at June 30th 2019:

Hierarchy level (unaudited)	Level 1	Level 2	Level 3
Financial assets at fair value, including:			
at fair value through profit or loss	152	3,253	-
measured at fair value through other comprehensive income	-	-	22,447
	152	3,253	22,447

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

Hierarchy level (audited)	Level 1	Level 2	Level 3
Financial assets at fair value, including:			
at fair value through profit or loss	-	2,017	-
measured at fair value through other comprehensive income	-	-	16,374
	-	2,017	16,374

There were no transfers between the levels in H1 2019 or in 2018.

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

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

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

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

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

The fair value of financial instruments presented in Level 3 is determined as follows:

- The fair value of short-term trade receivables which are or may be disposed of under factoring agreements is presented by the Group as financial assets measured at fair value through other comprehensive income. In the Group's opinion, the fair values of these assets do not materially differ from their carrying amounts due to their short maturities. The PLN 6,073 thousand increase in these receivables as at June 30th 2019 was attributable to higher sales to the trading partners whose receivables are subject to factoring arrangements.
- The fair value of the shares in Tarnowskie Wodociągi (equity investment) was measured using the discounted cash flow (DCF) method based on the assumptions of the Long-Term Growth Forecast prepared by Tarnowskie Wodociągi for 2017-2022. As at June 30th 2019 and December 31st 2018, the fair value of these shares was PLN 6,464 thousand.

Derivative financial instruments and hedge accounting

The Group applies cash flow hedge accounting. The hedged item are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from July 2019 to September 2028. The hedging covers currency risk. The hedge are two euro-denominated credit facilities of:

- 1) EUR 118,053 thousand as at June 30th 2019 (December 31st 2018: EUR 118,053 thousand), repayable in the period from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each;

- 2) EUR 50,000 thousand as at June 30th 2019 (December 31st 2018: EUR 50,000 thousand), repayable from March 2021 to September 2028 in 15 equal half-yearly instalments of EUR 3,333 thousand each.

As at June 30th 2019, the carrying amount of both these credit facilities was PLN 714,083 thousand (December 31st 2018: PLN 722,087 thousand). The hedging reserve as at June 30th 2019 includes PLN 10,364 thousand (December 31st 2018: PLN 2,297 thousand) on account of the effective hedge. In H1 2019, the Company did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

Note 19 Contingent liabilities, contingent assets and guarantees

Contingent assets

	as at Jun 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
Contingent receivables	30,814	30,595

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

Contingent liabilities and guarantees/sureties

	as at Jun 30 2019	as at Dec 31 2018
	<i>unaudited</i>	<i>audited</i>
Guarantees	444	760
Other contingent liabilities	30,079	30,483
	30,523	31,243

As at June 30th 2019, there were no major changes in contingent assets and liabilities relative to disclosures made in the full-year consolidated financial statements.

Contingent liabilities related to the Polimery Police project

The agreement of May 11th 2019 between PDH Polska S.A. and Hyundai Engineering Co., Ltd ("Hyundai") contains provisions on contingent liability of PDH Polska. If PDH Polska S.A. fails to issue a full notice to proceed within four months from the commencement date, that is from August 1st 2019, each party will have the right to rescind the agreement with immediate effect. In such a case, PDH Polska S.A. will pay Hyundai the portion of the fee due for the documentation, deliveries and work delivered and received, and will reimburse the documented and reasonable costs of purchase of equipment and materials ordered but not yet delivered to the construction site, to the extent that Hyundai cannot cancel an order without incurring any costs. PDH Polska S.A. will also reimburse Hyundai for all other reasonable and documented costs accepted by PDH Polska S.A., incurred by Hyundai or which Hyundai is obliged to incur as a result of the rescission. The amount of remuneration to be paid to Hyundai and the amount of all reasonable and documented costs to be reimbursed to Hyundai will not exceed 30,000 thousand EUR.

Note 20 Related-party transactions

Trade transactions with associates

Trade transactions

	Revenue	Receivables	Purchases	Liabilities
In the six months ended June 30th 2019 and as at that date (unaudited)				
Related parties of Grupa Azoty POLICE	4,499	13,206	3,738	1,501
Related parties of Grupa Azoty PUŁAWY	108	792	7,013	906
	4,607	13,998	10,751	2,407

	Revenue	Purchases
In the six months ended June 30th 2018 (unaudited)		
Related parties of Grupa Azoty POLICE	3,976	4,524
Related parties of Grupa Azoty PUŁAWY	112	8,976
	4,088	13,500

Trade transactions with associates and jointly-controlled entities

Trade transactions

	Receivables	Liabilities
As at December 31st 2018 (audited)		
Related parties of Grupa Azoty POLICE	642	1,201
Related parties of Grupa Azoty PUŁAWY	24	1,028
	666	2,229

Other transactions

	Other income
In the six months ended June 30th 2019 (unaudited)	
Related parties of Grupa Azoty PUŁAWY	2
	2

	Other income	Other expenses	Finance income	Finance costs
In the six months ended June 30th 2018 (unaudited)				
Related parties of Grupa Azoty POLICE	-	-	-	7
Related parties of Grupa Azoty PUŁAWY	25	-	100	-
	25	-	100	7

Remuneration of the Parent's Management Board members for holding office at the Group

	for the period from Jan 1 to Jun 30 2019	for the period from Jan 1 to Jun 30 2018
Short-term benefits*	4,411*	2,335
Termination benefits	-	185
	4,411	2,520

*Short-term benefits for H1 2019 include provisions for potential bonuses.

Remuneration of the Parent's Supervisory Board members for holding office at the Company

	for the period Jan 1– Jun 30 2019	for the period from Jan 1 to Jun 30 2018
Short-term benefits	1,047	1,043

During the six months ended June 30th 2019, the Group did not grant any advances, loans, guarantees or sureties to members of its management or supervisory personnel or persons closely related to them, nor did it enter into any agreements whereby such persons are required to provide benefits to the Group.

Loans granted to related parties

In H1 2019, the Parent granted loans for a total amount of PLN 40,260 thousand, all to Grupa Azoty KĘDZIERZYN (in 2018 it granted loans of PLN 43,976 thousand to Grupa Azoty KĘDZIERZYN and PLN 40,000 to Grupa Azoty POLICE).

In H1 2019 the Company received timely repayments of loans previously granted, in the amount of PLN 26,491 thousand, including PLN 6,000 thousand from Grupa Azoty POLICE and PLN 20,491 thousand from Grupa Azoty KĘDZIERZYN (2018: PLN 70,707 thousand, including PLN 26,000 thousand from Grupa Azoty POLICE and PLN 44,707 thousand from Grupa Azoty KĘDZIERZYN).

Transactions with owners

The Parent has a credit facility with the EBRD. As at June 30th 2019, the Company had two loans from the EBRD, for a total amount of PLN 239,561 thousand (December 31st 2018: PLN 250,436 thousand).

Note 21 Investment commitments

In the period ended June 30th 2019, the Group signed contracts for new investment projects and for continuation of ongoing projects. The projects involve mainly the provision of chemical, construction, mechanical and electrical services, design services, and project supervision. The estimated value of these liabilities was PLN 668,412 thousand (December 31st 2018: PLN 557,030 thousand).

The largest capital commitments are as follows:

	as at Jun 30 2019	as at Dec 31 2018
PDH propylene plant	190,840	63,340
Construction of nitric acid units	166,000	176,407
Construction of a new draft cooling tower for the lactam department	11,357	-
Upgrade of partial combustion unit at Ammonia Department	13,897	28,454
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	32,493	39,228

Bringing the oleum storage facilities into compliance with the applicable regulations	9,904	10,688
Upgrade of steam generator	65,000	71,643
Humic acid pilot production unit	16,591	4,482
Upgrade of the ammonia condensation unit at the Ammonia Department Cooling Centre	12,775	-

Note 22 Accounting estimates and assumptions

Changes in impairment losses on property, plant and equipment

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	351,730	343,418	348,811	343,427
Effect of acquisition of companies	-	43	-	-
Recognised	4,428	7,050	4,285	6,668
Reversed (-)	-	(383)	-	(26)
Used (-)	(3,062)	(360)	-	(301)
At end of period	353,096	349,768	353,096	349,768

Changes in inventory write-downs

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	48,739	44,472	44,995	47,182
Effect of acquisition of companies	-	7	-	-
Recognised	14,199	16,844	10,491	10,941
Reversed (-)	(3,877)	(3,310)	(3,157)	(2,932)
Used (-)	(13,029)	(7,845)	(6,297)	(5,023)
Exchange differences	(20)	-	(20)	-
At end of period	46,012	50,168	46,012	50,168

Changes in impairment losses on receivables

	for the period Jan 1– Jun 30 2019	for the period Jan 1– Jun 30 2018	for the period Apr 1– Jun 30 2019	for the period Apr 1– Jun 30 2018
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	82,290	98,045	82,741	96,326
Recognised	20,289	14,208	17,319	12,081
Reversed (-)	(4,353)	(9,981)	(1,973)	(8,386)
Used (-)	(2,871)	(6,645)	(2,732)	(4,394)
Exchange differences	86	-	86	-
At end of period	95,441	95,627	95,441	95,627

In H1 2019, Grupa Azoty Police recognised an impairment loss of PLN 9,770 thousand in connection with a contractual penalty for late completion of an investment project. Due to the disputed nature of the receivable, the impairment loss was recognised for the full amount of the penalty. The statement of profit or loss presents the net amount of the above receivable, i.e. the charged penalty amount less the impairment loss.

3.2. Events after the reporting period that could affect financial results in the future

Provision of surety

By August 2nd 2019, the Parent and Grupa Azoty POLICE provided a surety for the liabilities of PDH Polska S.A., an indirect subsidiary, under the Polimery Police investment project, for up to EUR 10,340 thousand (the Parent) and EUR 11,660 thousand (Grupa Azoty POLICE) for the benefit of the general contractor executing the project, Hyundai Engineering Co., Ltd, with its registered office at 75 Yulgok-ro, Jongno-gu, Seoul, 03058, South Korea.

Production line failure

On July 8th 2019, the Parent announced a force majeure event with respect to PA6 supplies. Following an unexpected defect on one of the polyamide 6 (PA6) production lines.

The failure has affected the existing PA6 production capacity and thus the product supplies to customers. Steps have been taken to minimise the effect of the event on production processes and to resume the supply of contracted product volumes as soon as possible.

Grupa Azoty POLICE's secondary public offering resumed

On August 26th 2019, the Management Board of Grupa Azoty POLICE decided to resume the secondary public offering of shares in Grupa Azoty POLICE and passed a resolution to increase Grupa Azoty POLICE's share capital through the issue of new shares with pre-emptive rights and amend Grupa Azoty POLICE's Articles of Association, concurrently repealing the previous resolution of the Grupa Azoty POLICE Management Board of March 4th 2019 to increase Grupa Azoty POLICE's share capital through the issue of new shares with pre-emptive rights and amend Grupa Azoty POLICE's Articles of Association. The proposed share capital increase will be effected through a secondary public offering for an amount not higher than PLN 1,100,000 thousand, addressed to existing shareholders (pre-emptive rights). The proposed share capital increase should be effected by the end of 2019. Proceeds from the share issue will be used to support the implementation of the Grupa Azoty Group's strategy for the coming years, in particular to diversify revenue streams and increase profitability, and to step up the efforts to expand the non-fertilizer business lines, with the Polimery Police project, carried out by the special purpose vehicle PDH Polska S.A., representing the principal part of those efforts.

3.3. Dividend

On June 27th 2019, the Company's Annual General Meeting passed a resolution to allocate the entire amount of the Parent's net profit for the financial year 2018, of PLN 171,064 thousand, to the Company's reserve funds.

3.4. Seasonality of operations

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

Mineral fertilizers

The first half of each year is a period of increased field work activity in the agricultural sector, preceded by increased demand for means of agricultural production (including mineral fertilizers). The Group follows a policy of mitigating seasonality through optimum volume allocation:

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

Titanium white market

Because of its chief application (as a component of paints and varnishes), titanium white is a seasonal product used in structural construction. The demand for titanium white depends on the situation on the application markets, especially the construction market. It usually starts to rise at the end of the first quarter and falls as the construction season ends in autumn.

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

The interim condensed consolidated financial statements for the six months ended June 30th 2019 contain 64 pages.

Signatures of members of the Management Board

Signed with qualified electronic signature

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Wojciech Wardacki, PhD

President of the Management Board

Signed with qualified electronic signature

.....

Mariusz Grab

Vice President of the Management Board

Signed with qualified electronic signature

.....

Grzegorz Kądziałowski, PhD

Vice President of the Management Board

Signed with qualified electronic signature

.....

Artur Kopec

Member of the Management Board

Signed with qualified electronic signature

.....

Witold Szczypiński

Vice President of the Management Board,

Director General

Signed with qualified electronic signature

.....

Tomasz Hryniewicz

Vice President of the Management Board

Signed with qualified electronic signature

.....

Paweł Łapiński

Vice President of the Management Board

Person responsible for maintaining accounting records

Signed with qualified electronic signature

.....

Piotr Kołodziej

Head of the Corporate Finance Department

Tarnów, September 4th 2019