Consolidated interim report
for Q1 2018

Contents

Interim condensed consolidated financial statements for the three months ended
March 31st 2018, prepared in accordance with IAS 34:
Interim Financial Reporting
as endorsed by the European Union

(all amounts in PLN '000 unless indicated otherwise)

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

	for the period Jan 1– Mar 31 2018	for the period Jan 1– Mar 31 2017* restated
	unaudited	*unaudited*
Profit/loss		
Revenue	2,497,102	2,687,394
Cost of sales	(1,922,628)	(2,012,311)
Gross profit	**574,474**	**675,083**
Selling and distribution expenses	(148,510)	(175,648)
Administrative expenses	(184,935)	(172,445)
Other income	11,389	12,872
Other expenses	(13,988)	(21,032)
Operating profit	**238,430**	**318,830**
Finance income	6,113	31,250
Finance costs	(11,918)	(30,446)
Net finance (costs)/income	**(5,805)**	**804**
Share of profit of equity-accounted investees	3,895	3,574
Profit before tax	**236,520**	**323,208**
Income tax	(48,542)	(67,948)
Net profit	**187,978**	**255,260**
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Cash flow hedging - effective portion of change in fair value	(4,780)	21,592
Exchange differences on translating foreign operations	135	(495)
Tax on items that are or may be reclassified to profit or loss	908	(4,115)
Total other comprehensive income	**(3,737)**	**16,982**
Comprehensive income for the year	**184,241**	**272,242**
Net profit attributable to:		
Owners of the Parent	171,931	231,052
Non-controlling interests	16,047	24,208
Comprehensive income for the year attributable to:		
Owners of the Parent	168,577	246,226
Non-controlling interests	15,664	26,016
Earnings per share:		
Basic (PLN)	1.73	2.33
Diluted (PLN)	1.73	2.33

* Financial data restated in accordance with the information presented in Section 2.2.d) of Supplementary information to the consolidated financial statements.

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of financial position

	as at Mar 31 2018	as at Dec 31 2017
	unaudited	*audited*
Assets		
Non-current assets		
Property, plant and equipment	6,813,292	6,779,748
Perpetual usufruct of land	475,374	476,616
Investment property	48,683	49,649
Intangible assets	376,057	395,755
Goodwill	32,468	32,468
Shares	14,690	14,690
Equity-accounted investees	91,643	111,059
Other financial assets	71	2,226
Other receivables	147,867	137,850
Deferred tax assets	55,052	69,583
Other assets	345	337
Total non-current assets	**8,055,542**	**8,069,981**
Current assets		
Inventories	1,084,068	1,003,214
Property rights	364,988	188,887
Derivative financial instruments	966	2,284
Other financial assets	11,415	253,684
Current tax assets	7,300	24,248
Trade and other receivables	1,353,965	1,088,424
Cash and cash equivalents	1,037,353	1,085,885
Other assets	12,331	10,882
Assets held for sale	11,102	10,555
Total current assets	**3,883,488**	**3,668,063**
Total assets	**11,939,030**	**11,738,044**

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

(all amounts in PLN ‘000 unless indicated otherwise)

Interim condensed consolidated statement of financial position (continued)

	as at Mar 31 2018	as at Dec 31 2017
	unaudited	*audited*
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	11,535	15,407
Exchange differences on translating foreign operations	285	(233)
Retained earnings, including:	4,091,326	3,926,338
Net profit for the year	*171,931*	*456,663*
Equity attributable to owners of the Parent	**7,017,393**	**6,855,759**
Non-controlling interests	**603,640**	**587,648**
Total equity	**7,621,033**	**7,443,407**
Liabilities		
Borrowings	1,481,269	1,564,879
Other financial liabilities	38,664	39,592
Employee benefit obligations	338,337	336,781
Trade and other payables	1,748	4,456
Provisions	127,113	122,740
Government grants received	92,760	90,585
Deferred tax liabilities	178,931	177,588
Total non-current liabilities	**2,258,822**	**2,336,621**
Borrowings	149,307	70,209
Derivative financial instruments	6	-
Other financial liabilities	76,146	31,484
Employee benefit obligations	40,617	42,316
Current tax liabilities	14,357	8,916
Trade and other payables	1,610,133	1,769,199
Provisions	30,140	29,805
Government grants received	138,469	6,087
Total current liabilities	**2,059,175**	**1,958,016**
Total liabilities	**4,317,997**	**4,294,637**
Total equity and liabilities	**11,939,030**	**11,738,044**

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of changes in equity
for the period ended March 31st 2018

	Share capital	Share premium	Hedging reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at December 31st 2017	**495,977**	**2,418,270**	**15,407**	**(233)**	**3,926,338**	**6,855,759**	**587,648**	**7,443,407**
Effect of IFRS 9 and IFRS 15 implementation	-	-	-	-	(3,232)	(3,232)	(402)	(3,634)
Balance as at January 1st 2018	**495,977**	**2,418,270**	**15,407**	**(233)**	**3,923,106**	**6,852,527**	**587,246**	**7,439,773**
Profit or loss and other comprehensive income								
Net profit/(loss)	-	-	-	-	171,931	171,931	16,047	187,978
Other comprehensive income	-	-	(3,872)	518	-	(3,354)	(383)	(3,737)
Comprehensive income for the year	**-**	**-**	**(3,872)**	**518**	**171,931**	**168,577**	**15,664**	**184,241**
Acquisition of non-controlling interests involving change of control	-	-	-	-	(2,889)	(2,889)	427	(2,462)
Total transactions with owners	**-**	**-**	**-**	**-**	**(2,889)**	**(2,889)**	**427**	**(2,462)**
Other	-	-	-	-	(822)	(822)	303	(519)
Balance as at March 31st 2018 (unaudited)	**495,977**	**2,418,270**	**11,535**	**285**	**4,091,326**	**7,017,393**	**603,640**	**7,621,033**

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of changes in equity (continued)
for the period ended March 31st 2017

	Share capital	Share premium	Hedging reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2017	**495,977**	**2,418,270**	**(7,105)**	**2,401**	**3,624,334**	**6,533,877**	**595,388**	**7,129,265**
Correction of errors	-	-	-	(82)	(71,097)	(71,179)	(18,614)	(89,793)
Balance as at January 1st 2017, adjusted*	**495,977**	**2,418,270**	**(7,105)**	**2,319**	**3,553,237**	**6,462,698**	**576,774**	**7,039,472**
Profit or loss and other comprehensive income								
Net profit/(loss)	-	-	-	-	231,052	231,052	24,208	255,260
Other comprehensive income	-	-	17,477	(2,386)	83	15,174	1,808	16,982
Comprehensive income for the year	**-**	**-**	**17,477**	**(2,386)**	**231,135**	**246,226**	**26,016**	**272,242**
Balance as at March 31st 2017 (unaudited)	**495,977**	**2,418,270**	**10,372**	**(67)**	**3,784,372**	**6,708,924**	**602,790**	**7,311,714**

* Financial data restated in accordance with the information presented in Section 2.2.d) of Supplementary information to the consolidated financial statements.

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of cash flows

	for the period Jan 1– Mar 31 2018	for the period Jan 1– Mar 31 2017* restated
	unaudited	*unaudited*
Cash flows from operating activities		
Profit before tax	**236,520**	**323,208**
Adjustments for:	*174,348*	*134,939*
Depreciation and amortisation	164,813	134,163
Impairment losses	21	9,824
Loss on investing activities	171	1,325
Gain on disposal of financial assets	(101)	-
Share of profit of equity-accounted investees	(3,895)	(3,574)
Interest, foreign exchange gains or losses	12,043	10,785
Fair value loss/(gain) on financial assets at fair value	1,296	(17,584)
	410,868	***458,147***
Increase in trade and other receivables	(234,543)	(183,412)
Increase in inventories	(255,632)	(48,831)
Decrease in trade and other payables	(105,949)	(192,546)
Increase in provisions, prepayments and grants	133,514	43,325
Other adjustments	9,219	(9,291)
Cash generated from operating activities	***(42,523)***	***67,392***
Income tax paid	(13,705)	(11,987)
Net cash from operating activities	**(56,228)**	**55,405**

* Financial data restated in accordance with the information presented in Section 2.2.d) of Supplementary information to the consolidated financial statements.

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of cash flows (continued)

	for the period Jan 1– Mar 31 2018	for the period Jan 1– Mar 31 2017* restated
	unaudited	*unaudited*
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	(1,378)	455
Acquisition of property, plant and equipment, intangible assets and investment property	(192,117)	(251,987)
Acquisition of other financial assets	(74,073)	(161,000)
Proceeds from sale of other financial assets	243,350	341,200
Interest received	5,334	5,656
Government grants received	177	-
Loans advanced	(650)	(1,225)
Repayments of loans advanced	1,028	28
Other disbursements	(832)	(9,633)
Net cash from investing activities	**(19,161)**	**(76,506)**
Cash flows from financing activities		
Proceeds from borrowings	109,041	261,630
Payment of borrowings	(85,162)	(94,052)
Acquisition of non-controlling interests	(6,146)	(810)
Interest paid	(11,510)	(12,206)
Payment of finance lease liabilities	(2,581)	(3,308)
Other proceeds/(disbursements)	31,700	(19,883)
Net cash from financing activities	**35,342**	**131,371**
Total net cash flows	**(40,047)**	**110,270**
Cash and cash equivalents at beginning of period	**1,085,885**	**641,895**
Effect of exchange rate fluctuations on cash held	(8,485)	(6,662)
Cash and cash equivalents at end of period	**1,037,353**	**745,503**

* Financial data restated in accordance with the information presented in Section 2.2.d) of Supplementary information to the consolidated financial statements.

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

Supplementary information to the interim condensed consolidated financial statements

1. Description of the Group

1.1. The Group’s organisational structure

As at March 31st 2018, the Grupa Azoty Group (the “Group”) comprised: Grupa Azoty S.A. (the Parent) and the following nine subsidiaries:

- Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY),
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty KĘDZIERZYN),
- Grupa Azoty Zakłady Chemiczne Police S.A. (Grupa Azoty POLICE),
- Grupa Azoty ATT Polymers GmbH,
- Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. (Grupa Azoty PKCh Sp. z o.o.),
- Grupa Azoty Koltar Sp. z o.o. (Grupa Azoty KOLTAR Sp. z o.o.),
- Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKOPOL),
- Grupa Azoty Folie Sp. z o.o.,
- Grupa Azoty Compounding Sp. z o.o.

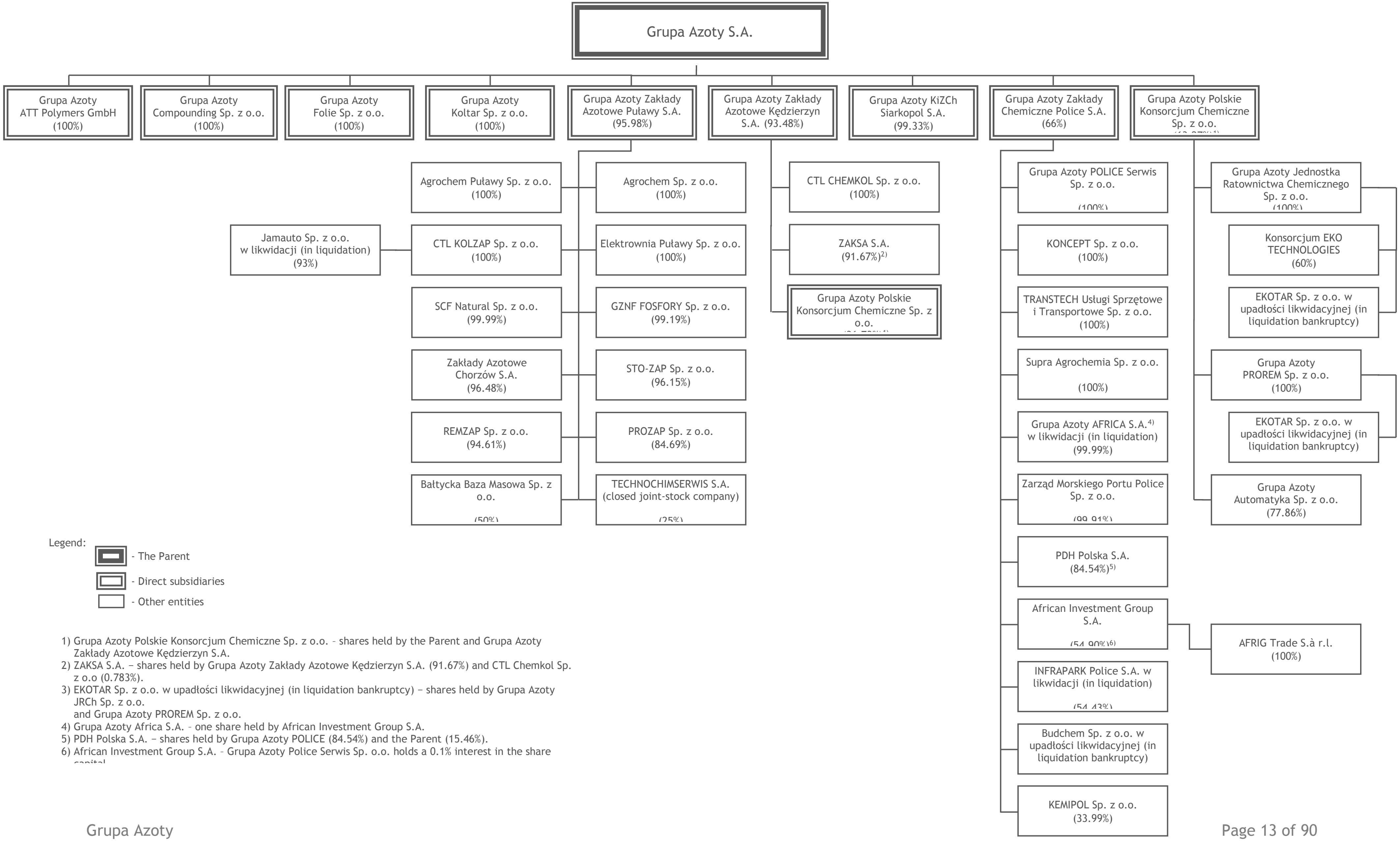
The Parent was entered in the Register of Businesses in the National Court Register (entry No. KRS 0000075450) on December 28th 2001, pursuant to a ruling of the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register, dated December 28th 2001. The Parent’s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

The Group’s business includes in particular:

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

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

Structure of the Grupa Azoty Group as at March 31st 2018:



1) Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. – shares held by the Parent and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.
2) ZAKSA S.A. – shares held by Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (91.67%) and CTL Chemkol Sp. z o.o (0.783%).
3) EKOTAR Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy) – shares held by Grupa Azoty JRCh Sp. z o.o. and Grupa Azoty PROREM Sp. z o.o.
4) Grupa Azoty Africa S.A. – one share held by African Investment Group S.A.
5) PDH Polska S.A. – shares held by Grupa Azoty POLICE (84.54%) and the Parent (15.46%).
6) African Investment Group S.A. – Grupa Azoty Police Serwis Sp. o.o. holds a 0.1% interest in the share

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.

Merger of Grupa Azoty KOLTAR Sp. z o.o., CTL CHEMKOL Sp. z o.o., and CTL KOLZAP Sp. z o.o.
Under an agreement of December 6th 2017 with CTL Logistics Sp. z o.o., on January 1st 2018 Grupa Azoty KOLTAR Sp. z o.o expanded its business to include a new location in Police, where it provides forwarding, shunting, and repair services.
Moreover, pursuant to resolutions of their respective General Meetings of December 6th 2017, on January 1st 2018 CTL KOLZAP Sp. z o.o. and CTL CHEMKOL Sp. z o.o. made a representation to the effect that all the shares in those companies held by CTL Logistics Sp. z o.o. had been repurchased by them and cancelled.
On March 29th 2018, a Merger Plan for those companies was published on their websites. In accordance with the Plan, the merger will be effected pursuant to Art. 492.1.1 of the Commercial Companies Code (merger through acquisition) by way of transfer of all assets of the acquirees (CHEMKOL Sp. z o.o. and KOLZAP Sp. z o.o.) to the acquirer (Grupa Azoty KOLTAR Sp. z o.o.). The merger will be accompanied by an increase in the share capital of Grupa Azoty KOLTAR Sp. z o.o. through the issue of new shares that will be allotted to shareholders of the acquirees, based on the share exchange ratio specified in the Merger Plan.
Additionally, on April 9th 2018, shareholders of the merging companies were given the first notice of the intended merger.

Share capital increase at Zakłady Azotowe Chorzów S.A.
On January 3rd 2018, a share capital increase at Zakłady Azotowe Chorzów S.A. was registered in the National Court Register. As a result, Grupa Azoty PUŁAWY's equity interest in that company rose to 96.48%.

Share capital increase at Grupa Azoty Compounding Sp. z o.o.
On January 11th 2018, a change in the capital of Grupa Azoty Compounding Sp. z o.o. was registered in the National Court Register. The share capital was increased from PLN 1,105 thousand, by PLN 4,895 thousand.

Change in the name of CTL CHEMKOL Sp. z o.o.
On February 6th 2018, the Extraordinary General Meeting of CTL CHEMKOL Sp. z o.o. passed a resolution to change the name of CTL CHEMKOL Sp. z o.o. to Grupa Azoty Chemkol Sp. z o.o.
The change was registered in the National Court Register on March 29th 2018.

Merger of Agrochem Puławy Sp. z o.o. and Agrochem Sp. z o.o.
On February 28th 2018, the Extraordinary General Meetings of Agrochem Puławy Sp. z o.o. and Agrochem Sp. z o.o. passed resolutions on their merger.
The merger was to be effected in accordance with Art. 491 of the Commercial Companies Code, through acquisition of Agrochem Sp. z o.o. by Agrochem Puławy Sp. z o.o. pursuant to Art. 492.1.1 of the Commercial Companies Code, i.e. by way of transfer of all assets of the acquiree to the acquirer, with a simultaneous increase in the acquirer's share capital through the issue of new shares; these merger shares are to be allotted to shareholders of the acquiree.
The merger took effect on the day of registering the merger (the increase in the acquirer's share capital) by the court having jurisdiction over Agrochem Puławy Sp. z o.o. The resolution of the Extraordinary General Meeting of Agrochem Puławy Sp. z o.o. was entered in the National Court Register on April 18th 2018, and the merger was effected on that day.
The share capital of Agrochem Puławy Sp. z o.o. was increased from PLN 50,000 thousand to PLN 68,639 thousand and is divided into 686,391 equal and indivisible shares with a par value of PLN 100 per share.

Change in the name of CTL KOLZAP Sp. z o.o.
On February 28th 2018, the Extraordinary General Meeting of CTL KOLZAP Sp. z o.o. passed a resolution to change the name of CTL KOLZAP Sp. z o.o. to Grupa Azoty KOLZAP Sp. z o.o.

Agreement concerning African Investment Group S.A.
As at February 28th 2018, DGG Eco Sp. z o.o. had not reimbursed the first tranche of the purchase price for the shares in African Investment Group S.A. and no bank guarantee securing reimbursement of the balance had been provided. Therefore, the conditional agreement between Grupa Azoty POLICE and DGG Eco Sp. z o.o. had not been consummated by the envisaged date. However, Grupa Azoty POLICE announced that it was holding talks with DGG Eco Sp. z o.o., which was involved in continued efforts to satisfy the conditions for consummation of the agreement, and specified March 16th 2018 as the deadline.
On March 17th 2018, the company announced that, due to non-payment by DGG Eco Sp. z o.o. of the first tranche of reimbursement of the purchase price for shares in African Investment Group S.A. and failure to provide a bank guarantee securing reimbursement of the balance, the conditional agreement concluded between Grupa Azoty Police and DGG Eco Sp. z o.o. had not been consummated by the declared additional deadline.

Petition to open bankruptcy proceedings with respect to African Investment Group S.A.
Having declared insolvency on March 29th 2018, African Investment Group S.A., a Grupa Azoty POLICE subsidiary with a share capital of CFA 340m (PLN 2,169 thousand, translated at the mid exchange rate for March 28th 2018), filed a petition for bankruptcy with the Commercial Court of Dakar on March 29th 2018.

Events after the reporting period

Share capital increase at PDH Polska S.A.
On April 9th 2018, a share capital increase at PDH Polska S.A. was registered in the National Court Register. Following the registration, the share capital of PDH Polska S.A. amounts to PLN 304,000 thousand, including paid-up share capital of PLN 211,000 thousand.
The remaining amount of the share capital will be paid by shareholders of PDH Polska by September 1st 2018.

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 International Accounting Standard 34: *Interim Financial Reporting* and the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated April 20th 2018 (Dz.U. of 2018, item 757). These interim condensed consolidated financial statements of the Group cover the three months ended March 31st 2018 and contain comparative data for the three months ended March 31st 2017 and as at December 31st 2017.

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 2017, which were authorised for issue on April 18th 2018.

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 złoty.

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. Accounting policies and computation methods

a) Changes in International Financial Reporting Standards

The accounting policies applied to prepare these interim condensed consolidated financial statements are consistent with those applied to draw up the Group's full-year consolidated financial statements for the year ended December 31st 2017.

The amendments to the IFRSs presented below have been applied in these consolidated financial statements as of their effective dates, however, they either had no material effect on the disclosed financial information or did not apply to transactions carried out by the Group.

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

  The changes clarify issues related to the formation of negative temporary differences the amendments clarify the requirements on recognition of deferred tax assets related to debt instruments measured at fair value, estimating probable future taxable profit and assessing whether sufficient profit will be generated against which deductible temporary differences can be utilised. The amendments apply retrospectively.
- Amendments to IAS 7 *Disclosure Initiative*
  The amendments require an entity to disclose information that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. Comparative information for previous periods is not required.
- Amendments to IFRS 12 *Disclosure of Interests in Other Entities,* introduced as part of the *Annual Improvements to IFRS 2014–2016 Cycle*
  The amendments clarify the scope of the standard by specifying that the disclosure requirements in the standard apply also to an entity's interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates or unconsolidated structured entities that are classified (or are included in a disposal group that is classified) as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The Group has not elected to early adopt any of the standards, interpretations or amendments that have been issued but are not yet effective in accordance with the European Union regulations.

b) Implementation of IFRS 15

The Group has applied IFRS 15 *Revenue from Contracts with Customers* since January 1st 2018. IFRS 15 replaces the existing revenue recognition guidance contained in IAS 18 *Revenue,* IAS 11 *Construction Contracts,* and the related Interpretations.
In line with the core principle of IFRS 15, the Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. In view of the above, it is critical to correctly determine the moment and amount of revenue recognised by the Group.
The standard has introduced the following single five-step model framework for revenue recognition:

- Step 1: Identifying the contract;
- Step 2: Identifying the performance obligations;
- Step 3: Determining the transaction price;
- Step 4: Allocating the transaction price to the performance obligations;
- Step 5: Recognising revenue when (or as) the entity satisfies a performance obligation.

In accordance with IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when (or as) control of the goods or services is passed to the customer, either over time or at a point in time.
The Group decided to implement IFRS 15 using the modified retrospective method (i.e. with the cumulative effect of first-time adoption of IFRS 15, recognised as at January 1st 2018, only with respect to contracts that were not yet completed as at that date).

c) Implementation of IFRS 9

IFRS 9 *Financial Instruments* was issued in July 2014 and endorsed by the European Union on November 22nd 2016 by Commission Regulation (EU) 2016/2067. The standard mandatorily applies to financial statements prepared for periods beginning on or after January 1st 2018, and replaces IAS 39 *Financial*

Instruments: Recognition and Measurement. The standard introduces amendments to the classification and measurement of financial assets, their impairment, and (as an option) hedge accounting.
The Group made changes to enable effective implementation of IFRS 9 with respect to:
- Classification of financial assets,
- Impairment of financial assets.

Having analysed the potential benefits of adopting the hedge accounting policies set out in IFRS 9, the Group resolved to continue to apply hedge accounting in accordance with IAS 39.

The Group's changes in the accounting policies are compliant with the transitional provisions of IFRS 9, i.e. the Group applies the standard retrospectively to all financial instruments unexpired as at January 1st 2018, without adjusting the comparative data. In accordance with the transitional provisions of IFRS 9, any differences between the previous carrying amounts and carrying amounts at the beginning of the annual reporting period were recognised by the Group in the opening balance of retained earnings (in equity).

Classification of financial assets
Based on analyses carried out at the end of 2017, the Group defined business models and performed 'solely payments of principal and interest' (SPPI) tests for financial assets open as at December 31st 2017. Following these analyses, the Parent determined the effect of IFRS 9 on the Group's financial statements. In Q1 2018, the Group determined the classification of financial assets recognised for the first time in the period. The table below presents a comparison of key changes in the classification of financial assets resulting from the implementation of IFRS 9.

Changes in the classification of financial assets resulting from the implementation of IFRS 9 are presented below

Financial assets	Classification		Note
	IAS 39	IFRS 9	
Cash (including cash at banks, overnight deposits and term deposits)			
	financial assets held to maturity	measured at amortised cost	
Trade and other receivables not to be sold			
	financial assets held to maturity	measured at amortised cost	
Trade receivables to be sold			
	financial assets held to maturity	measured at fair value through other comprehensive income (FVTOCI)	given a short period between the date of their initial recognition and the date on which they are transferred for factoring or discounting, their fair value is equal to the carrying amount
Equity investments			
	financial assets available for sale	measured at fair value through other comprehensive income (FVTOCI)	

Impairment of financial assets
The Group has identified the following classes of financial instruments for which, in accordance with IFRS 9, it has estimated the impact of the expected credit losses on the financial statements:
- trade receivables,

(all amounts in PLN '000 unless indicated otherwise)

- loans advanced
- deposits with banks, cash available under cash-pooling arrangements.

Presented below is the impact of the IFRS 9 and IFRS 15 implementation on the Group's financial position

	as at Dec 31 2017	Impact of amendments to IFRS 9 and IFRS 15	as at Jan 1 2018
Assets			
Non-current assets			
Property, plant and equipment	6,779,748	-	6,779,748
Perpetual usufruct of land	476,616	-	476,616
Investment property	49,649	-	49,649
Intangible assets	395,755	-	395,755
Goodwill	32,468	-	32,468
Shares	14,690	-	14,690
Equity-accounted investees	111,059	-	111,059
Other financial assets	2,226	-	2,226
Other receivables	137,850	-	137,850
Deferred tax assets	69,583	602	70,185
Other assets	337	-	337
Total non-current assets	**8,069,981**	**602**	**8,070,583**
Current assets			
Inventories	1,003,214	(13)	1,003,201
Property rights	188,887	-	188,887
Derivative financial instruments	2,284	-	2,284
Other financial assets	253,684	-	253,684
Current tax assets	24,248	-	24,248
Trade and other receivables	1,088,424	(3,223)	1,085,201
Cash and cash equivalents	1,085,885	(558)	1,085,327
Other assets	10,882	-	10,882
Assets held for sale	10,555	-	10,555
Total current assets	**3,668,063**	**(3,794)**	**3,664,269**
Total assets	**11,738,044**	**(3,192)**	**11,734,852**

(all amounts in PLN '000 unless indicated otherwise)

	as at Dec 31 2017	Impact of amendments to IFRS 9 and IFRS 15	as at Jan 1 2018
Equity and liabilities			
Equity			
Share capital	495,977	-	495,977
Share premium	2,418,270	-	2,418,270
Hedging reserve	15,407	-	15,407
Exchange differences on translating foreign operations	(233)	-	(233)
Retained earnings	3,926,338	(3,232)	3,923,106
Equity attributable to owners of the Parent	**6,855,759**	**(3,232)**	**6,852,527**
Non-controlling interests	**587,648**	**(402)**	**587,246**
Total equity	**7,443,407**	**(3,634)**	**7,439,773**
Liabilities			
Borrowings	1,564,879	-	1,564,879
Other financial liabilities	39,592	-	39,592
Employee benefit obligations	336,781	-	336,781
Trade and other payables	4,456	-	4,456
Provisions	122,740	-	122,740
Government grants received	90,585	-	90,585
Deferred tax liabilities	177,588	2	177,590
Total non-current liabilities	**2,336,621**	**2**	**2,336,623**
Borrowings	70,209	-	70,209
Other financial liabilities	31,484	-	31,484
Employee benefit obligations	42,316	-	42,316
Current tax liabilities	8,916	-	8,916
Trade and other payables	1,769,199	440	1,769,639
Provisions	29,805	-	29,805
Government grants received	6,087	-	6,087
Total current liabilities	**1,958,016**	**440**	**1,958,456**
Total liabilities	**4,294,637**	**442**	**4,295,079**
Total equity and liabilities	**11,738,044**	**(3,192)**	**11,734,852**

d) Correction of prior period errors and changes in the presentation of financial statements

In the reporting period certain prior period errors were corrected and the presentation of financial statements was changed to improve the disclosure of information on the effect of certain transactions on the Group's assets and financial position. The comparative data have been appropriately restated.

Correction of prior period errors and changes in the presentation of financial statements include:

- Change 1 – Adjustment of bonus provision,
- Change 2 – Adjustment of cost of sales of property rights,
- Change 3 – Adjustment related to the recognition of an expense and a liability to reflect the signing of a deed of incorporation of the Polish National Foundation, under which the Company is required to co-fund the Foundation's activities for ten years starting from 2017,
- Change 4 – Presentation adjustment,
- Change 5 – Adjustment of deferred tax on measurement of borrowings through hedge accounting,
- Change 6 – Consolidation of Supra Agrochemia Sp. z o.o., which was already controlled by the Parent in previous years,
- Change 7 – Reclassification of lease contracts concluded in previous periods, under which Transtech Sp. z o.o., a subsidiary, uses construction and transport equipment.

(all amounts in PLN '000 unless indicated otherwise)

The table below presents the impact of the changes on the consolidated statement of profit or loss and other comprehensive income:

	Previously reported	Restated							
	for the period Jan 1– Mar 31 2017	**for the period Jan 1– Mar 31 2017**	**Impact of change 1**	**Impact of change 2**	**Impact of change 3**	**Impact of change 4**	**Impact of change 5**	**Impact of change 6**	**Impact of change 7**
Revenue	2,687,201	2,687,394	-	-	-	-	-	193	-
Cost of sales	(2,010,678)	(2,012,311)	(664)	(625)	-	-	-	(380)	36
Gross profit	**676,523**	**675,083**	**(664)**	**(625)**	**-**	**-**	**-**	**(187)**	**36**
Administrative expenses	(172,114)	(172,445)	(331)	-	-	-	-	-	-
Other income	12,852	12,872	-	-	-	-	-	20	
Other expenses	(27,944)	(21,032)	-	-	7,000	-	-	(88)	
Operating profit	**313,669**	**318,830**	**(995)**	**(625)**	**7,000**	**-**	**-**	**(255)**	**36**
Finance income	35,403	31,250	-	-	-	(4,026)	-	(127)	-
Finance costs	(34,448)	(30,446)	-	-	-	4,026	-	-	(24)
Net finance income	**955**	**804**	**-**	**-**	**-**	**-**	**-**	**(127)**	**(24)**
Profit before tax	**318,198**	**323,208**	**(995)**	**(625)**	**7,000**	**-**	**-**	**(382)**	**12**
Income tax	(68,137)	(67,948)	189	-	-	-	-	-	-
Net profit	**250,061**	**255,260**	**(806)**	**(625)**	**7,000**	**-**	**-**	**(382)**	**12**
Other comprehensive income									
Items that are or may be reclassified to profit or loss									
Tax on items that are or may be reclassified to profit or loss	2,421	(4,115)	-	-	-	-	(6,536)	-	-
Total other comprehensive income	**23,518**	**16,982**	**-**	**-**	**-**	**-**	**(6,536)**	**-**	**-**
Comprehensive income for the year	**273,579**	**272,242**	**(806)**	**(625)**	**7,000**	**-**	**(6,536)**	**(382)**	**12**
Net profit attributable to:									
Owners of the Parent	225,727	231,052	(806)	(625)	7,000	-	-	(252)	8
Non-controlling interests	24,334	24,208	-	-	-	-	-	(130)	4
Comprehensive income for the year attributable to:									
Owners of the Parent	247,437	246,226	(806)	(625)	7,000		(6,536)	(252)	8
Non-controlling interests	26,142	26,016	-	-	-	-	-	(130)	4

(all amounts in PLN '000 unless indicated otherwise)

The table below presents the impact of the changes on the consolidated statement of cash flows:

	Previously reported	Restated					
	for the period Jan 1– Mar 31 2017	**for the period Jan 1– Mar 31 2017**	**Impact of change 1**	**Impact of change 2**	**Impact of change 3**	**Impact of change 6**	**Impact of change 7**
Cash flows from operating activities							
Profit before tax	**318,198**	**323,208**	(995)	(625)	7,000	(382)	12
Adjustments for:	*134,632*	*134,939*	-	-	-	*151*	*156*
Depreciation and amortisation	133,983	134,163	-	-	-	24	156
Interest, foreign exchange gains or losses	10,658	10,785	-	-	-	127	-
	452,830	**458,147**	**(995)**	**(625)**	**7,000**	**(231)**	**168**
Increase in trade and other receivables	(183,415)	(183,412)	-	-	-	3	
Increase in inventories	(49,456)	(48,831)	-	625	-	-	-
Decrease in trade and other payables	(194,754)	(192,546)	-	-	-	112	2,096
Increase in provisions, prepayments and grants	42,466	43,325	995	-	-	(300)	164
Other adjustments	(42)	(9,291)	-	-	(7,000)	(9)	(2,240)
Cash generated from operating activities	***67,629***	***67,392***	**-**	**-**	**-**	***(425)***	***188***
Net cash from operating activities	**55,642**	**55,405**	**-**	**-**	**-**	**(425)**	**188**

(all amounts in PLN '000 unless indicated otherwise)

	Previously reported	Restated					
	for the period Jan 1– Mar 31 2017	**for the period Jan 1– Mar 31 2017**	**Impact of change 1**	**Impact of change 2**	**Impact of change 3**	**Impact of change 6**	**Impact of change 7**
Cash flows from investing activities							
Acquisition of property, plant and equipment, intangible assets and investment property	(251,840)	(251,987)	-	-	-	(147)	-
Loans advanced	(1,688)	(1,225)	-	-	-	463	-
Net cash from investing activities	**(76,822)**	**(76,506)**	**-**	**-**	**-**	**316**	**-**
Cash flows from financing activities							
Interest paid	(12,182)	(12,206)	-	-	-	-	(24)
Payment of finance lease liabilities	(3,144)	(3,308)	-	-	-	-	(164)
Net cash from financing activities	**131,559**	**131,371**	**-**	**-**	**-**	**-**	**(188)**
Total net cash flows	**110,379**	**110,270**	**-**	**-**	**-**	**(109)**	**-**
Cash and cash equivalents at beginning of period	**641,711**	**641,895**	**-**	**-**	**-**	**184**	**-**
Cash and cash equivalents at end of period	**745,428**	**745,503**	**-**	**-**	**-**	**75**	**-**

(all amounts in PLN ‘000 unless indicated otherwise)

Impact of changes in accounting policies and correction of errors on earnings per share:

	for the period Jan 1– Mar 31 2017
Earnings per share:	
Earnings per share before correction of	2.28
Earnings per share after correction of	2.33
Diluted earnings per share before correction of error	2.28
Diluted earnings per share after correction of error	2.33

e) Judgements and estimates

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

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

The key judgements and estimates made by the Management Board in preparing these interim condensed consolidated financial statements were the same as those made in preparing the consolidated financial statements for the financial year ended December 31st 2017.

3. Selected notes and supplementary information

3.1. Notes

Business segment reporting

Operating segments

The Grupa Azoty 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:
  - 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: RSM®, 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:
  - Engineering plastics (PA 6, POM) and their modifications,
  - Modified plastics (PPC, PPH, PBT, PA66),
  - Caprolactam,
  - 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),

  - Titanium white,
  - Iron sulfate,
  - Solutions based on urea and ammonia;
- The 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, including laboratory services, catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts), property rental, and other activities which are not allocated to any of the segments specified above. None of those activities met the quantitative criteria to be identified as a reportable segment in Q1 2018 and in 2017.

Key financial results and performance of each of the segments are discussed below. The key performance metrics for each segment are revenue, EBIT and EBITDA.
The internal management reports of each segment are reviewed by the Management Board on a monthly basis.

For its internal purposes, the Group prepares and uses management information focusing on the following operating segments:
- Nitrogen fertilizers,
- Compound fertilizers,
- Plastics,
- OXO products,
- Melamine,
- Pigments,
- Chemicals,
- Minerals extraction,
- Energy,
- Other

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

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

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

Formal rationale (IFRS 8 guidelines)

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

Other rationale:

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

(all amounts in PLN '000 unless indicated otherwise)

Operating segments

Operating segments' revenue, expenses and financial results for the three months ended March 31st 2018 (unaudited)

Continuing operations	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,212,439	411,006	768,849	82,883	21,925	2,497,102
Intersegment revenue	599,320	89,503	218,737	717,429	196,880	1,821,869
Total revenue	1,811,759	500,509	987,586	800,312	218,805	4,318,971
Operating expenses, including: (-)	(1,695,095)	(455,111)	(889,852)	(792,818)	(245,066)	(4,077,942)
selling and distribution expenses (-)	*(86,165)*	*(16,259)*	*(45,912)*	*(70)*	*(104)*	*(148,510)*
administrative expenses (-)	*(73,544)*	*(30,367)*	*(45,225)*	*(4,709)*	*(31,090)*	*(184,935)*
Other income	1,385	589	1,384	1,638	6,393	11,389
Other expenses (-)	(1,531)	(5)	(727)	(2,090)	(9,635)	(13,988)
Segment's EBIT	**116,518**	**45,982**	**98,391**	**7,042**	**(29,503)**	**238,430**
Finance income	-	-	-	-	-	6,113
Finance costs (-)	-	-	-	-	-	(11,918)
Share of profit of equity-accounted investees	-	-	-	-	-	3,895
Profit before tax	**-**	**-**	**-**	**-**	**-**	**236,520**
Income tax	-	-	-	-	-	(48,542)
Net profit	**-**	**-**	**-**	**-**	**-**	**187,978**
EBIT	116,518	45,982	98,391	7,042	(29,503)	238,430
Depreciation and amortisation	51,648	14,069	28,296	27,337	22,018	143,368
Unallocated depreciation and amortisation	-	-	-	-	-	21,445
EBITDA	**168,166**	**60,051**	**126,687**	**34,379**	**(7,485)**	**403,243**

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

(all amounts in PLN '000 unless indicated otherwise)

Operating segments' revenue, expenses and financial results for the three months ended March 31st 2017 (unaudited), restated*

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,483,379	410,890	686,625	62,109	44,391	2,687,394
Intersegment revenue	525,728	78,653	238,205	673,176	172,199	1,687,961
Total revenue	2,009,107	489,543	924,830	735,285	216,590	4,375,355
Operating expenses, including: (-)	(1,803,292)	(436,441)	(843,734)	(735,335)	(229,563)	(4,048,365)
selling and distribution expenses (-)	*(118,642)*	*(16,019)*	*(40,779)*	*(44)*	*(164)*	*(175,648)*
administrative expenses (-)	*(80,507)*	*(27,825)*	*(40,763)*	*(3,990)*	*(19,360)*	*(172,445)*
Other income	863	920	396	904	9,789	12,872
Other expenses (-)	(679)	(366)	(208)	(9,941)	(9,838)	(21,032)
Segment's EBIT*	**205,999**	**53,656**	**81,284**	**(9,087)**	**(13,022)**	**318,830**
Finance income	-	-	-	-	-	31,250
Finance costs (-)	-	-	-	-	-	(30,446)
Share of profit of equity-accounted investees	-	-	-	-	-	3,574
Profit before tax	**-**	**-**	**-**	**-**	**-**	**323,208**
Income tax	-	-	-	-	-	(67,948)
Net profit	**-**	**-**	**-**	**-**	**-**	**255,260**
EBIT	205,999	53,656	81,284	(9,087)	(13,022)	318,830
Depreciation and amortisation	46,401	12,016	25,528	20,033	21,223	125,201
Unallocated depreciation and amortisation	-	-	-	-	-	8,962
EBITDA	**252,400**	**65,672**	**106,812**	**10,946**	**8,201**	**452,993**

* Financial data restated in accordance with the information presented in Section 2.2.d) of Supplementary information to the consolidated financial statements.
** 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.

Geographical areas

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

Revenue

	for the period from Jan 1 to Mar 31 2018	for the period from Jan 1 to Mar 31 2017* restated
	unaudited	*unaudited*
Poland	1,343,945	1,489,766
Germany	207,275	300,381
Other EU countries	713,478	623,551
Asia	60,912	154,389
South America	6,460	12,688
Other countries	165,032	106,619
Total	**2,497,102**	**2,687,394**

* Financial data restated in accordance with the information presented in Section 2.2.d) of Supplementary information to the consolidated financial statements.

No single customer accounted for more than 10% of revenue in Q1 2018 and Q1 2017.

Note 1 Contingent liabilities, contingent assets and guarantees

Contingent assets

	as at Mar 31 2018	as at Dec 31 2017
	unaudited	*audited*
Contingent receivables	27,619	28,377

Contingent liabilities and guarantees/sureties

	as at Mar 31 2018	as at Dec 31 2017
Guarantees	1,253	64
Other contingent liabilities	30,168	29,177
	31,421	**29,241**

Note 2 Accounting estimates and assumptions

Changes in impairment losses on property, plant and equipment

	for the period Jan 1– Mar 31 2018	for the period Jan 1– Mar 31 2017
	unaudited	*unaudited*
At the beginning of the period	**343,418**	**310,935**
Recognised	382	9,824
Effect of acquisition of companies	43	-
Reversed (-)	(357)	-
Used (-)	(59)	(1,962)
At the end of the period	**343,427**	**318,797**

(all amounts in PLN '000 unless indicated otherwise)

Changes in inventory write-downs

	for the period Jan 1– Mar 31 2018	for the period Jan 1– Mar 31 2017
	unaudited	*unaudited*
At the beginning of the period	**44,472**	**43,028**
Recognised	5,903	2,492
Effect of acquisition of companies	7	-
Reversed (-)	(378)	(1,306)
Used (-)	(2,822)	(1,981)
At the end of the period	**47,182**	**42,233**

Changes in impairment losses on receivables

	for the period Jan 1– Mar 31 2018	for the period Jan 1– Mar 31 2017
	unaudited	*unaudited*
At the beginning of the period	**98,045**	**80,505**
Recognised	1,963	4,472
Effect of acquisition of companies	164	-
Reversed (-)	(1,595)	(4,321)
Used (-)	(2,251)	(732)
At the end of the period	**96,326**	**79,924**

3.2. Related-party transactions

Material related-party transactions:

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

In the three months ended March 31st 2018, the Grupa Azoty Group did not execute any related-party transactions on non-arm's length terms.

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

During the three months ended March 31st 2018, the Grupa Azoty Group did not grant any advances, loans, guarantees or sureties to members of its management or supervisory personnel or persons closely related to them, nor did it enter into any agreements whereby such persons are required to provide benefits to the Group.

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

No such events occurred.

3.4. Dividend

In Q1 2018 and as at the issue date of the Q1 2018 report, the Parent did not pay or declare any dividend.

3.5. Seasonality of operations

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

Mineral fertilizers
The first quarter of each year is a period of increased field work activity by the agricultural sector, during which demand for means of agricultural production (including mineral fertilizers) peaks. The seasonality in fertilizer sales at the Grupa Azoty Group is offset through a distribution strategy based on year-round supplies as well as fertilizer allocation on various geographical markets.

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. Demand for titanium dioxide starts to rise towards the end of the first quarter, depending on favourable market conditions.

In the case of other Grupa Azoty Group’s products, seasonality does not have a material effect on the Group’s results as they represent a small proportion of total output.
The Grupa Azoty Group also uses financial mechanisms designed to mitigate the seasonality effect, which include factoring agreements extending payment terms for fertilizer customers.

These interim condensed consolidated financial statements of Grupa Azoty for the three months ended March 31st 2018 have been authorised for issue by the Management Board.

Signatures of members of the Management Board

....
Wojciech Wardacki, PhD
President of the Management Board

....
Witold Szczypiński
Vice President of the Management Board
Director General

....
Paweł Łapiński
Vice President of the Management Board

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

....
Józef Rojek
Vice President of the Management Board

....
Artur Kopeć
Member of the Management Board

Person responsible for maintaining accounting records

....
Ewa Gładysz
Head of the Corporate Finance Department

Tarnów, May 9th 2018

Interim condensed separate financial statements for the three months ended March 31st 2018, prepared in accordance with IAS 34 *Interim Financial Reporting*, as endorsed by the European Union

(all amounts in PLN '000 unless indicated otherwise)

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

	for the period Jan 1− Mar 31 2018	for the period Jan 1− Mar 31 2017* restated
	unaudited	*unaudited*
Profit/loss		
Revenue	476,410	478,849
Cost of sales	(352,994)	(352,677)
Gross profit	**123,416**	**126,172**
Selling and distribution expenses	(23,375)	(26,810)
Administrative expenses	(38,301)	(36,867)
Other income	2,721	2,186
Other expenses	(4,945)	(3,075)
Operating profit	**59,516**	**61,606**
Finance income	5,878	5,203
Finance costs	(10,313)	(9,342)
Net finance costs	**(4,435)**	**(4,139)**
Profit before tax	**55,081**	**57,467**
Income tax	(9,388)	(12,093)
Net profit	**45,693**	**45,374**
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Cash flow hedging – effective portion of change in fair value	(4,780)	21,592
Tax on items that are or may be reclassified to profit or loss	908	(4,115)
	(3,872)	**17,477**
Total other comprehensive income	**(3,872)**	**17,477**
Comprehensive income for the year	**41,821**	**62,851**
Earnings per share:		
Basic (PLN)	0.46	0.46
Diluted (PLN)	0.46	0.46

* Financial data restated in accordance with the information presented in Section 1.2.b of 'Supplementary information to the interim condensed separate financial statements' below.

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of financial position

	as at Mar 31 2018	as at Dec 31 2017
	unaudited	*audited*
Assets		
Non-current assets		
Property, plant and equipment	1,550,026	1,554,673
Perpetual usufruct of land	368	369
Intangible assets	45,971	46,957
Investment property	16,795	16,449
Shares	3,966,040	3,867,145
Other financial assets	237,388	249,978
Other receivables	24,021	16,882
Deferred tax assets	8,381	17,957
Total non-current assets	**5,848,990**	**5,770,410**
Current assets		
Inventories	226,498	212,109
Property rights	30,532	29,852
Derivative financial instruments	337	1,071
Other financial assets	69,909	70,361
Trade and other receivables	279,146	214,524
Cash and cash equivalents	495,956	572,711
Assets held for sale	95	95
Total current assets	**1,102,473**	**1,100,723**
Total assets	**6,951,463**	**6,871,133**

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of financial position (continued)

	as at Mar 31 2018	as at Dec 31 2017
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	11,535	15,407
Retained earnings, including:	1,878,295	1,832,602
Net profit for the year	*45,693*	*354,793*
Total equity	**4,804,077**	**4,762,256**
Liabilities		
Borrowings	1,362,021	1,357,234
Other financial liabilities	22,518	25,860
Employee benefit obligations	47,458	47,459
Trade and other payables	32	32
Provisions	29,043	27,345
Government grants received	27,478	26,394
Total non-current liabilities	**1,488,550**	**1,484,324**
Borrowings	238,152	310,892
Other financial liabilities	68,684	24,315
Employee benefit obligations	3,038	3,038
Current tax liabilities	-	3,178
Trade and other payables	329,048	280,843
Provisions	1,353	1,200
Government grants received	18,561	1,087
Total current liabilities	**658,836**	**624,553**
Total liabilities	**2,147,386**	**2,108,877**
Total equity and liabilities	**6,951,463**	**6,871,133**

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of changes in equity

for the period ended March 31st 2018

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at January 1st 2018	**495,977**	**2,418,270**	**15,407**	**1,832,602**	**4,762,256**
Profit or loss and other comprehensive income					
Net profit	-	-	-	45,693	45,693
Other comprehensive income	-	-	(3,872)	-	(3,872)
Comprehensive income for the year	**-**	**-**	**(3,872)**	**45,693**	**41,821**
Balance as at March 31st 2018	**495,977**	**2,418,270**	**11,535**	**1,878,295**	**4,804,077**

for the period ended March 31st 2017

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at January 1st 2017	**495,977**	**2,418,270**	**(7,105)**	**1,609,995**	**4,517,137**
Correction of errors	-	-	-	(52,377)	(52,377)
Balance as at January 1st 2017, adjusted*)	**495,977**	**2,418,270**	**(7,105)**	**1,557,618**	**4,464,760**
Profit or loss and other comprehensive income					
Net profit	-	-		45,374	45,374
Other comprehensive income	-	-	17,477	-	17,477
Comprehensive income for the year	**-**	**-**	**17,477**	**45,374**	**62,851**
Balance as at March 31st 2017	**495,977**	**2,418,270**	**10,372**	**1,602,992**	**4,527,611**

* Financial data restated in accordance with the information presented in Section 1.2.b of 'Supplementary information to the interim condensed separate financial statements' below.

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of cash flows

	for the period Jan 1– Mar 31 2018	for the period Jan 1– Mar 31 2017* restated
Cash flows from operating activities		
Profit before tax	**55,081**	**57,467**
Adjustments for:	*32,992*	*25,404*
Depreciation and amortisation	26,514	24,141
Impairment losses	4	144
Loss on investing activities	196	217
Interest, foreign exchange gains or losses	5,544	5,728
Fair value loss/(gain) on financial assets at fair value	734	(4,826)
	88,073	***82,871***
Increase in trade and other receivables	(53,777)	(1,211)
(Increase)/Decrease in inventories	(15,069)	30,777
Increase/(Decrease) in trade and other payables	4,889	(25,231)
Decrease in provisions, prepayments and grants	(7,870)	(10,704)
Other adjustments	-	(7,000)
Cash generated from operating activities	***16,246***	***69,502***
Income tax paid	(2,081)	-
Net cash from operating activities	**14,165**	**69,502**

* Financial data restated in accordance with the information presented in Section 1.2.b of 'Supplementary information to the interim condensed separate financial statements' below.

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of cash flows (continued)

	for the period Jan 1– Mar 31 2018	for the period Jan 1– Mar 31 2017* restated
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	220	113
Acquisition of property, plant and equipment, intangible assets and investment property	(38,498)	(64,026)
Acquisition of other financial assets	(28,395)	(809)
Interest received	3,246	2,015
Loans advanced	(4,447)	(28,714)
Repayments of loans advanced	17,564	7,548
Other disbursements	(400)	(609)
Net cash from investing activities	**(50,710)**	**(84,482)**
Cash flows from financing activities		
Proceeds from borrowings	-	115,673
Payment of borrowings	(75,410)	(89,788)
Interest paid	(6,268)	(6,450)
Payment of finance lease liabilities	(111)	(149)
Other proceeds/(disbursements)	41,424	(19,440)
Net cash from financing activities	**(40,365)**	**(154)**
Total net cash flows	**(76,910)**	**(15,134)**
Cash and cash equivalents at beginning of period	**572,711**	**326,031**
Effect of exchange rate fluctuations on cash held	155	-
Cash and cash equivalents at end of period	**495,956**	**310,897**

* Financial data restated in accordance with the information presented in Section 1.2.b of 'Supplementary information to the interim condensed separate financial statements' below.

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

Supplementary information to the interim condensed separate financial statements

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

1.1. Statement of compliance and general basis of preparation

Grupa Azoty S.A. ("the Company") is a listed joint stock company with its registered office in Tarnów, Poland.

These interim condensed separate financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting and the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated April 20th 2018 (Dz.U. of 2018, item 757). These interim condensed separate financial statements of the Company cover the three months ended March 31st 2018 and contain comparative data for the three months ended March 31st 2017 and as at December 31st 2017.

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

The Company has been established for an indefinite term.

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

These interim condensed separate financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the Company's financial statements for the year ended December 31st 2017, which were authorised for issue on April 18th 2018.

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

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

These interim condensed separate financial statements have been prepared on the assumption that the Company will continue as a going concern 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 Company continuing as a going concern.

1.2. Changes in presentation of financial statements and correction of errors

a) Changes in International Financial Reporting Standards

f) Changes in International Financial Reporting Standards

The accounting policies applied to prepare these interim condensed separate financial statements are consistent with the policies applied to draw up the Company's full-year separate financial statements for the year ended December 31st 2017.

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

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

  The changes clarify issues related to the formation of negative temporary differences the amendments clarify the requirements on recognition of deferred tax assets related to debt instruments measured at fair value, estimating probable future taxable profit and assessing whether sufficient profit will be generated against which deductible temporary differences can be utilised. The amendments apply retrospectively.
- Amendments to IAS 7 *Disclosure Initiative*
  The amendments require an entity to disclose information that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. Comparative information for previous periods is not required.
- Amendments to IFRS 12 *Disclosure of Interests in Other Entities*, introduced as part of the *Annual Improvements to IFRS 2014–2016 Cycle*
  The amendments clarify the scope of the standard by specifying that the disclosure requirements in the standard apply also to an entity's interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates or unconsolidated structured entities that are classified (or are included in a disposal group that is classified) as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The Company has not elected to early adopt any of the standards, interpretations or amendments that have been issued but are not yet effective in accordance with the European Union regulations.

g) Implementation of IFRS 15

The Group has applied IFRS 15 *Revenue from Contracts with Customers* since January 1st 2018. IFRS 15 replaces the existing revenue recognition guidance contained in IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related Interpretations.
In line with the core principle of IFRS 15, the Company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. In view of the above, it is critical to correctly determine the moment and amount of revenue recognised by the Company.
The standard has introduced the following single five-step model framework for revenue recognition:

- Step 1: Identifying the contract;
- Step 2: Identifying the performance obligations;
- Step 3: Determining the transaction price;
- Step 4: Allocating the transaction price to the performance obligations;
- Step 5: Recognising revenue when (or as) the entity satisfies a performance obligation.

In accordance with IFRS 15, the Company recognises revenue when (or as) a performance obligation is satisfied, i.e. when (or as) control of the goods or services is passed to the customer, either over time or at a point in time.
The Company decided to implement IFRS 15 using the modified retrospective method (i.e. with the cumulative effect of first-time adoption of IFRS 15, recognised as at January 1st 2018, only with respect to contracts that were not yet completed as at that date).

(all amounts in PLN '000 unless indicated otherwise)

h) Implementation of IFRS 9

IFRS 9 *Financial Instruments* was issued in July 2014 and endorsed by the European Union on November 22nd 2016 by Commission Regulation (EU) 2016/2067. The standard mandatorily applies to financial statements prepared for periods beginning on or after January 1st 2018, And replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard introduces amendments to the classification and measurement of financial assets, their impairment, and (as an option) hedge accounting.
The Company made changes to enable effective implementation of IFRS 9 with respect to:

- Classification of financial assets,
- Impairment of financial assets.

Having analysed the potential benefits of adopting the hedge accounting policies set out in IFRS 9, the Company resolved to continue to apply hedge accounting in accordance with IAS 39.

The Company's changes in the accounting policies are compliant with the transitional provisions of IFRS 9, i.e. the Company applies the standard retrospectively to all financial instruments unexpired as at January 1st 2018, without adjusting the comparative data. In accordance with the transitional provisions of IFRS 9, any differences between the previous carrying amounts and carrying amounts at the beginning of the annual reporting period were recognised by the Company in the opening balance of retained earnings (in equity).

Classification of financial assets
Based on analyses carried out at the end of 2017, the Company defined business models and performed 'solely payments of principal and interest' (SPPI) tests for financial assets open as at December 31st 2017. Following these analyses, the Parent determined the effect of IFRS 9 on the Company's financial statements. In Q1 2018, the Company determined the classification of financial assets recognised for the first time in the period. The table below presents a comparison of key changes in the classification of financial assets resulting from the implementation of IFRS 9.

Changes in the classification of financial assets resulting from the implementation of IFRS 9 are presented below

Financial assets	Classification		Note
	IAS 39	IFRS 9	
Cash (including cash at banks, overnight deposits and term deposits)			
	financial assets held to maturity	measured at amortised cost	
Cash (including intra-group cash pool)			
	financial assets held to maturity	measured at amortised cost	
Loans advanced (intra-group)			
	loans advanced	measured at amortised cost	
Trade and other receivables not to be sold			
	financial assets held to maturity	measured at amortised cost	

Financial assets	Classification	Note

	IAS 39	IFRS 9	
Trade receivables to be sold			
	financial assets held to maturity	measured at fair value through other comprehensive income (FVTOCI)	given a short period between the date of their initial recognition and the date on which they are transferred for factoring or discounting, their fair value is equal to the carrying amount
Trade receivables to be sold (intra-group)			
	financial assets held to maturity	measured at fair value through other comprehensive income (FVTOCI)	given a short period between the date of their initial recognition and the date on which they are transferred for factoring or discounting, their fair value is equal to the carrying amount
Equity investments			
	financial assets available for sale	measured at fair value through other comprehensive income (FVTOCI)	

Impairment of financial assets
The Company has identified the following classes of financial instruments for which, in accordance with IFRS 9, it has estimated the impact of the expected credit losses on the financial statements:
- trade receivables
- loans advanced
- deposits with banks, cash available under cash-pooling arrangements.

b) Correction of prior period errors and changes in presentation of financial statements

In the reporting period certain prior period errors were corrected and the presentation of financial statements was changed to improve the disclosure of information on the effect of certain transactions on the Company's assets and financial position. The comparative data have been appropriately restated.

Correction of prior period errors and changes in the presentation of financial statements include:

- Change 1 – Adjustment of bonus provision,
- Change 2 – Adjustment of cost of sales of property rights,
- Change 3 – Adjustment related to the recognition of an expense and a liability to reflect the signing of a deed of incorporation of the Polish National Foundation, under which the Company is required to co-fund the Foundation's activities for ten years starting from 2017,
- Change 4 – Presentation adjustment,
- Change 5 – Adjustment of deferred tax on measurement of borrowings through hedge accounting,

(all amounts in PLN '000 unless indicated otherwise)

The table below presents the impact of the changes on the statement of profit or loss and other comprehensive income:

	Previously reported	Restated					
	for the period Jan 1– Mar 31 2017	**for the period Jan 1– Mar 31 2017**	**Impact of change 1**	**Impact of change 2**	**Impact of change 3**	**Impact of change 4**	**Impact of change 5**
Cost of sales	(351,388)	(352,677)	(664)	(625)	-	-	-
Gross profit	**127,461**	**126,172**	**(664)**	**(625)**	**-**	**-**	**-**
Administrative expenses	(36,536)	(36,867)	(331)	-	-	-	-
Other expenses	(10,075)	(3,075)	-	-	7,000	-	-
Operating profit	**56,226**	**61,606**	**(995)**	**(625)**	**7,000**	**-**	**-**
Finance income	9,229	5,203	-	-	-	(4,026)	-
Finance costs	(13,368)	(9,342)	-	-	-	4,026	-
Net finance costs	**(4,139)**	**(4,139)**	**-**	**-**	**-**	**-**	**-**
Profit before tax	**52,087**	**57,467**	**(995)**	**(625)**	**7,000**	**-**	**-**
Income tax	(12,282)	(12,093)	189	-	-	-	-
Net profit	**39,805**	**45,374**	**(806)**	**(625)**	**7,000**	**-**	**-**
Other comprehensive income							
Items that are or may be reclassified to profit or loss							
Tax on items that are or may be reclassified to profit or loss	2,421	(4,115)	-	-	-	-	(6,536)
Total other comprehensive income	**24,013**	**17,477**	**-**	**-**	**-**	**-**	**(6,536)**
Comprehensive income for the year	**63,818**	**62,851**	**(806)**	**(625)**	**7,000**	**-**	**(6,536)**

Impact of changes in accounting policies and correction of errors on earnings per share:

	for the period Jan 1– Mar 31 2017
Earnings per share:	
Earnings per share before correction of	0.40
Earnings per share after correction of	0.46
Diluted earnings per share before correction of error	0.40
Diluted earnings per share after correction of error	0.46

The table below presents the impact of the changes on the statement of cash flows:

	Previously reported	Restated			
	for the period Jan 1– Mar 31 2017	**for the period Jan 1– Mar 31 2017**	**Impact of change 1**	**Impact of change 2**	**Impact of change 3**
Cash flows from operating activities					
Profit before tax	**52,087**	**57,467**	**(995)**	**(625)**	**7,000**
	77,491	**82,871**	**(995)**	**(625)**	**7,000**
Decrease in inventories	30,152	30,777	-	625	-
Decrease in provisions, prepayments and grants	(11,699)	(10,704)	995	-	-
Other adjustments	-	(7,000)	-	-	(7,000)
Net cash from operating activities	**69,502**	**69,502**	**-**	**-**	**-**

These interim condensed separate financial statements of Grupa Azoty S.A. for the three months ended March 31st 2018 have been authorised for issue by the Management Board.

Signatures of members of the Management Board

....
Wojciech Wardacki, PhD
President of the
Management Board

....
Witold Szczypiński
Vice President of the
Management Board
Director General

....
Paweł Łapiński
Vice President of the
Management Board

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

....
Józef Rojek
Vice President of the
Management Board

....
Artur Kopeć
Member of the
Management Board

Person responsible for maintaining accounting records

....
Ewa Gładysz
Head of the
Corporate Finance Department

Tarnów, May 9th 2018

Management's discussion and analysis: Grupa Azoty in Q1 2018

1. General information on the Grupa Azoty Group

1.1. Organisation and structure

The Grupa Azoty Group is one of Central Europe's major chemical groups with a strong presence on the market of mineral fertilizers, engineering plastics, OXO products, and other chemicals.
Grupa Azoty has brought together companies with different traditions and complementary business profiles, seeking to leverage their potential to deliver a common strategy. This has led to the creation of Poland's largest chemical group and a major industry player in Europe. Thanks to its carefully designed structure, the Group offers a diverse product mix, ranging from nitrogen and compound fertilizers, engineering plastics, to OXO products and melamine.
As at March 31st 2018, the Grupa Azoty Group (the "Group") comprised: Grupa Azoty S.A. (the Parent) and the following nine subsidiaries:

Parent

Grupa Azoty S.A. is the Parent of the Group. Its principal business activities include manufacturing, trading in and service activities related to nitrogen fertilizers, engineering plastics and intermediates. The Company operates its own research facilities. It concentrates both on research into new products and technologies, and on advancing existing products.
The Company's registered office is located at ul. Eugeniusza Kwiatkowskiego 8, Tarnów, Poland. Since April 22nd 2013, the Company has been trading under the name Grupa Azoty Spółka Akcyjna ("Grupa Azoty S.A.").

Parent's subsidiaries

Grupa Azoty Zakłady Azotowe Puławy S.A.
The company's registered office is located in Puławy. Since April 4th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna (abbreviated to Grupa Azoty PUŁAWY).
Grupa Azoty PUŁAWY specialises in the manufacturing of nitrogen fertilizers and is one of the largest melamine manufacturers in the world.

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna
The company's registered office is located in Kędzierzyn-Koźle. Since January 11th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna (abbreviated to Grupa Azoty Kędzierzyn).
The company's two business pillars are nitrogen fertilizers and OXO products (OXO alcohols and plasticizers).

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna
The company's registered office is located in Police. Since June 3rd 2013, it has been trading under the name Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna (abbreviated to Grupa Azoty Police).
Grupa Azoty Police is a major manufacturer of compound and nitrogen fertilizers, as well as titanium white.

Grupa Azoty ATT Polymers GmbH
The company's registered office is located in Guben, Germany. Since July 10th 2013, it has been trading under the name Grupa Azoty ATT Polymers GmbH.
It manufactures polyamide 6 (PA6).

Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością
The company's registered office is located in Tarnów. Since February 28th 2013, it has been trading under the name Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. or Grupa Azoty PKCh Sp. z o.o.).
Grupa Azoty PKCh provides comprehensive design services encompassing complete design support for investment projects in the chemical industry − from study and concept works to process and construction design and working plans for services during the construction, commissioning and operation of process units.

(all amounts in PLN '000 unless indicated otherwise)

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością
The company's registered office is located in Tarnów. Since March 6th 2013, it has been trading under the name Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty Koltar Sp. z o.o.).
Grupa Azoty KOLTAR provides railway transport services nationwide. It is one of the few organisations in Poland to hold licences required to perform comprehensive repairs of rail car chassis and tank cars used in the transport of dangerous materials (according to RID).

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna
The company's registered office is located in Grzybów. Since February 11th 2014, it has been trading under the name Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna (abbreviated to Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. or Grupa Azoty SIARKOPOL).
Grupa Azoty SIARKOPOL is Poland's largest producer of liquid sulfur.

Grupa Azoty Folie Spółka z ograniczoną odpowiedzialnością
The company's registered office is located in Tarnów.
Its principal business is research and development in technical science.

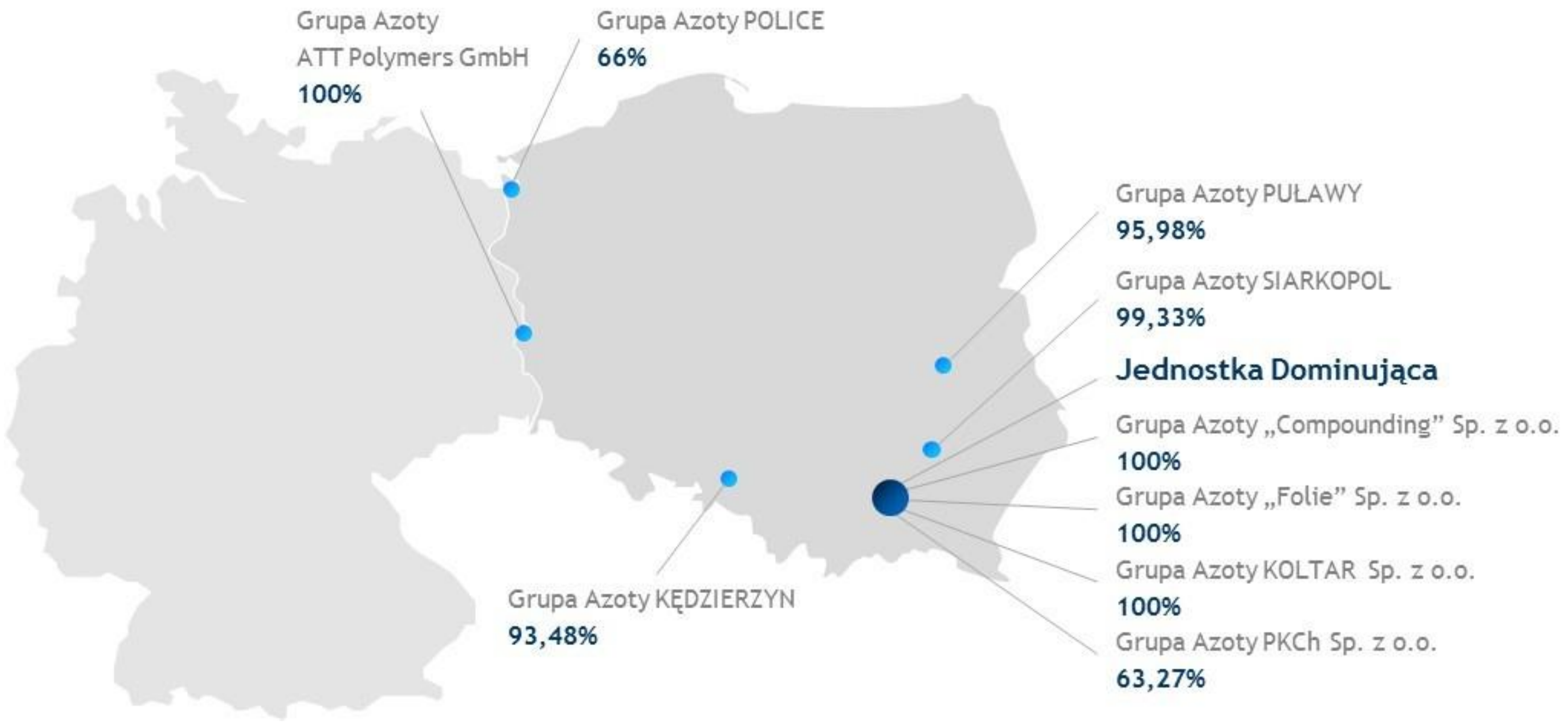
Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością
The company's registered office is located in Tarnów. Its business model is based on a portfolio of specialised engineering plastics manufactured through the compounding of plastics, with the use of innovative technological solutions.

Parent's equity interests in subsidiaries as at March 31st 2018

(in relevant currency)

Company	Registered office/address	Share capital	% of shares held directly
Grupa Azoty ATT Polymers GmbH	Forster Straße 72 03172 Guben, Germany	9,000,000 EUR	100.00
Grupa Azoty Compounding Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów	6,000,000 PLN	100.00
Grupa Azoty Folie Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów	5,500,000 PLN	100.00
Grupa Azoty KOLTAR Sp. z o.o.	ul. Kwiatkowskiego 8 33-101 Tarnów	32,760,000 PLN	100.00
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów	55,000,000 PLN	99.33
Grupa Azoty PUŁAWY	al. Tysiąclecia Państwa Polskiego 13 24-110 Puławy	191,150,000 PLN	95.98
Grupa Azoty KĘDZIERZYN	ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn-Koźle	285,064,300 PLN	93.48
Grupa Azoty POLICE	ul. Kuźnicka 1 72-010 Police	750,000,000 PLN	66.00
Grupa Azoty PKCh Sp. z o.o.	ul. Kwiatkowskiego 7 33-101 Tarnów	85,630,550 PLN	63.27

The Parent and its subsidiaries as at March 31st 2018



Source: Source: Company data.

1.2. Business segments

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

The Group's business is currently divided into the following segments:
- Agro Fertilizers,
- Plastics,
- Chemicals,
- Energy,
- Other Activities.

Agro Fertilizers
Mineral fertilizers are the key area of the Group's business. The Agro Fertilizers segment manufactures nitrogen and compound fertilizers, as well as ammonia and other nitrogen-based intermediate products.
The segment's manufacturing activities are conducted by the companies in Tarnów (Parent), Puławy, Kędzierzyn, Police, Gdańsk, and Chorzów. The Group is Poland's largest and European Union's second largest manufacturer of mineral fertilizers.

Plastics
The segment's key products are engineering plastics (polyamide 6 (PA6) and modified plastics) and auxiliary products, such as caprolactam and other chemicals.
They are manufactured by three companies − in Tarnów, Puławy, and Guben (Germany). The Group is the leading manufacturer of polyamide 6 in Poland and the third largest producer of PA6 in the European Union.

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

They are manufactured in Kędzierzyn, Puławy, Police, and Grzybów. The Group is a major manufacturer of melamine globally and the third largest in the European Union. As regards OXO products, the Group is the only manufacturer of OXO alcohols in Poland, ranking fifth in the European Union; it is also Poland's largest and EU's fifth largest manufacturer of plasticizers and the only producer of titanium white in Poland.

Energy
Electricity and heat produced by the Energy segment are sold locally, to customers in the immediate vicinity of the Group's plants.
The segment's key customers are companies of the Group. Outside the Group, the segment's products are sold on the electricity and hot water markets to local customers. The Group companies operate their own electricity and energy carrier distribution networks.

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

1.3. Overview of key products

AGRO FERTILIZERS

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

Nitrogen fertilizers

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

Urea − a nitrogen fertilizer containing 46% nitrogen; it is produced in Puławy (PULREA®), Police (mocznik.pl®), and Kędzierzyn. Urea is a universal fertilizer – it can be used for all crops at various growth stages, both in the granular form and as a solution.
Outside agriculture, urea is used for technical purposes, mainly for manufacturing of adhesive resins, which find application in the chipboard industry. Urea may also be further processed into urea-ammonium nitrate solution (UAN − RSM®), a liquid fertilizer, or into melamine.

Nitrate fertilizers

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

Nitrogen-sulfur fertilizers

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

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

Compound fertilizers (NPK, NP)

NPK and NP compound fertilizers are universal fertilizers which, depending on composition, can be applied to various types of crops and soil. Aside from the primary components − nitrogen (N),

phosphorous (P) and potassium (K), these fertilizers contain secondary nutrients such as magnesium, sulfur or calcium, and may contain microelements such as boron or zinc.
Compound fertilizers may be used to provide nutrients to all types of arable crops. The Group's current offering includes more than 40 grades of compound fertilizers, which are marketed under the following trade names: Polifoska®, Polidap®, Polimag® Superfosfat, Amofoska®, etc. The Group also offers dedicated fertilizers, custom-made to satisfy customers' specific requirements.

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

PLASTICS

Engineering plastics

Engineering plastics exhibit high thermal resistance and good mechanical properties. The wide range of the plastics' beneficial properties makes them a product of choice for many industries, including automotive, construction, electrical engineering, household appliances, and the food and textile industries.
The Group manufactures polyamide 6 (PA6) and modified plastics (with admixtures affecting the physical and chemical properties of the final plastics) based on polyamide 6 and other engineering plastics (POM, PP, PBT, PA6.6). It also offers modified plastics, custom-made to meet the requirements of individual customers.

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

Caprolactam

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

CHEMICALS

OXO products

OXO alcohols

The Group makes the following OXO alcohols: 2-ethylhexanol (2-EH) and butanols (n-butanol, isobutanol). The key product in this group is 2-EH.
2-ethylhexanol (2-EH) is used in the manufacture of plasticizers, paints and varnishes as well as in the textile industry and oil refining processes. It can also be applied as a solvent for vegetable oils, animal fats, resins, waxes and petrochemicals.

Plasticizers

The Group manufactures the DEHT/DOTP plasticizer. It is used in the chemical industry to increase the plasticity of materials, mainly PVC, and as an additive to paints and varnishes.
The Group's **DEHT/DOTP** is marketed under the Oxoviflex® brand. It is used in plastics processing as a non-phthalic plasticizer as well as in the manufacture of paints and varnishes. It is also widely applied for the production of floor tiles and wall cladding as well as toys.

Sulfur

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

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

SOURCES OF STRATEGIC RAW MATERIALS

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

Ammonia
The procurement strategy is based primarily on the optimisation of intragroup supplies. Intragroup supplies are executed on market terms, The Group is the largest ammonia manufacturer in Poland and CEE, and operates several ammonia units. It is also one of the largest consumers of ammonia in the region.
Having satisfied its own needs, the Group sells a surplus on the market. The Group's ability to effectively secure ammonia supplies largely depends on conditions prevailing on the fertilizer market and in the natural gas sector.

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

Electricity
The Group purchases electricity from major Polish suppliers trading with large accounts. Following a number of tenders for 2018, the Group companies signed electricity supply contracts under their existing framework agreements. Thanks to the joint procurement strategy for electricity supplies, they secured competitive prices and favourable terms of the contracts. Given the volatility of the electricity market and its changing legal framework, the Group's policy was to purchase electricity under forward contracts concluded for various periods and on the SPOT market.

Phenol
The procurement strategy is based primarily on supplies from the domestic and the EU markets, with deliveries from outside Europe covering deficit. The Group secures phenol supplies for its own needs under long-term contracts concluded directly with Europe's largest producers.

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

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

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

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

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

Coal
The Group purchases coal mainly on the domestic market. Purchasing large volumes of coal of the required quality from geographically remote markets is not economically viable given the high transport costs and price formulae (ARA).
On the domestic market, prices of pulverised coal used in power generation are not directly linked to ARA rates, which only serve as pricing benchmarks for Polish coal producers.
Since 2018, the Group companies follow a strategy of purchasing coal under multi-year contracts with a guaranteed price change range. Such long-term contracts cover over 80% of the Group's needs for coal supplies.

2. Financial position of the Group

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

Exchange rates
Factors and events with bearing on the Group's financial performance in Q1 2018 included the raised outlook for Poland's sovereign rating by S&P, falling unemployment and increasing household incomes, as well as good state of public finances. The positive domestic fundamentals are sustaining a medium-term upward trend of Polish złoty against the US dollar and, to a lesser extent, against the euro, prevailing over negative global factors.
Overall, in Q1 2018, the Polish currency weakened by approximately 0.2% against the euro and strengthened by approximately 1.9% against the US dollar on the year-end 2017. However, the average PLN/EUR exchange rate in Q1 2018 was about 1.25% higher quarter on quarter, while the average PLN/USD exchange rate strengthened significantly by 5.41% relative to Q4 2017.
Thus, the Polish currency strengthened primarily against the US dollar, while stabilising against the euro, which accounts for a major part of the Group's currency exposure. Consequently, these developments had no material impact on the Group's results in the reporting period.
The Group monitors its current and planned net currency exposures and manages the resulting currency risk by applying selected hedging instruments. In the reporting period, the main tools used by the Group were: natural hedging; factoring and discounting of receivables denominated in foreign currencies; and currency forwards covering up to 80% of the remaining currency exposure with time horizons of less than 6 months, and up to 50% of the remaining currency exposure with time horizons between 6 and 12 months.
In Q1 2018, the Group used some hedging tools in the form of EUR and USD swap forwards, mainly as an addition to the contracts executed in 2017, reflecting its planned net exposure in both currencies.

The Group’s result on hedging transactions settled in Q1 2018 was PLN 1,280 thousand, whereas the result on remeasurement of hedging instruments was negative at PLN (1,328) thousand.
In the first quarter of 2018, the Group’s aggregate result on the settlement of hedging transactions and remeasurement of hedging instruments was negative, at PLN (48.5) thousand.
On the unhedged net currency exposure, the Group reported a net loss on realised and unrealised foreign-exchange differences of PLN (284) thousand.
In Q1 2018, the Group’s total result on foreign exchange differences and currency derivative transactions (including remeasurement as at the end of the reporting period) was a net loss of PLN (332) thousand.

Prices of CO_2 emission allowances
In Q1 2018, a significant increase was recorded in the prices of CO_2 emission allowances, after a two-year period of low EUA prices attributable to the European industry’s higher productivity driving up emissions and simultaneous adoption of the EU ETS reform in the fourth trading period (according to an agreement between the European Parliament and the Council).
Thanks to its policy of rolling reduction of a deficit in CO_2 emission allowances through spot and forward transactions with a three-year time horizon, the Group did not have to purchase any allowances during the period of increased prices, which may be of speculative nature, and – after the final settlement of 2017 emissions, which should take place by the end of April – the upward trend is expected to at least significantly slow down.

Hedge accounting
Since September 28th 2015, the Group has applied cash flow hedge accounting. The hedged items are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from December 2018 to June 2025. The risk being hedged against is the currency risk. The hedge is a euro-denominated credit facility of EUR 127,134 thousand as at March 31st 2018, repayable from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each. As at March 31st 2018, the fair value of the facility was PLN 540,448 thousand and the hedging reserve included PLN +14,241 thousand on account of the effective hedge. In Q1 2018, the Group did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

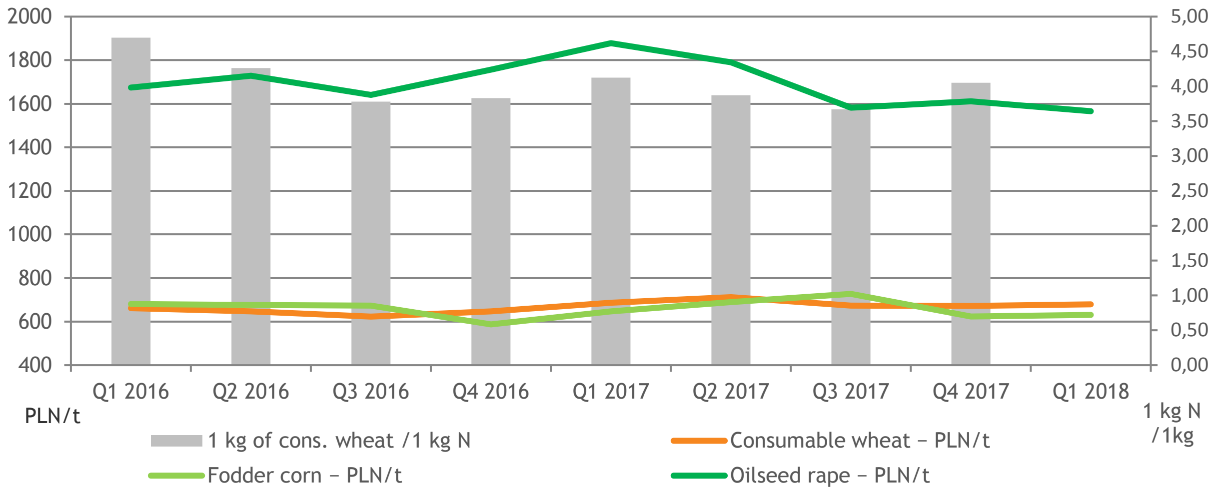
2.2. Market overview

AGRO FERTILIZERS

Economic conditions in agriculture
The weather conditions and prices of agricultural produce translated into deteriorated economic conditions in agriculture.
The condition of winter crops in Poland in Q1 2018 was assessed as relatively good, despite the weather breakdown between February and March.
The grain yields in the 2018/19 season are estimated at 30.11m tonnes, compared with 30.56m tonnes in the current season. In the entire European Union, grain yields of 303.9m tonnes are expected in the 2018/2019 season, compared with 299.3m tonnes in the current season, which represents an increase of approximately 2%.

(all amounts in PLN '000 unless indicated otherwise)

Prices of wheat, corn and oilseed rape



Source: Ministry of Agriculture and Rural Development.

Compared with Q1 2017, the prices of wheat, corn and oilseed rape fell in Q1 2018 (see the table below).

	Average Q1 2017 PLN/t	Average Q1 2018 PLN/t	Q/Q %	Mar 2018 PLN/t	MIN 2018 PLN/t	MAX 2018 PLN/t
Consumable wheat	686	679	-1↓	680	674	684
Fodder corn	647	631	-3↓	639	621	639
Rapeseed	1,878	1,566	-17↓	1,555	1,546	1,597

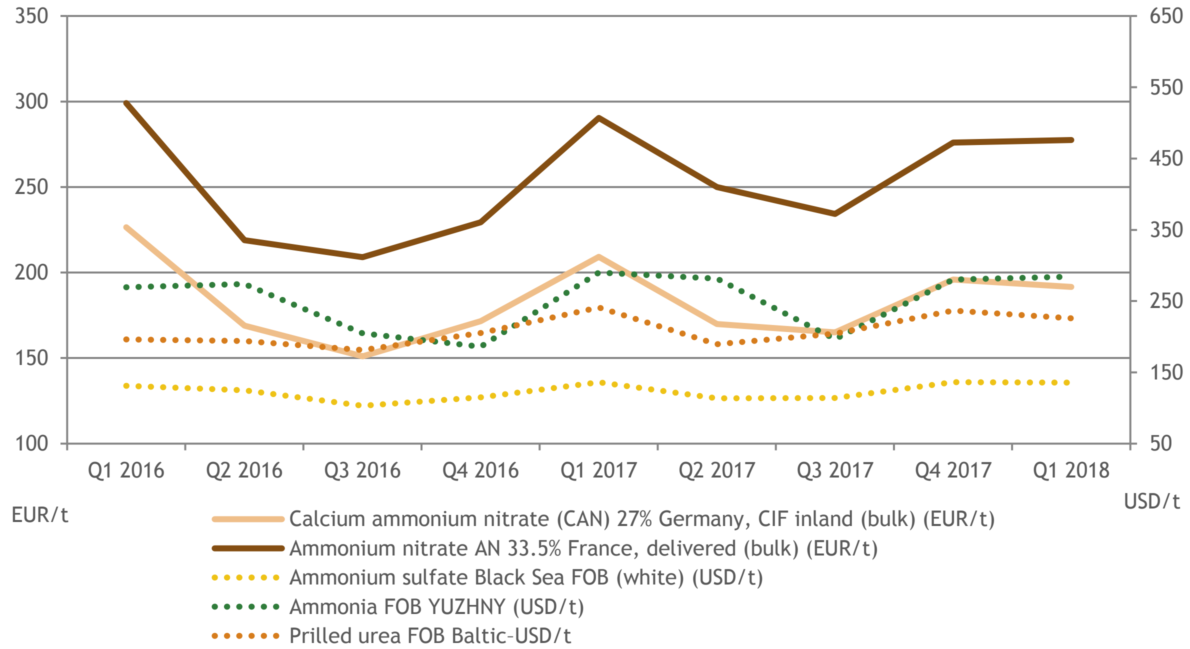
Source: Ministry of Agriculture and Rural Development.

Nitrogen fertilizers

In Q1 2018, demand for nitrogen fertilizers (nitrate fertilizers and urea), both in Poland and in the European Union, was relatively low.
The vast majority of agricultural producers put off their purchases of fertilizers until a later time (just before their application) anticipating lower prices.

(all amounts in PLN '000 unless indicated otherwise)

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



Source: ICIS, Argus FMB, Profercy.

Due to the observed slowdown and lower activity in the agricultural sector, prices of nitrate fertilizers remained relatively stable in the first quarter of 2018. It was only in the second half of March that slight price declines were recorded. Year-on-year, the prices of CAN and ammonium nitrate (AN) went down 8% and 4%, respectively.
A year-on-year price decrease was also recorded for urea in the Baltic region (down by 6%). In Q1 2018, the prices stabilised as a result of the product's slight undersupply on global markets, lower activity of China, and India's announcement of its increased demand for urea. These factors are expected to remain the main drivers of prices later on in the period.
A similar situation was seen on the ammonia market. The persisting slowdown and oversupply on that market in the first quarter of 2018 led to a 23% price drop. Despite their steep reduction in Q1 2018, the ammonia prices proved relatively stable year on year (having declined merely 2%).
In Q1 2018, the average prices of all nitrogen fertilizers on international markets went down year on year.

	Average Q1 2017 EUR/t	**Average Q1 2018 EUR/t**	**Q/Q %**	**Mar 2018 EUR/t**	**MIN 2018 EUR/t**	**MAX 2018 EUR/t**
CAN 27% Germany CIF inland (bulk)	209	192	-8↓	188	188	196
AN (33.5%) France, delivered (bulk)	290	277	-4↓	271	271	281
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Ammonia (FOB Yuzhny)	290	284	-2↓	249	249	323
Urea (FOB Baltic)	241	226	-6↓	224	223	230
AS (Black Sea FOB white)	136	135	-0.3↓	135	134	138

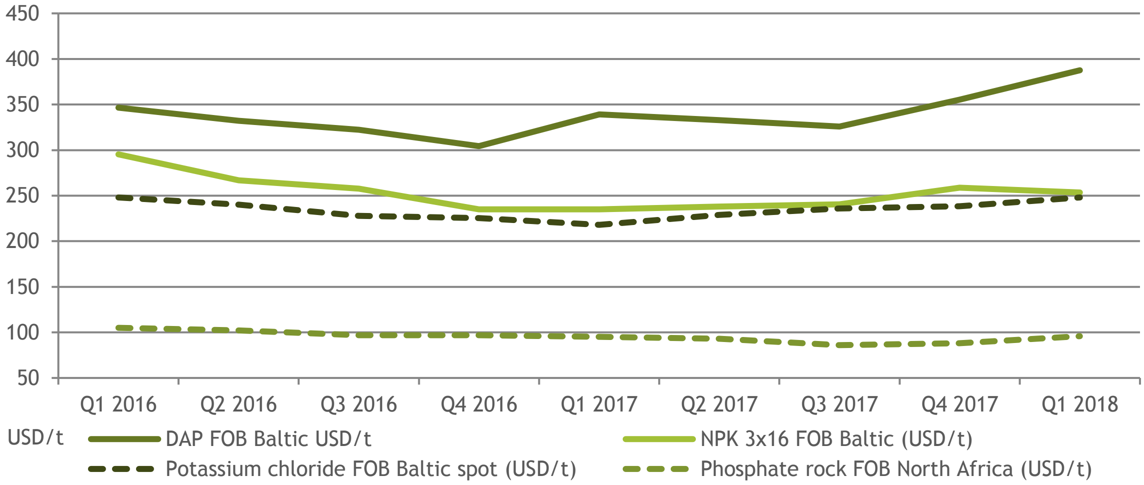
Source: ICIS, Argus FMB, Profercy.

(all amounts in PLN '000 unless indicated otherwise)

Market of compound fertilizers

In Q3 2017, NPK sales were subdued on the Polish market not only due to the harvesting period, but, first of all, a shortage of funds faced by farmers (low prices of plant and animal products). Most large farms purchased a large proportion of fertilizers needed for autumn planting in June, at seasonally low prices. Smaller farms made purchases shortly before planting winter crops.

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



Source: WFM, FERTECON, Profercy.

	Average Q1 2017 USD/t	Average Q1 2018 USD/t	Q/Q %	Mar 2018 USD/t	MIN 2018 USD/t	MAX 2018 USD/t
DAP (FOB Baltic)	339	388	14	398	373	398
NPK3x16 (FOB Baltic)	235	254	8	255	253	255
Potassium chloride (FOB Baltic spot)	218	248	14	249	247	249
Phosphate rock (FOB North Africa)	95	96	1	96	96	96

Source: WFM, FERTECON, Profercy.

In Q1 2018, Poland's compound fertilizers (NPK) market saw limited demand. Unfavourable weather – with prolonged winter, frosts and lack of a snow cover – damaged some plantations, while postponing field work until the end of March and beginning of April. The fact that direct farm subsidies were only partially disbursed (non-payment of the second tranche) combined with a decrease in agricultural produce prices (making farmers reluctant to sell, awaiting better prices) dampened demand for fertilizers in the first quarter of 2018. Demand for NPK fertilizers was also weak on other European markets, except for Ukraine. NPK Baltic FOB prices remained largely unchanged throughout the quarter. The lowest price of NPK in the period was USD 253/tonne, and the highest – USD 259/tonne. Year on year, the price increased by about 8%.In spring, the prices of NPK fertilizers may grow slightly, but no significant changes are expected.

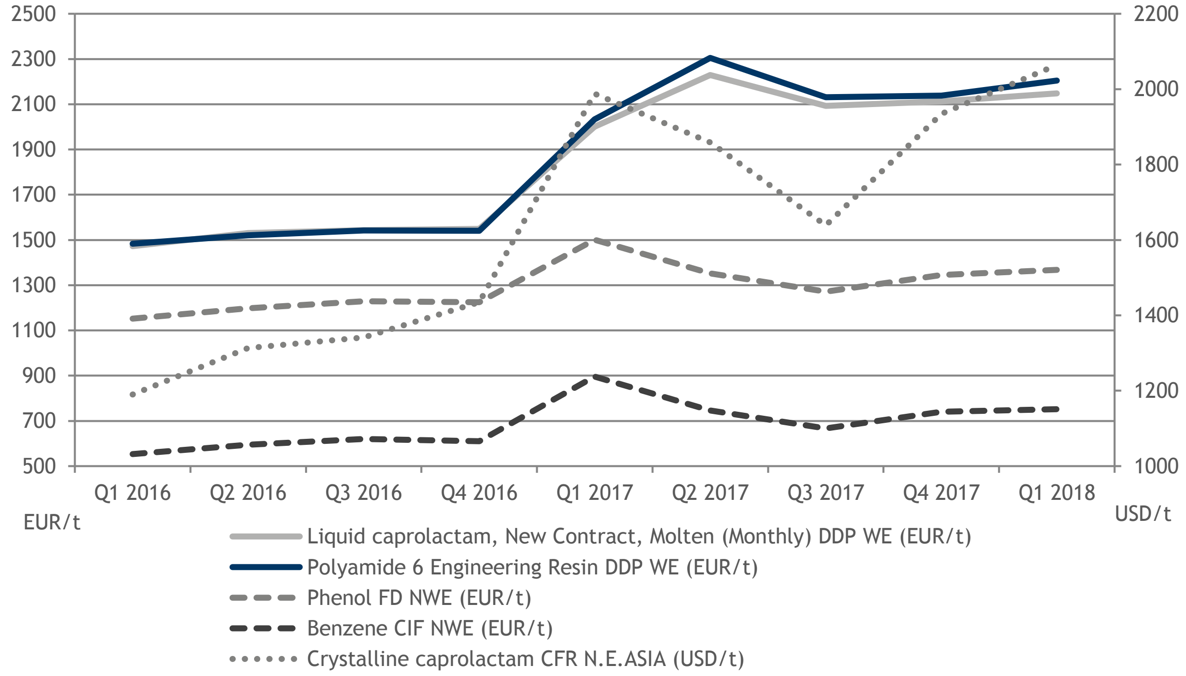
In the first quarter of 2018, DAP prices continued on an upward trend begun in December 2017, staying relatively high throughout the period. As in the previous year, demand for DAP continued into mid-March and its prices were trending upwards. Relatively strong demand prevailed on the following markets: the US, Brazil, Canada, China, Europe, and Pakistan. The season for DAP ending in late March, its prices began to inch down in the last two weeks of March. In Q1 2018, the lowest DAP Baltic FOB price was USD 365/tonne, and the highest – USD 400/tonne.DAP price levels are difficult to predict later on in the year given both new production capacities coming on stream and shutdowns of existing units.

In the first quarter of 2018, the prices of phosphate rock stayed flat year on year. In January, an upward trend in phosphate rock prices, which began in late 2017 and was largely attributable to higher prices of phosphate fertilizers (mainly DAP), stabilised. Despite logistical challenges caused by

unfavourable weather hindering warehouse operations in Morocco as well as social unrest in Tunisia, North African producers of phosphate rock chose not to increase their prices any further. This situation is likely to continue over the coming months.
In Q1 2018, the prices of potassium chloride grew 14% year on year, largely driven by the policies of producers seeking to control supply. Negotiations with Chinese importers of potassium chloride held in the first quarter of 2018 did not prove conclusive with regard to prices for 2018. In the short term, the prices for Chinese customers may rise from USD 10 to USD 20/tonne, as a result of which an upward trend in purchase prices of potassium chloride may also be maintained for customers in Europe, including Poland.

PLASTICS

Prices of PA6, caprolactam, benzene and phenol



Source: TECNON, ICIS.

In the first quarter of 2018, as in previous periods, the market for these products continued to be shaped by the interplay of supply and demand and by oil prices.
Unlike in previous quarters, despite expectations that prices of polyamide 6 (and other polyamide chain products) would be closely correlated to benzene prices, their reductions and fluctuations were in fact balanced out or offset by high demand during the period.
Oil prices rose 26% in Q1 2018, but without any marked effect on the prices of benzene (down 16%). However, the higher oil prices were a viable basis for a correction of caprolactam prices, exerting significant upward pressure on polyamide (PA6) prices. In Q1 2018, the prices of European polyamide 6 (DDP, WE) increased 8% year on year.
In the first quarter of 2018, the prices of caprolactam in Asia (CFR, NE Asia) were 4% higher year on year, at EUR 2,064/tonne. The caprolactam prices in Europe (DDP, WE) rose 7% in the period, to EUR 2,148/tonne.

(all amounts in PLN '000 unless indicated otherwise)

	Average Q1 2017 EUR/t	Average Q1 2018 EUR/t	Q/Q %	Mar 2018 EUR/t	MIN 2018 EUR/t	MAX 2018 EUR/t
Benzene (FOB, NWE)	896	752	-16↓	730	730	792
Phenol (FD, NWE)	1,501	1,368	-9↓	1342	1,342	1,416
Caprolactam (Liq., DDP, WE)	2,001	2,148	7	2,138	2,138	2,163
Polyamide 6 (PA 6) (DDP, WE)	2,033	2,205	8	2,205	2,205	2,205
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Caprolactam (CFR, NEAsia)	1,988	2,064	4	2,080	2,041	2,080
	USD/bbl	USD/bbl	%	USD/bbl	USD/bbl	USD/bbl
Crude oil (BRENT)	53.31	68.94	26	66.60	65.67	68.94

Source: ICIS, Tecnon, Rzeczpospolita.

The limited availability of raw materials recorded earlier as well as other developments on Europe-linked Asian markets were somewhat abated by ongoing legislative and environmental protection efforts coupled with movements in the EUR/USD exchange rate, which is of key importance for that area. In line with earlier expectations, the Asian markets' recent impact on Europe has solely involved reorientation of caprolactam exports, with the polyamide market unaffected to any significant degree, while also clearly indicating that Chinese production capacities are sufficient to meet the country's demand for PA6.
As expected, the steadily growing demand for polyamide chain products, combined with stable situation on the European commodity market, have been a solid basis for stabilising the market's key segments. It should be stressed that in the previous period they were far more susceptible to periodic changes in prices and supply-demand dynamics. The result is an environment supporting a further increase in demand for plastics. This trend is bound to continue into the coming months, with the relatively strong demand for PA6 in Europe driven mainly by the automotive and construction industries.
The overall structure of demand for PA6 is expected to change, reflecting mainly the growing role of engineering plastics, plastic film and flexible packaging. As a consequence, the automotive industry will be the main and key consumer of polyamide-based engineering plastics.
Thus, the oversupply of polyamide 6 on the European market has been and will continue to be markedly reduced, improving the trade balance.

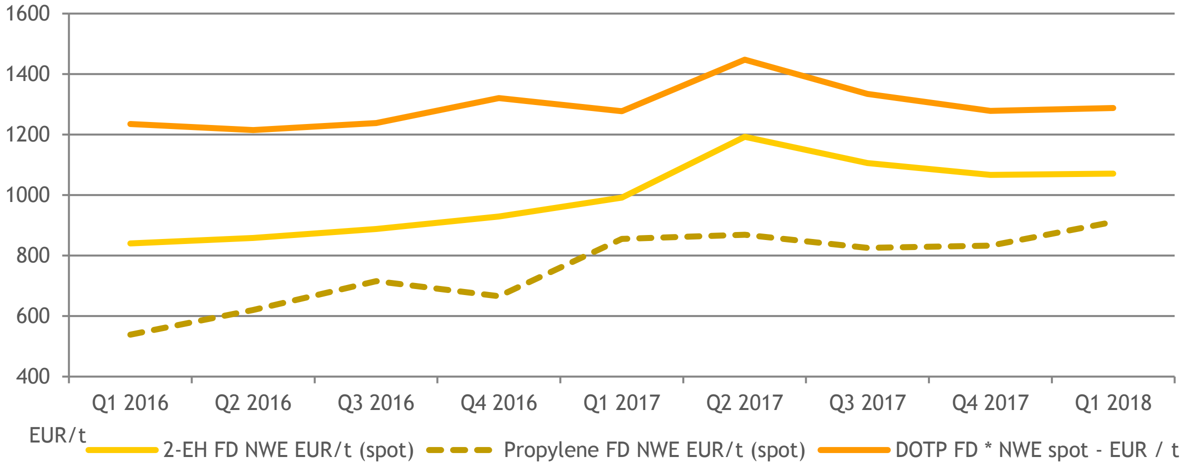
CHEMICALS

OXO product chain
Unlike in the corresponding period of 2017, the product market remained balanced at the beginning of Q1 2018. Later on in the quarter, the supply was limited and the persistently growing demand, in particular for 2-EH and DEHT, supported a price growth. This situation will continue until the next quarter of 2018 as maintenance shutdowns at key manufacturers, some of them already commenced and some announced, will result in insufficient supply being available to cover demand.
The prices in 2018 are higher than last year, and remain correlated with movements in propylene prices.
The key driver of the 2-EH market is growing demand for plasticizers, especially non-phthalate ones, used in plastics (mainly PVC) processing. Phthalate plasticizers are being replaced by non-phthalate ones, mainly in favour of DEHT, chiefly due to legal restrictions on their possible applications. Therefore, Grupa Azoty ZAK S.A. decided to withdraw DEHP from its product portfolio.

The upward trend in the price of crude oil on global markets in the first half of Q1 2018 triggered a gradual increase in propylene prices. In mid-February, after reports of a substantial increase in oil production and oil stocks in the US, which led to declines in crude oil prices, the prices of propylene followed suit. Year on year, however, the average prices of propylene increased 7%. Grupa Azoty's purchases of propylene were made in contracted volumes, supplemented on the spot market to reduce the average price of this key raw material.

(all amounts in PLN '000 unless indicated otherwise)

Prices of 2-EH, DOTP and propylene



January 18th 2017 – The changes in DOTP prices were caused by alteration of the price gathering methodology applied by ICIS (which was revised to better present the actual market prices) and should not be viewed as an indication of an actual change in the plasticizer prices.

Source: ICIS.

	Average Q1 2017 EUR/t	Average Q1 2018 EUR/t	Q/Q %	Mar 2018 EUR/t	MIN 2018 EUR/t	MAX 2018 EUR/t
2-EH (FD NWE spot)	991	1,071	8	1,094	1,050	1,094
DOTP* (FD NWE spot)	1,278	1,288	-	1,303	1,275	1,303
Propylene (FD NWE spot)	856	911	7	904	901	929

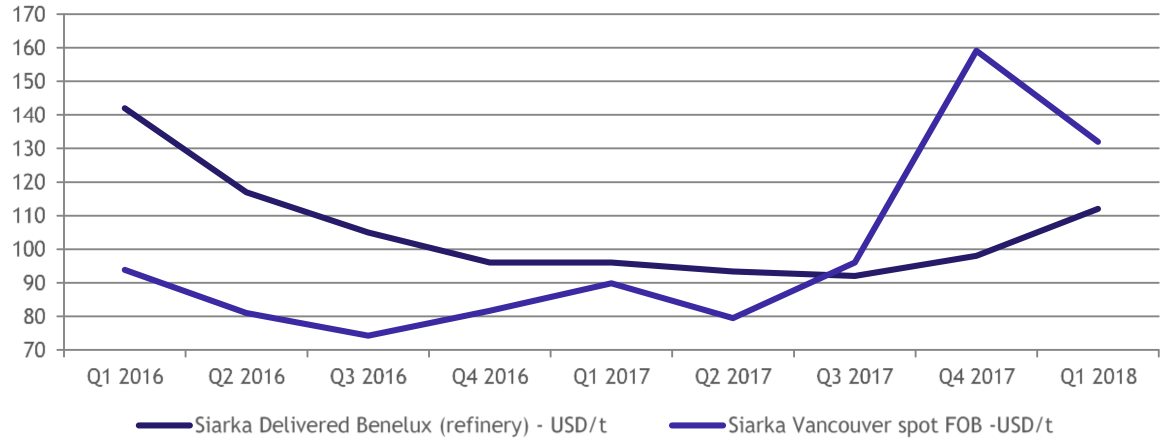
** Data not comparable due to change of methodology.*

Source: ICIS.

(all amounts in PLN '000 unless indicated otherwise)

Sulfur

Prices of sulfur



Source: FERTECON.

	Average Q1 2017 USD/t	Average Q1 2018 USD/t	Q/Q %	Mar 2018 USD/t	MIN 2018 USD/t	MAX 2018 USD/t
Sulfur (Delivered Benelux refinery)	96	112	17	112	112	112
Sulfur (Vancouver spot FOB)	90	132	47	130	128	138

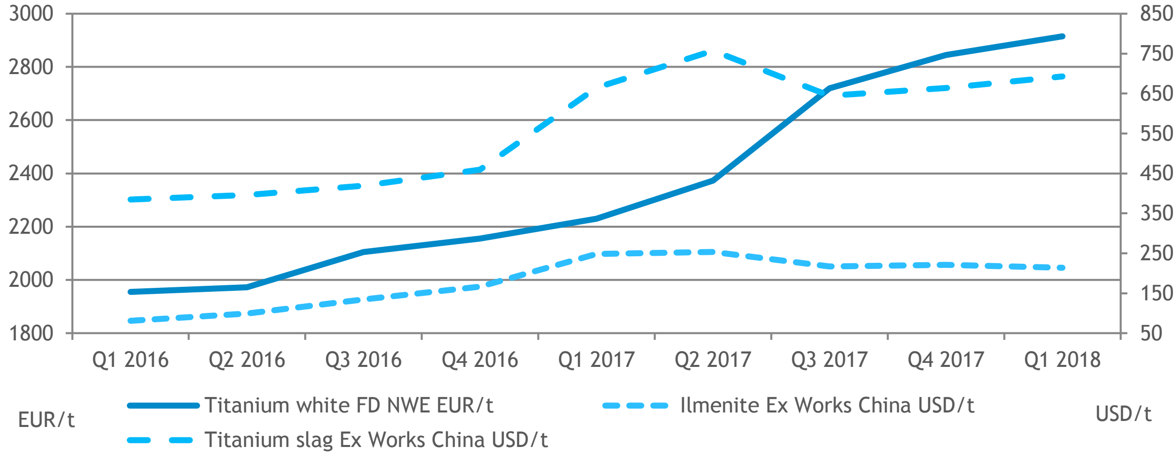
Source: FERTECON.

In Q3 2017, the price of refinery sulfur in Europe rose by approximately 17%, while the price of prilled sulfur (Vancouver spot FOB) increased by about 47% year on year. Nevertheless, after the price hikes on global markets in Q3 and Q4 2017, the prices of sulfur were corrected in January 2018. In the first quarter of 2018, sulfur prices either stabilised or slightly fluctuated depending on the region of the world. At present, the global market is rather inert due to lower demand for phosphate fertilizers. Both Chinese and Indian customers awaited an announcement on the amount of subsidies from the Indian government in order to determine acceptable phosphate prices. Waiting for the announcement had a dampening effect on demand for sulfur. On March 28th 2018, the Indian government finally announced a 27% increase in subsidies for the purchase of P_2O_5, which – taking into account favourable weather forecasts – suggests that locally, in India and China, the demand for sulfur may grow, translating into a higher purchase price in that region.
In Western Europe, the contract prices of molten sulfur in March 2018 remained unchanged on January and February 2018, at USD 104–USD 120/tonne (Delivered Benelux), and are expected to stay around these levels for the next few months.

Pigment chain
In Q1 2018, most global markets saw an increase in the prices of titanium white. In Europe, its average price rose 29% year on year. Ever since 2016, titanium white prices have continued on an upward trend owing to a global shortage of the product, with demand still exceeding supply.
As titanium white prices are beginning to hit their historical highs, they are soon expected to more or less stabilise. They may even slightly decline at the beginning of the fourth quarter (when demand is seasonally weaker) of 2018.

(all amounts in PLN '000 unless indicated otherwise)

Prices of titanium white and ilmenite



Source: ICIS, CCM.

The prices of titanium-containing minerals have been on the rise since early 2017, as their production in China was downscaled due to more stringent environmental inspections. The prices of Chinese feedstocks in the first half of 2017 were unacceptable to local titanium white manufacturers, making them opt for increased imports and leading to a decline in both ilmenite and titanium slag prices. In the first quarter of 2018, the prices of titanium- containing minerals returned to an upward trend driven by higher demand from titanium white manufacturers. On the representative Chinese market, the price of ilmenite fell 14% relative to Q1 2017, while the price of titanium slag containing 74%-76% of titanium rose 4% year on year.

	Average Q1 2017 EUR/t	Average Q1 2018 EUR/t	Q/Q %	Mar 2018 EUR/t	MIN 2018 EUR/t	MAX 2018 EUR/t
Titanium white (FD NWE)	2,230	2,915	31	2,935	2,875	2,935
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ilmenite (ex Works China)	248	214	-14↓	223	205	223
Titanium slag ex Works China	665	693	4	726	651	726

Source: ICIS, CCM.

The global market is experiencing shortages in the supply of titanium-containing minerals, especially titanium slag with a 74%-76% titanium content, used in the manufacture of sulfate titanium white. The Chinese government intends to continue its environmental inspections, which will reduce capacities in the sector of production and processing of titanium-containing minerals, giving an excuse to raise the prices of those minerals locally, which in turn will prompt local titanium white manufacturers to rely to a greater extent on imports. Therefore, the coming months of 2018 are likely to see further increases in global prices of these feedstocks, with an increase in titanium slag prices expected to be proportionally higher than an increase in ilmenite prices.

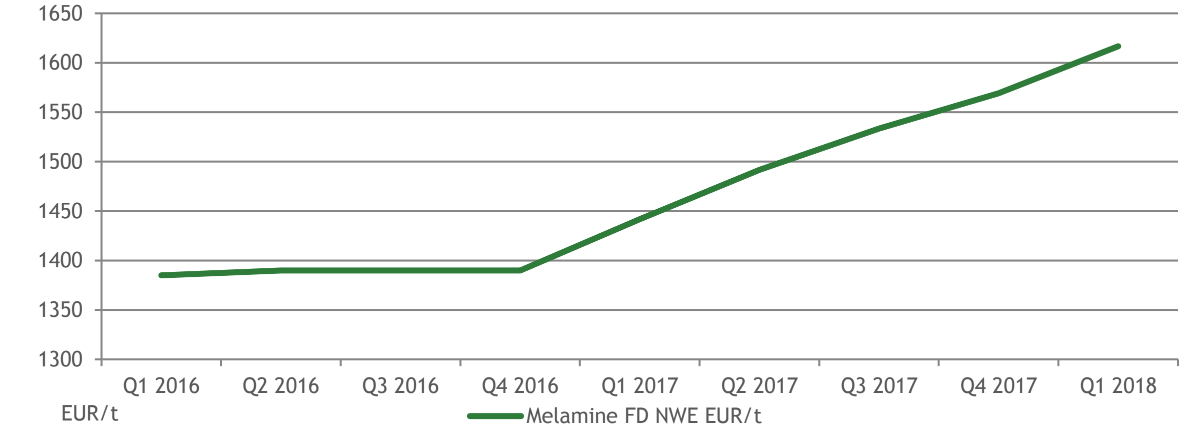
Melamine

In Q1 2018, the melamine contract price in the European market rose 12% year on year, to EUR 1,422/tonne. The price increase was attributable to limited supply of melamine in the region. In the period under review, demand for melamine in Europe was strong, due mainly to a shortage of the product in the Asian and US markets. In the case of China, its low supply due to natural gas supply problems and environmental restrictions significantly boosted the country's demand for European melamine while imports of melamine to Europe fell. Market demand for melamine was driven mainly by manufacturers of wood-based panels.

In the second quarter of the year, demand for melamine is expected to grow in line with a seasonal pattern, particularly in the construction sector. In the near future, supply will remain constrained due to upcoming maintenance shutdowns. The reduced supply of melamine may cause possible upward price corrections and disruptions in the delivery of orders.

(all amounts in PLN '000 unless indicated otherwise)

Prices of melamine



Source: ICIS, Global Bleaching Chemicals.

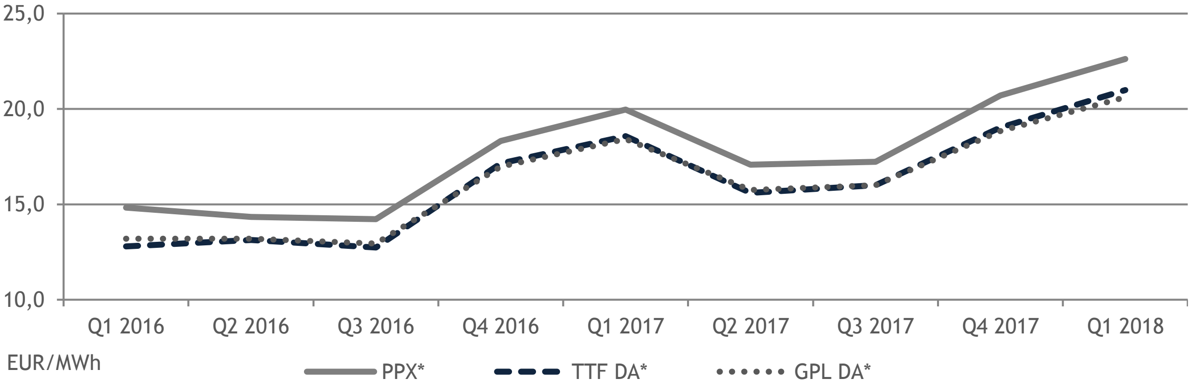
	Average Q1 2017 EUR/t	Average Q1 2018 EUR/t	Q/Q %	Mar 2018 EUR/t	MIN 2018 EUR/t	MAX 2018 EUR/t
Melamine (FD NWE)	1,442	1,617	12	1,625	1,600	1,625

Source: ICIS, Global Bleaching Chemicals.

ENERGY

Natural gas

Prices of natural gas



Excluding transmission.

Source: PGNiG tariff, ICIS.

In the European market, gas prices in the first quarter of 2018 followed two different trends. In January they fell and then moved within the EUR 17–17.5/MWh range until February 20th. During that period, they were much below last year's levels. Due to relatively high prices of coal, gas increasingly took its place in the energy mix. Gas storage facilities were gradually emptied, but their filling levels were still above the previous year's. Two cold waves with heavy frosts that swept over Europe at the end of February and after the tenth of March led to record-high gas prices on commodity exchanges and considerable depletion of gas stocks. At the end of March, the prices began to fall back, ending the quarter at around EUR 19/MWh.

(all amounts in PLN '000 unless indicated otherwise)

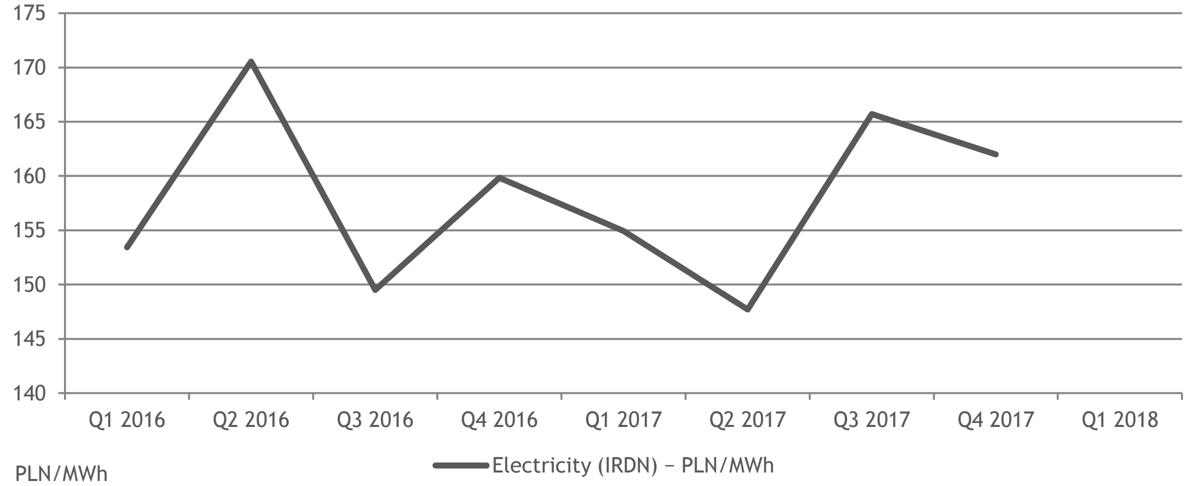
	Average Q1 2017 EUR/MWh	Average Q1 2018 EUR/MWh	Q/Q %	Mar 2018 EUR/MWh	MIN 2018 EUR/MWh	MAX 2018 EUR/MWh
TTF DA	18.6	21.0	13	24.2	18.7	24.2
GPL DA*	18.4	20.6	12	23.7	18.5	23.7
PPX*	20.0	22.6	13	25.9	20.2	25.9

Source: ICIS.

According to the latest forecasts, the developments seen in March will continue to affect prices throughout the rest of the year. An oversupply of gas expected in summer in connection with increased LNG supplies will in the first place be used to replenish storage facilities, without putting any stronger pressure on prices. Therefore, instead of a previously forecast price drop, we can expect an average annual gas price on the German market in the region of EUR 17.5–18/MWh, i.e. equal to or slightly higher than last year's level.

Electricity

Prices of electricity



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

Source: The Polish Power Exchange.

	Average Q1 2017 PLN/MWh	Average Q3 2018 PLN/MWh	Q/Q %	September 2018 PLN/MWh	MIN 2018 PLN/MWh	MAX 2018 PLN/MWh
Electricity	154.9	187.2	20.8	203.7	104.8	415.3

Source: The Polish Power Exchange.

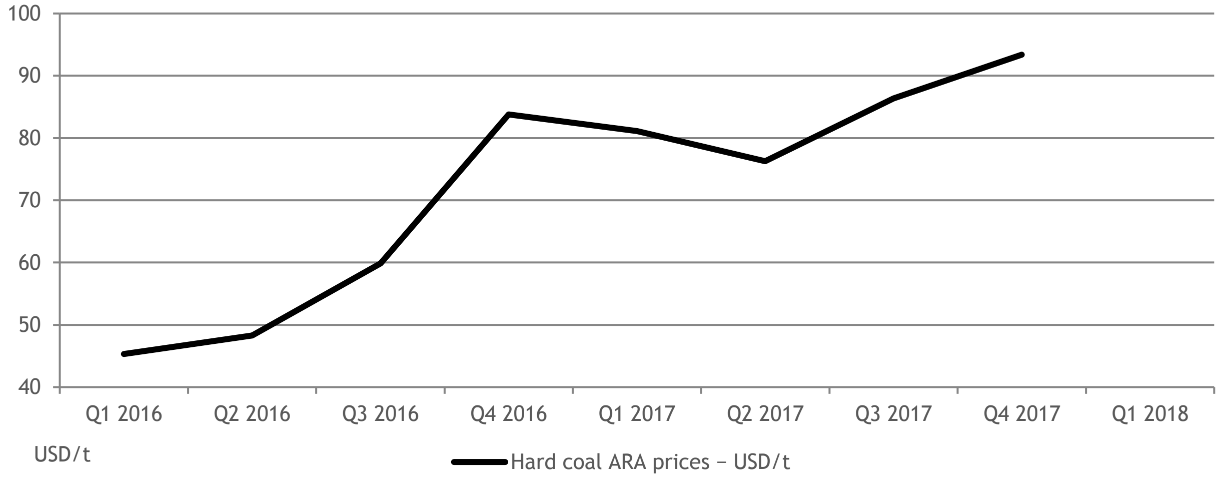
In the first quarter of 2018, average electricity prices went up by over 20% year on year and 15% quarter on quarter, due to variable temperatures, wind power generation volumes, and available capacities of conventional power plants resulting from their scheduled and unscheduled shutdowns.
The Polish market is largely affected by climate regulations and the need to continue upgrading generation capacities (expenditure on new capacities) and to maintain the operating capacity reserve (effect on production costs).
Electricity prices will be driven by the following factors:

- Ongoing restructuring of the coal sector companies with the participation of power sector companies,
- Continuing high prices of gas,
- Increasingly widespread use of energy efficient solutions leading to reduced electricity consumption,
- Persistently high prices of coal on global and domestic markets,
- Continuing high prices of CO_2 emission units.

(all amounts in PLN '000 unless indicated otherwise)

Coal

Prices of hard coal



Source: ARA prices.

	Average Q1 2017 USD/t	Average Q1 2018 USD/t	Q/Q %	Mar 2018 USD/t	MIN 2018 USD/t	MAX 2018 USD/t
Coal	81.1	89.7	10.5	81.6	79.1	96.8

Source: ARA prices.

In the first quarter of 2018, prices of coal fell 4% compared with the last quarter of 2017. Year on year, coal prices rose 10%, and the average price of coal in the period reached USD 90/tonne.
Prices of coal in Poland followed the global trends. Its oversupply in Poland was reduced as a result of the progressing restructuring of Polish mines and lower coal production. In 2018, Poland's consolidated coal mining sector is expected to maintain current price levels.

Analysts are not expecting a return to low prices, estimating the equilibrium price at USD 85/tonne.

2.3. Key financial and economic data

2.3.1. Consolidated financial information

In Q1 2018, the Group earned a positive EBITDA of PLN 403,243 thousand and net profit of PLN 187,978 thousand.
Year on year, EBITDA decreased by PLN 49,750 thousand and net profit fell by PLN 67,282 thousand.

(all amounts in PLN '000 unless indicated otherwise)

Consolidated data

Item	Q1 2018	Q1 2017	change	% change
Revenue	2,497,102	2,687,394	(190,292)	(7.1)
Cost of sales	(1,922,628)	(2,012,311)	89,683	(4.5)
Gross profit	**574,474**	**675,083**	**(100,609)**	**(14.9)**
Selling and distribution expenses	(148,510)	(175,648)	27,138	(15.5)
Administrative expenses	(184,935)	(172,445)	(12,490)	7.2
Profit on sales	**241,029**	**326,990**	**(85,961)**	**(26.3)**
Net other expenses	(2,599)	(8,160)	5,561	(68.1)
Operating profit	**238,430**	**318,830**	**(80,400)**	**(25.2)**
Net finance (costs)/income	(5,805)	804	(6,609)	(822.0)
Share of profit of equity-accounted investees	3,895	3,574	321	9.0
Profit before tax	**236,520**	**323,208**	**(86,688)**	**(26.8)**
Income tax	(48,542)	(67,948)	19,406	(28.6)
Net profit	**187,978**	**255,260**	**(67,282)**	**(26.4)**
EBIT	**238,430**	**318,830**	**(80,400)**	**(25.2)**
Depreciation and amortisation	164,813	134,163	30,650	22.8
EBITDA	**403,243**	**452,993**	**(49,750)**	**(11.0)**

Source: Company data.

With revenue down 7.1% year on year and cost of sales growing relatively slower (down 4.5%), the Group reported a gross profit of PLN 574,474 thousand.
In Q1 2017, the gross profit figure was PLN 100,609 thousand higher.
Gross profit net of selling and distribution expenses and administrative expenses (profit on sales) was PLN 241,029 thousand, down 26.3% year on year.
In Q1 2018, the balance of other income and other expenses was negative at PLN (2,599) thousand, and had a slightly adverse impact on EBIT, Which amounted to PLN 238,430 thousand.

2.3.2. Segment results

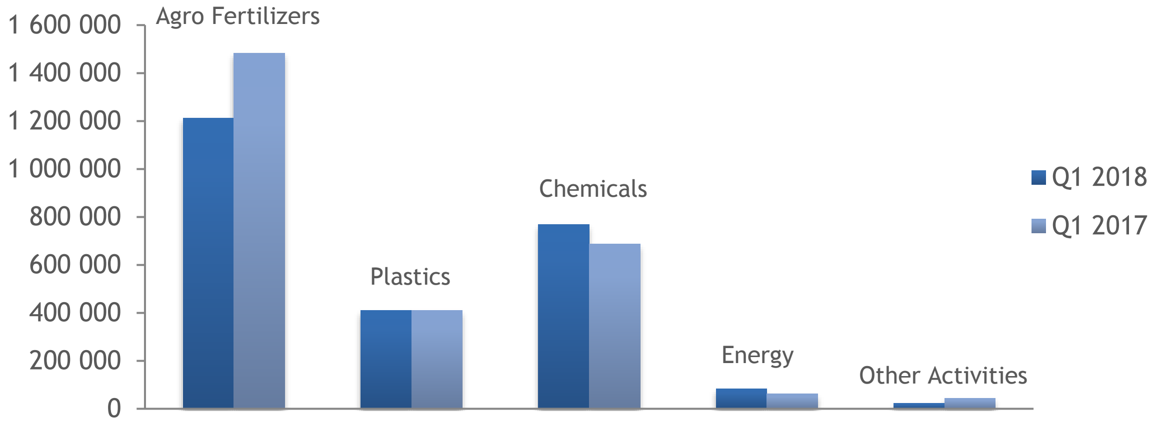
EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other
External revenue	1,212,439	411,006	768,849	82,883	21,925
Profit/(loss) on sales	116,664	45,398	97,734	7,494	(26,261)
EBIT	116,518	45,982	98,391	7,042	(29,503)

Source: Company data.

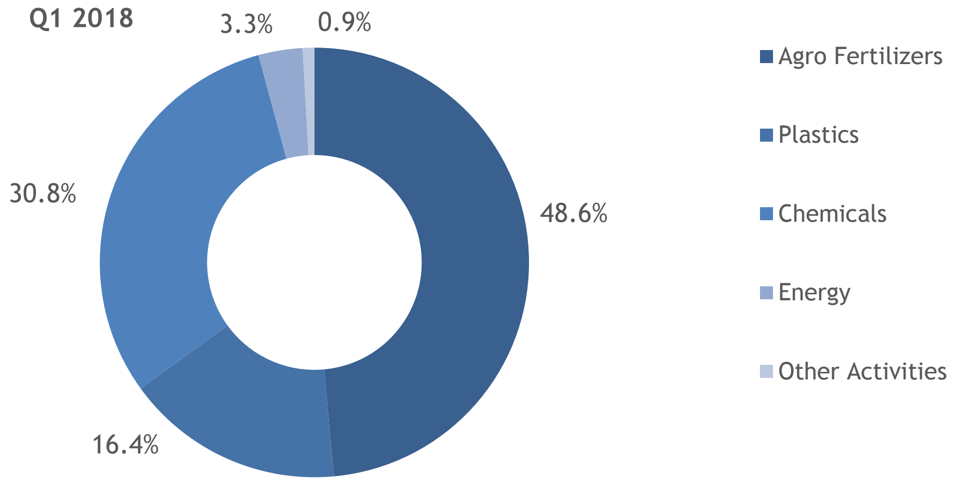
The Group's profit on sales of products in Q1 2018 was determined primarily by the market situation in the Agro Fertilizers segment. Revenue in the Agro Fertilizers segment was down 18.3% year on year. In the Chemicals and Energy segments, revenue rose, by 12.0% and 33.4%, respectively.

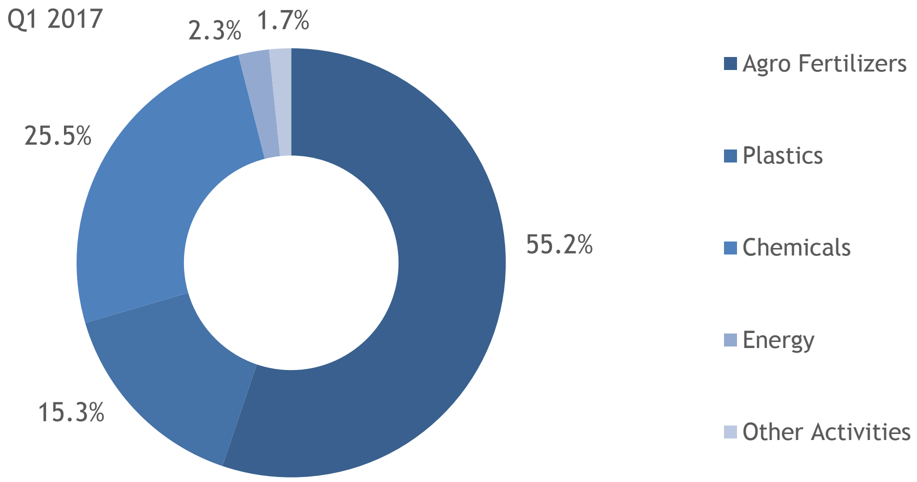
Revenue by segment



Source: Company data.

Revenue by segment





Source: Company data.

The shares of individual segments in total revenue changed slightly compared with Q1 2017: the contribution from Plastics, Chemicals and Energy grew (by 1.1pp, 5.3pp, and 1pp, respectively), while the shares of Agro Fertilizers and Other Activities were lower (by 6.6pp and 0.8pp, respectively).

(all amounts in PLN '000 unless indicated otherwise)

Agro Fertilizers

In Q1 2018, revenue in the Agro Fertilizers segment came in at PLN 1,212,439 thousand and accounted for 48.6% of the Group's total revenue. Relative to Q1 2017, the segment's revenue fell 18.3%, and its share in the Group's total decreased.
The Agro Fertilizers segment also reported a profit on sales and positive EBIT of PLN 116,518 thousand. Sales on the domestic market accounted for approximately 74.8% of the segment's revenue.

Plastics

In Q1 2018, revenue in the Plastics segment was PLN 411,006 thousand and accounted for 16.4% of the Group's total revenue. The segment's revenue remained flat year on year. The segment reported a profit on sales and positive EBIT of PLN 45,982 thousand.
More than 89.1% of the segment's revenue was derived from sales on foreign markets.

Chemicals

In Q1 2018, revenue in the Chemicals segment amounted to PLN 768,849 thousand, having increased 12.0% year on year. The segment's revenue accounted for 30.8% of the Group's total revenue. The segment reported a profit on sales and positive EBIT of PLN 98,391 thousand.
Sales on foreign markets accounted for approximately 62.9% of the Chemicals segment's revenue.

Energy

In Q1 2018, revenue in the Energy segment was PLN 82,883 thousand and accounted for approximately 3.3% of the Group's total revenue. The segment's revenue grew 33.4% year on year. The segment reported positive EBIT of PLN 7,042 thousand.

Other Activities

In Q1 2018, revenue in the Other Activities segment was PLN 21,925 thousand and accounted for approximately 0.9% of the Group's total. The segment's EBIT was negative.

2.3.3. Structure of operating expenses

In Q1 2018, operating expenses were PLN 2,320,021 thousand, down by PLN 52,192 thousand year on year. Depreciation and amortisation, as well as cost of salaries and wages, including overheads, rose. Other costs decreased (in particular costs of services and of raw materials and consumables used), resulting in a lower overall figure of operating expenses.

Operating expenses by nature of expense

	Q1 2018	Q1 2017	change	% change
Depreciation and amortisation	163,870	133,233	30,637	23.0
Raw materials and consumables used	1,482,464	1,507,887	(25,423)	(1.7)
Services	211,116	262,312	(51,196)	(19.5)
Salaries and wages, including overheads, and other benefits	352,218	333,246	18,972	5.7
Taxes and charges	86,870	90,354	(3,484)	(3.9)
Other expenses	23,483	45,181	(21,698)	(48.0)
Total	**2,320,021**	**2,372,213**	**(52,192)**	**(2.2)**

Source: Company data.

(all amounts in PLN '000 unless indicated otherwise)

Other operating expenses

In Q1 2017, operating expenses other than costs of raw materials and consumables used accounted for 36.1% of total operating expenses, up from 36.4% in the corresponding period of 2017.

Structure of other operating expenses [%]

	Q1 2018	Q1 2017
Depreciation and amortisation	7.1	5.6
Services	9.1	11.1
Salaries and wages, including overheads, and other benefits	15.2	14.0
Taxes and charges	3.7	3.8
Other expenses	1.0	1.9
Total	**36.1**	**36.4**

Source: Company data.

2.3.4. Structure of assets, equity and liabilities

In Q1 2018, the Group's assets rose to PLN 11,939,030 thousand, by PLN 656,410 thousand relative to the end of Q1 2017. As at March 31st 2018, non-current assets were PLN 8,055,542 thousand, and current assets were PLN 3,883,488 thousand.
In Q1 2018, the most significant year-on-year changes in assets included:

- a 5.7% increase in property, plant and equipment,
- a 39.1% increase in cash and cash equivalents,
- a 27.5% increase in inventories,
- a 19.6% decrease in the value of equity-accounted investees,
- a 19.9% decrease in intangible assets.

Structure of assets

	Q1 2018	Q1 2017	change	% change
Non-current assets, including:	8,055,542	7,721,135	334,407	4.3
Property, plant and equipment	6,813,292	6,443,139	370,153	5.7
Perpetual usufruct of land	475,374	481,928	(6,554)	(1.4)
Intangible assets	376,057	469,689	(93,632)	(19.9)
Other receivables	147,867	69,562	78,305	112.6
Equity-accounted investees	91,643	113,979	(22,336)	(19.6)
Current assets, including:	3,883,488	3,561,485	322,003	9.0
Trade and other receivables	1,353,965	1,242,629	111,336	9.0
Inventories	1,084,068	850,338	233,730	27.5
Cash and cash equivalents	1,037,353	745,503	291,850	39.1
Property rights	364,988	270,239	94,749	35.1
Total assets	11,939,030	11,282,620	656,410	5.8

Source: Company data.

Year on year, the most significant changes in equity and liabilities in the reporting period included:

- a 12.5% increase in current trade and other payables,
- a 16.6% decrease in non-current deferred tax liabilities,
- a 58.1% increase in current liabilities under grants,
- a 47.0% increase in current liabilities under borrowings.

(all amounts in PLN '000 unless indicated otherwise)

Structure of equity and liabilities

	Q1 2018	Q1 2017	change	% change
Equity	**7,621,033**	**7,311,714**	**309,319**	**4.2**
Non-current liabilities, including:	**2,258,822**	**2,215,120**	**43,702**	**2.0**
Borrowings	1,481,269	1,464,651	16,618	1.1
Employee benefit obligations	338,337	320,773	17,564	5.5
Deferred tax liabilities	178,931	214,587	(35,656)	(16.6)
Provisions	127,113	106,724	20,389	19.1
Current liabilities, including:	**2,059,175**	**1,755,786**	**303,389**	**17.3**
Trade and other payables	1,610,133	1,431,297	178,836	12.5
Borrowings	149,307	101,583	47,724	47.0
Government grants received	138,469	87,602	50,867	58.1
Total equity and liabilities	**11,939,030**	**11,282,620**	**656,410**	**5.8**

Source: Company data.

2.3.5. Financial ratios

Profitability ratios [%]

	Q1 2018	Q1 2017
Gross profit margin	23.0	25.1
EBIT margin	9.5	11.9
EBITDA margin	16.1	16.9
Net profit margin	7.5	9.5
ROA	1.6	2.2
ROCE	2.4	3.3
ROE	2.5	3.5
Return on non-current assets	2.3	3.3

Source: Company data.

Ratio formulas:
Gross profit margin = gross profit (loss) / revenue (statement of comprehensive income by function)
EBIT margin = EBIT / revenue
EBITDA margin = EBITDA / net revenue
Net profit margin = net profit (loss) / revenue
Return on assets (ROA) = net profit (loss) / total assets
Return on capital employed (ROCE) = EBIT / TALCL, that is EBIT / total assets less current liabilities
Return on equity (ROE) = net profit (loss) / equity
Return on non-current assets = net profit (loss) / non-current assets

(all amounts in PLN '000 unless indicated otherwise)

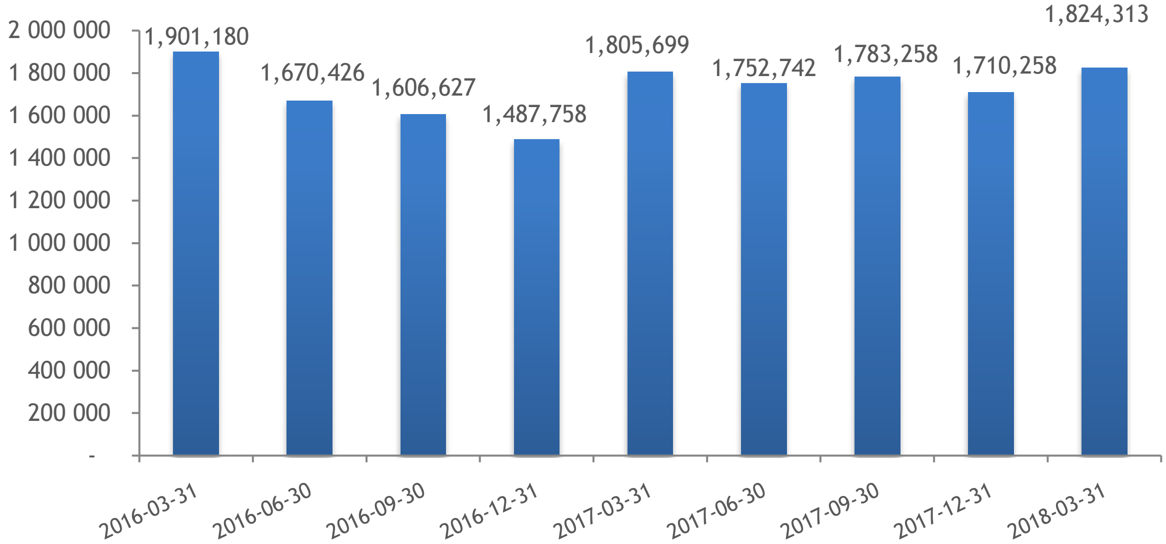
Liquidity ratios

	Q1 2018	Q1 2017
Current ratio	1.9	2.0
Quick ratio	1.4	1.5
Cash ratio	0.5	0.7

Source: Company data.

Ratio formulas:
Current ratio = current assets / current liabilities
Quick ratio = (current assets - inventories - current prepayments and accrued income) / current liabilities
Cash ratio = (cash + other financial assets) / current liabilities

Changes in net working capital



Source: Company data.

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

Operational efficiency ratios

	Q1 2018	Q1 2017
Inventory turnover	51	38
Average collection period	49	42
Average payment period	1	1
Cash conversion cycle	98	78

Source: Company data.

Ratio formulas:
*Inventory turnover = inventories * 90 / cost of sales*
*Average collection period = trade and other receivables * 90 / revenue*
*Average payment period = trade and other payables * 90 / cost of sales*
Cash conversion cycle = inventory turnover + average collection period - average payment period

(all amounts in PLN '000 unless indicated otherwise)

Debt ratios [%]

	Q1 2018	Q1 2017
Total debt ratio	36.2	35.2
Long-term debt ratio	18.9	19.6
Short-term debt ratio	17.2	15.6
Equity-to-debt ratio	176.5	184.1
Interest cover ratio	2,334.3	3,491.5

Source: Company data.

Ratio formulas:
Total debt ratio = total liabilities / total assets
Long-term debt ratio = non-current liabilities / total assets
Short-term debt ratio = current liabilities / total assets
Equity-to-debt ratio = equity / current and non-current liabilities
Interest cover ratio = (profit before tax + interest expense) / interest expense

2.4. Financial liquidity

The Parent and key Group companies are fully solvent, with good credit standing. The Group is able to pay its liabilities as they fall due, holding and generating free operating cash flows to further support payment of such liabilities in a timely manner.
The liquidity management policy operated by the Grupa Azoty Group consists in maintaining surplus cash and available credit facilities as well as limits under the intragroup financing agreement (one purpose of which is to ensure effective distribution of funds) and ensuring that their level is safe and adequate to the scale of the Group's business.

2.5. Borrowings

In Q1 2018, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.
Grupa Azoty has access to umbrella overdraft limits under physical cash pooling and under a multi-purpose credit facility, which may be used by the Parent at times of increased demand for funding from the Group companies. The Grupa Azoty Group also has access to bilateral overdraft limits and multi-purpose facilities available to the Group companies.
The aggregate amount of overdraft limits and multi-purpose credit facilities available to the Group as at March 31st 2018 was PLN 368m. In addition, as at the reporting date, the Group had access to corporate credit facilities of approximately PLN 1,393m.
As at March 31st 2018, the Group in total had access to credit limits under the agreements specified above of approximately PLN 1,761m (December 31st 2017: PLN 1,188m).
The Group's financial standing is sound, and there are no material threats or risks of its deterioration in the future. The Group complies with the uniform covenants of its facility agreements which enable it to significantly increase financial debt when and as needed.

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

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

2.7. Key investment projects

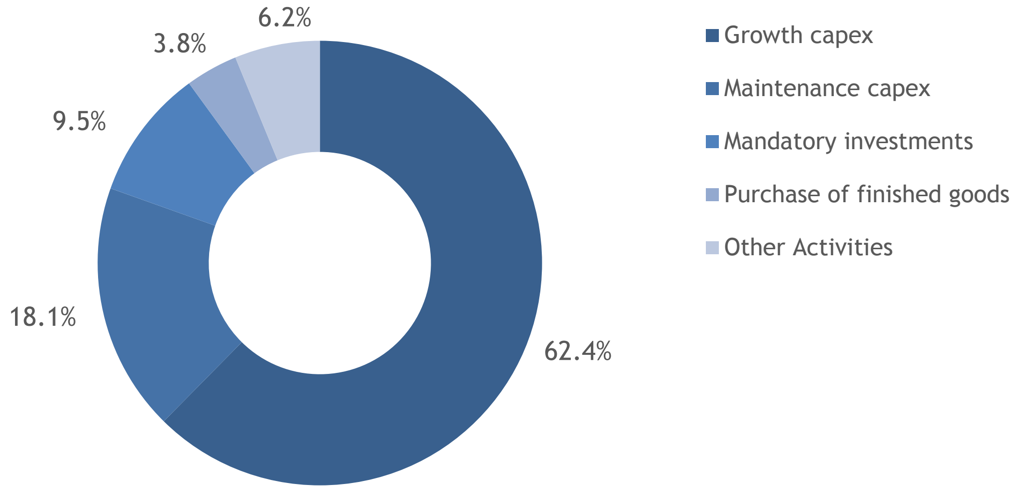
Main items of the Grupa Azoty Group's capital expenditure in Q1 2018 amounted to PLN 122,663 thousand (including amounts spent on components, major overhaul work and improvements).
Structure of the main capital expenditure:

- Growth capex PLN 76,535 thousand
- Maintenance capex PLN 22,153 thousand

(all amounts in PLN '000 unless indicated otherwise)

• Mandatory investments	PLN 11,687 thousand
• Purchase of finished goods	PLN 4,672 thousand
• Other (components, major overhaul work, other)	PLN 7,616 thousand

Structure of the Grupa Azoty Group's main capital expenditure in Q1 2018



Source: Company data.

The Grupa Azoty Group's main capital expenditure in Q1 2018:

• Parent	PLN 20,512 thousand
• Grupa Azoty PUŁAWY Group	PLN 67,698 thousand
• Grupa Azoty POLICE Group	PLN 16,339 thousand
• Grupa Azoty KĘDZIERZYN Group	PLN 10,732 thousand
• Grupa Azoty ATT Polymers GmbH	PLN 3,988 thousand
• Grupa Azoty SIARKOPOL	PLN 2,426 thousand
• Grupa Azoty KOLTAR Sp. z o.o.	PLN 866 thousand
• Grupa Azoty PKCh Sp. z o.o.	PLN 102 thousand

(all amounts in PLN '000 unless indicated otherwise)

Key investment projects implemented by the Grupa Azoty Group

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q1 2018	Project purpose	Scheduled completion date
Parent:					
Chemical Technology and Development Centre	74,100	11,427	5,600	Construction of R&D centre for Grupa Azoty S.A.	2018
Grupa Azoty PDH Polska S.A.:					
Propane Dehydrogenation (PDH) unit with related infrastructure, and polypropylene (PP) production unit	5,276,829	114,582	3,758	To construct a unit for propane dehydrogenation into propylene (PDH); in addition to the PDH unit, a power generating unit will be constructed and a chemicals terminal will be built at the Police port facilities The project will also include a polypropylene (PP) production unit and logistics base.	2023
Grupa Azoty POLICE					
Exhaust gas treatment unit and upgrade of the EC II CHP plant	290,885	245,299	6,005	To bring the operation of the CHP plant's units in line with the requirements of Directive 2010/75/EU	2018
Grupa Azoty PUŁAWY					
Upgrade of the existing and construction of new nitric acid units, and facilities for neutralisation and production of new fertilizers based on nitric acid	695,000	82,641	8,404	To raise the efficiency of nitric acid production and improve of the economics of production of nitric acid-based fertilizers	2021
Facility for production of granulated fertilizers based on ammonium nitrate	385,000	180,951	29,139	To improve the quality of fertilizers by applying modern mechanical granulation	2020
Replacement of the TG-2 turbine generator set	99,000	67,548	7,367	To increase the efficiency of electricity and heat cogeneration by replacing the TG-2 30 MWe pass-out and condensing turbine with a new 37 MWe turbine as part of the power system upgrade	2018

Source: Company data.

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

Exchange rates

As the outlook for Poland's sovereign rating was raised by S&P in view of the positive fundamentals, the medium-term upward trend of the PLN/USD exchange rate and, to a lesser extent, the PLN/EUR exchange rate continued in Q1 2018. Moreover, the Polish złoty is expected to strengthen against both these currencies also in the second quarter of the year.
At the same time, global factors may reverse the euro appreciation trend against the US dollar, which may in turn bring about a weakening of the Polish currency against USD and, to a limited extent, against EUR. The recorded and expected movements in the PLN/USD and PLN/EUR exchange rates are not likely to pose a risk to the Group's ability to meet its foreign currency exposure targets in Q2 2018 considering that the expected corrective depreciation of the Polish złoty against the euro and the US dollar, after its growth in the first quarter, should suppress the scale of the currency's appreciation for the year.

Interest rates in Poland

Domestic interest rates remained stable throughout Q1 2018 and, in line with the Governor of the National Bank of Poland's earlier announcements, should remain unchanged until the end of the year. Thus, the main reference rate applicable to credit facilities contracted by the Grupa Azoty Group (1M WIBOR) should remain flat at about 1.7%. This will help stabilise the Group's borrowing costs at a relatively low level reinforcing its debt service capacity, also if the Group decides to increase debt to finance its investing activities, as planned.

Given that the eurozone has already seen the peak of its economic growth and a rise in inflation is limited, the European Central Bank continues its quantitative easing programme and a policy of negative interest rates, which should remain at current levels until the end of 2018, considering that core inflation remains low following a long period of deflation.

On the other hand, in 2018 the FED will continue to gradually taper its accommodative monetary policy, in connection with the continued economic recovery in the US and concerns regarding increased inflationary pressures.

To conclude, any adverse changes to the current low interest rates on debt in currencies used by the Group to finance its activities (PLN and EUR) are unlikely before the end of 2018. Thus the risk of the Group's financial condition or results of operations deteriorating on higher borrowing costs is considered low.

A limited rise of the WIBOR and/or EURIBOR rates is unlikely before 2019 if inflation escalates and the GDP continues to grow at the current rates.

In terms of market rates, a relatively narrow spread between credit and deposit rates available to the Group is expected to continue.

Interest income earned on free cash under cash pooling and fixed-term deposits will partially offset the borrowing costs.

Market environment and outlook

The macroeconomic environment inspires positive sentiments. The Polish economy owes its current strength to a good situation across global and European markets, as well as private consumption coupled with steadily growing domestic investment. According to BZ WBK analysts, GDP growth in 2018 should remain at 4.3% underpinned by the general economic situation.

Another favourable circumstance is that both the EU and International Monetary Fund have once again made an upward revision to their forecasts for most economies (after a seven-year wave of continual downward revisions).

Analysts expect export growth to remain at a double-digit level driven by strong demand from Europe, but with fast growing imports the balance of foreign trade is not likely to impact GDP growth.

Factors which will affect the Grupa Azoty Group's performance over at least the next reporting period include:

- Supply and demand situation on the markets of natural gas, coal and petroleum products (mainly propylene, benzene and phenol) and possible seasonal and cyclical fluctuations in prices,
- Situation in agriculture and the fertilizers industry, including weather conditions and prices of agricultural produce staying relatively low in the long term, as well as India's imports of urea in 2018, materially supporting global prices of the product,
- Conditions prevailing in the main sectors which purchase the Group's products and on the markets where those sectors sell their products.

Regulatory area

- It is the market's opinion that the proposed tightening of fertilization plans in Germany, as a continuation of the introduction of the Nitrates Directive, may translate into a fall in Germany's consumption of nitrogen fertilizers, especially urea, in favour of smart fertilizers.
- Continued work on a new fertilizers regulation – another stage of the Trilogue (tripartite talks between the European Parliament, Council of the European Union and European Commission).
- Continued implementation of China's pro-environmental policy translating into long-term restrictions on the utilisation of the chemical sector's capacities, including fertilizer and caprolactam capacities, with an effect of improving the supply-demand balance on global markets for the Group's key products.
- Poland's further implementation of a general programme of measures aimed at reducing the outflow of nitrogen in line with the guidelines of the Nitrates Directive.
- Amendment to the Polish Fertilizers and Fertilization Act – the stage of public and interministerial consultations.
- In the short and long terms, Germany will further tighten its fertilization plans as part of the continued implementation of the Nitrates Directive in the current fertilizer season. In the market's opinion, this may translate into a fall in Germany's consumption of nitrogen fertilizers, especially urea, partly offset by higher consumption of smart fertilizers.

Trade policy

- The European Commission's review of the anti-dumping duties on ammonium nitrate imports from Russia.
- Ukraine's introduction of anti-dumping duties on nitrogen fertilizers imported from Russia.
- Continued negotiations with the European Commission regarding the UK's leaving the European Union (Brexit).
- India's policy regarding imports of urea in the current year, which materially supports global urea prices.

3. Other information

3.1. Other significant events

Execution of an agreement with a licence provider

On January 11th 2018, PDH Polska S.A. and WR. Grace & Co, exchanged duly executed counterparts of an agreement on purchase of a polypropylene process technology licence and supply of polypropylene catalysts for the Police Polymers project. The agreement marks another important milestone in the implementation of Grupa Azoty's largest investment project to date.
Police Polymers will be a manufacturing complex developed in the town of Police which is to comprise propylene and polypropylene units, a port with feedstock storage facilities, auxiliary facilities and logistics infrastructure. The company already holds technology licences key to the project: one for the Oleflex -UOP catalytic dehydrogenation technology and one for the Unipol - GRACE polypropylene process technology. In a parallel effort, PDH Polska is in the process of selecting a future general contractor under a lump-sum turn-key contract and of arranging financing for the project.

Execution of an agreement on cooperation in fertilizers trading

On February 12th 2018, the four key companies of the Grupa Azoty Group, Grupa Azoty S.A. of Tarnów, Grupa Azoty Police, Grupa Azoty Puławy and Grupa Azoty Kędzierzyn, signed a "Cooperation Agreement". The companies are to work more closely in fertilizers trading and other areas. Key objectives of the agreement are to deepen the working ties within the Group, allowing the companies to trade as a single business entity. This in turn will help them strengthen their relationships with clients. As a result of the agreement, the Group will follow a uniform trading strategy and policy, consolidating and coordinating its marketing activities under a common brand.
Headquartered in Puławy, the Corporate Agro Trade Department will form part of the organisational structure of each company.

Submission of a non-binding initial offer to acquire shares in COMPO EXPERT Group companies

On February 16th 2018, the Parent submitted a non-binding initial offer to acquire 100% of shares in the COMPO EXPERT Group companies.

The COMPO EXPERT Group, headquartered in Germany, is the largest independent global producer of high added value speciality fertilizers for professional customers. Its owner is XIO Group of London, specialising in alternative investments on a global scale.
The COMPO EXPERT products would complement Grupa Azoty's portfolio, bringing advanced solutions in speciality fertilizers.

Grupa Azoty KĘDZIERZYN focused on the production of non-phthalic plasticizers
Grupa Azoty KĘDZIERZYN is phasing out the production of phthalic plasticizers. Instead, the company has based its long-term policy on the development of non-phthalic plasticizer DEHT/DOTP (Oxoviflex®), of which it is the largest producer in Europe, as well as a range of speciality esters.
In the second half of 2018, Grupa Azoty KĘDZIERZYN will increase the Oxoviflex® capacity and in 2019 a unit producing speciality esters will be launched. The production of DEHP/DOP, medical DOP and DPHP will be discontinued, and these products will only be available while the stocks last.
The future of the OXO segment is in non-phthalic plasticizers and speciality esters. The increase in the Oxoviflex® (DEHT/DOTP) capacity is a consequence of the product policy designed to best meet the expectations of the market and customers, while the focus on speciality esters supports the company's plan to extend the OXO alcohol processing chain.
Plasticizers manufactured for over 60 years are a significant contributor to Grupa Azoty KĘDZIERZYN's financial performance and the company's position among chemical companies in Poland and Europe. There has been a noticeable increase in demand for new non-phthalic plasticizers, whose share in the European market has been growing rapidly. The range of new plasticizers will find a variety of applications, not only in PVC processing, as some of them will also provide innovative solutions for other applications.

3.2. Significant agreements

The agreements are presented in chronological order.
In Q1 2018 and as at the date of this report for Q1 2018, none of the Group companies defaulted on credit facilities or other borrowings or breached any material covenants under significant credit facility or other loan agreements.

Significant agreements

Annex to the long-term thermal coal supply agreement
On February 26th 2018, Grupa Azoty PUŁAWY signed an annex to the long-term agreement for thermal coal supply, executed by Grupa Azoty PUŁAWY and Lubelski Węgiel Bogdanka S.A. on January 8th 2009. The agreement provides for sale of thermal coal to Grupa Azoty PUŁAWY. In the annex:
- The term of the agreement was extended until December 31st 2022 (previously it was to expire on December 31st 2021),
- The volume of thermal coal to be supplied in 2022 was determined,
- The volumes for 2019–2021 were increased.

Following the signing of the annex, the estimated value of the agreement from its execution date to December 31st 2022 (net of possible increases, deviations and tolerance) will total PLN 1,340m (VAT exclusive), including approximately PLN 557m (VAT exclusive) for coal supplies in 2018–2022.
The other terms of the agreement remained unchanged, not differing from standard terms used in contracts of this type.

Material agreements

Agreements and annexes to contracts of a financial nature

Parent's facility agreements with the European Investment Bank
On January 25th 2018, the Parent and the European Investment Bank signed a EUR 145,000,000 term loan agreement for a period of ten years from the disbursement date to finance certain projects under the Group's investment and R&D programmes.
The Parent and EIB also signed an annex to the PLN 550,000,000 loan agreement of May 28th 2015 in order to harmonise the material terms and conditions of the two agreements, which are subject to harmonisation under the Group's other corporate financing agreements.

Annex to the Intragroup Financing Agreement
On January 25th 2018, the Parent concluded annex 1 to the Intragroup Financing Agreement of April 23rd 2015 with Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN and Grupa Azoty PUŁAWY. Pursuant to the annex, the loan facility agreement concluded on January 25th 2018 between the Parent and the European Investment Bank, together with the guarantee agreement of January 25th 2018, is to be governed by the framework for the Key Companies' provision of guarantees for corporate credit facility agreements, Grupa Azoty S.A.'s financing for the Key Companies and mutual settlements on this account between the companies.

Overdraft facility agreement between Agrochem Sp. z o.o. and Pekao S.A.
Having obtained, on January 30th 2018, a PLN 10m limit under physical cash pooling, AGROCHEM Sp. z o.o. of Dobre Miasto decided not to extend for another period its overdraft facility agreement with Pekao S.A. valid until January 31st 2018 and, accordingly, repaid the debt outstanding as at January 31st 2018.

Annex to the Physical Cash Pooling Agreement (PCP) with PKO BP
On February 12th 2018, the Parent, acting together with other Grupa Azoty Group companies, and PKO BP S.A. signed annex 2 to the Physical Cash Pooling Agreement of September 20th 2016, as amended. Under the annex, new Group companies have been covered by the agreement.

Commercial contracts

Execution of bilateral coal supply contracts
On March 1st 2018, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN (hereinafter jointly referred to as the Customers), signed bilateral coal supply contracts with Polska Grupa Górnicza S.A. (hereinafter referred to as the Seller).
The subject matter of the contracts is the sale of thermal coal produced at the Seller's mines and intended for consumption at the Customers in quantities specified in the respective contracts, based on uniform business terms for the Customers. The total estimated value of all the contracts is approximately PLN 212.5m (VAT exclusive) per annum.
The contracts were concluded for an indefinite term with effect as of January 1st 2018, and provide for annual delivery periods.
The contracts are considered material to the Parent given that Polska Grupa Górnicza S.A. is a strategic supplier of thermal coal to Grupa Azoty, and the contracts will satisfy a material portion of demand for such coal; in particular, they will cover total demand from Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN, as well as up to 70% of demand from Grupa Azoty S.A. They will also supplement Grupa Azoty PUŁAWY's demand not covered by other contracts up to about 15%.

Insurance agreements

Consolidated Group Insurance Programme with TUW PZUW
In February 2018, Towarzystwo Ubezpieczeń Wzajemnych PZUW issued policies for the period from March 1st 2018 to February 28th 2019, providing for the following types of insurance:
- all-risk property damage insurance (AR/PD),
- business interruption insurance with respect to AR/PD (BI),
- machinery breakdown insurance (MB),
- all-risk electronic equipment insurance (EEI).

The policies were issued under the Master Agreement for the Consolidated Property Insurance Programme, concluded for the period from March 1st 2017 to February 28th 2019 by the six Grupa Azoty Group companies comprising the Mutual Insurance Union (Grupa Azoty Group Mutual Insurance Union), i.e. Grupa Azoty S.A., Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE, Grupa Azoty PUŁAWY, GZNF FOSFORY Sp. z o.o. and Grupa Azoty Siarkopol.

Trade credit insurance at Grupa Azoty PUŁAWY
On February 15th 2018, trade credit insurance policies were signed with Towarzystwo Ubezpieczeń Euler Hermes S.A. for the period from February 1st 2018 to January 31st 2019. The policies cover:

- receivables from domestic and export sales of caprolactam, melamine and other products due from customers buying caprolactam, melamine, PUC-C and alcohol foreshots, up to the amount of credit limits granted by TUEH (excluding transactions secured by bank guarantees and letters of credit). Expected turnover covered by the insurance is PLN 848m;
- Grupa Azoty PUŁAWY's receivables from exports of fertilizers (ammonium nitrate PULAN, UAN, UAN+S, ammonium sulfate Pulsar, Pulaska, Pulrea, ammonium sulfate IOS, Pulgran and Pulgran S); sales of LIKAM and PULNOx to CHP plants, power plants, cement plants, waste incineration plants, and wastewater treatment plants; NOXy sales and domestic sales of technical grade urea, sales of ammonia, hydrogen peroxide, carbon dioxide, hydrogen, nitric acid and Coolant/dry ice up to the amount of credit limits granted by TUEH (excluding transactions secured by bank guarantees and letters of credit). Expected turnover covered by the insurance is PLN 618m.

The aggregate maximum compensation under these policies in a given insurance year (maximum sum insured) calculated on a minimum premium basis is PLN 35.2m.

Agreements between the Grupa Azoty Group companies

Execution of framework agreement for ammonia supply
On February 6th 2018, the Parent signed a framework contract with Grupa Azoty POLICE for the supply of liquid ammonia.
Its conclusion is part of the companies' production programmes for fertilizer lines and secures the supply of ammonia for the fertilizer production processes at Grupa Azoty S.A.
The contract was executed for an indefinite period starting on January 1st 2018 and defines a specific schedule and other commercial terms of the deliveries. The annual value of the contract is estimated at approximately PLN 113m (VAT exclusive).
The terms and conditions of the contract do not provide for additional contractual penalties. The other terms and conditions do not differ from standard terms used in agreements of this type.

Events after the reporting period

Execution of contract for purchase of phosphate rock
On April 9th 2018, Grupa Azoty POLICE entered into a contract for the purchase of Moroccan phosphate rock with Office Chérifien des Phosphates ("OCP") of Casablanca, Morocco (the seller) ("Contract").
The Contract was executed for a definite period from January 1st 2018 to December 31st 2020 and defines a specific schedule and other commercial terms of the deliveries. The value of the deliveries to be made under the Contract is estimated at approximately PLN 350m.
The other terms and conditions do not differ from standard terms used in contracts of this type.
Information on execution of the Contract was classified as inside information by Grupa Azoty POLICE, because it refers to securing supplies of phosphate rock, the key raw material for production of compound fertilizers, in quantities sufficient to satisfy demand for that material for the next three years. OCP, being the world's largest exporter of phosphorites, guarantees timely delivery of phosphate rock of high and consistent quality.

3.3. Sureties for credit facilities or loans, guarantees issued

In Q1 2018, the Grupa Azoty Group did not issue any guarantees with a significant aggregate value.
In Q1 2018, the Grupa Azoty Group did not sign any annexes to its guarantees with a significant aggregate value.
No sureties were issued by the Group in Q1 2018.

Guarantees

Guarantees for credit facilities
Following the execution, on March 12th 2018, of a EUR 145,000 thousand long-term loan agreement between the Parent and the European Investment Bank, on January 25th 2018 the Grupa Azoty Group's key subsidiaries, including Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN, entered into an agreement with EIB for the provision of a guarantee securing repayment of debt under the loan agreement.
Under the guarantee agreement, the key subsidiaries, acting as guarantors, provided guarantees covering the Parent's liabilities under the loan agreement, with each guarantee covering up to one-third (1/3) of 120% of the amount provided under loan agreement with EIB, i.e. up to EUR 58,000,000.

Guarantees issued or annexed upon instructions of the Group companies
In 2017, the Grupa Azoty Group did not issue or amend any guarantees with a significant aggregate value.

Letters of credit
On February 6th 2018, an amount of EUR 1.87m was paid under the EUR 2.04m letter of credit issued by PKO BP S.A. at the request of Grupa Azoty PUŁAWY for the benefit of a condensation and purification unit vendor. As at March 31st 2018, the outstanding credit balance under the letter of credit was EUR 170 thousand. The letter of credit was issued under a multi-purpose credit facility agreement concluded with PKO BP S.A.
On February 27th 2018, an amount of EUR 19,688 was paid under the letter of credit issued by PKO BP SA at the request of Grupa Azoty PUŁAWY for the benefit of a vendor of an oil separator coalescing filter cartridge for the urea unit. As at March 31st 2018, the outstanding credit balance under the letter of credit was EUR 0.00. The letter of credit was issued under the multi-purpose credit facility agreement concluded with PKO BP S.A.
After the reporting period, on April 4th 2018, an amount of EUR 482 thousand was paid under the letter of credit issued for that amount by PKO BP SA at the request of Grupa Azoty PUŁAWY for the benefit of a supplier of a dolomite powder pneumatic conveying system. Following the payment, the outstanding credit balance under the letter of credit is EUR 0.00. The letter of credit was issued under the multi-purpose credit facility agreement concluded with PKO BP S.A.

Intragroup loans

Loan agreement between Grupa Azoty KĘDZIERZYN and CTL Chemkol Sp. z o.o.
On January 17th 2018, Grupa Azoty KĘDZIERZYN concluded a loan agreement with CTL Chemkol Sp. z o.o. Under the agreement, on January 22nd 2018, Grupa Azoty KĘDZIERZYN granted a PLN 2,000,000 loan to the subsidiary.

Intragroup financing agreement
On January 31st 2018, pursuant to the intragroup financing agreement of April 23rd 2015, the Parent disbursed to Grupa Azoty KĘDZIERZYN a loan to finance the 'Upgrade of the Biological Wastewater Treatment Plant at the Wastewater Treatment and Sewage System Division of the Infrastructure Unit' project in an amount of PLN 4,447 thousand.

3.4. Shares and shareholding structure

Number and par value of shares as at the date of issue of this report:
- 24,000,000 Series AA shares with a par value of PLN 5 per share,
- 15,116,421 Series B shares with a par value of PLN 5 per share,
- 24,999,023 Series C shares with a par value of PLN 5 per share,
- 35,080,040 Series D shares with a par value of PLN 5 per share.

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

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

(all amounts in PLN '000 unless indicated otherwise)

Shareholding structure as at April 19th 2018 (issue date of the most recent financial report)

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,321,700 shares or 19.47%)	71,348	0.07	71,348	0.07
Rainbee Holdings Limited*)	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited)	9,430,000	9.50	9,430,000	9.50
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
European Bank for Reconstruction and Development	2,850,000	2.87	2,850,000	2.87
Other	25,875,763	26.10	25,875,763	26.10
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

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

In the period from April 19th 2018 to the issue date of this report, the Parent was not officially notified of any changes in major holdings of its shares.
The actual shareholding structure may differ from that presented if there were no events giving rise to a shareholder's obligation to disclose a new shareholding or if, despite the occurrence of such events, a shareholder failed to provide relevant information.

3.5. Parent shares held by management and supervisory personnel

As at the end of the reporting period (March 31st 2018) and as at the date of this report, none of the members of the Parent's Management and Supervisory Boards held any shares in the Parent.

3.6. Composition of the management and supervisory bodies

Parent's Management Board
Composition of the Management Board as at January 1st 2018:
- Wojciech Wardacki – President of the Management Board,
- Witold Szczypiński – Vice President of the Management Board,
- Tomasz Hinc – Vice President of the Management Board,
- Paweł Łapiński – Vice President of the Management Board,
- Grzegorz Kądzielawski – Vice President of the Management Board,
- Józef Rojek – Vice President of the Management Board,
- Artur Kopeć – Member of the Management Board.

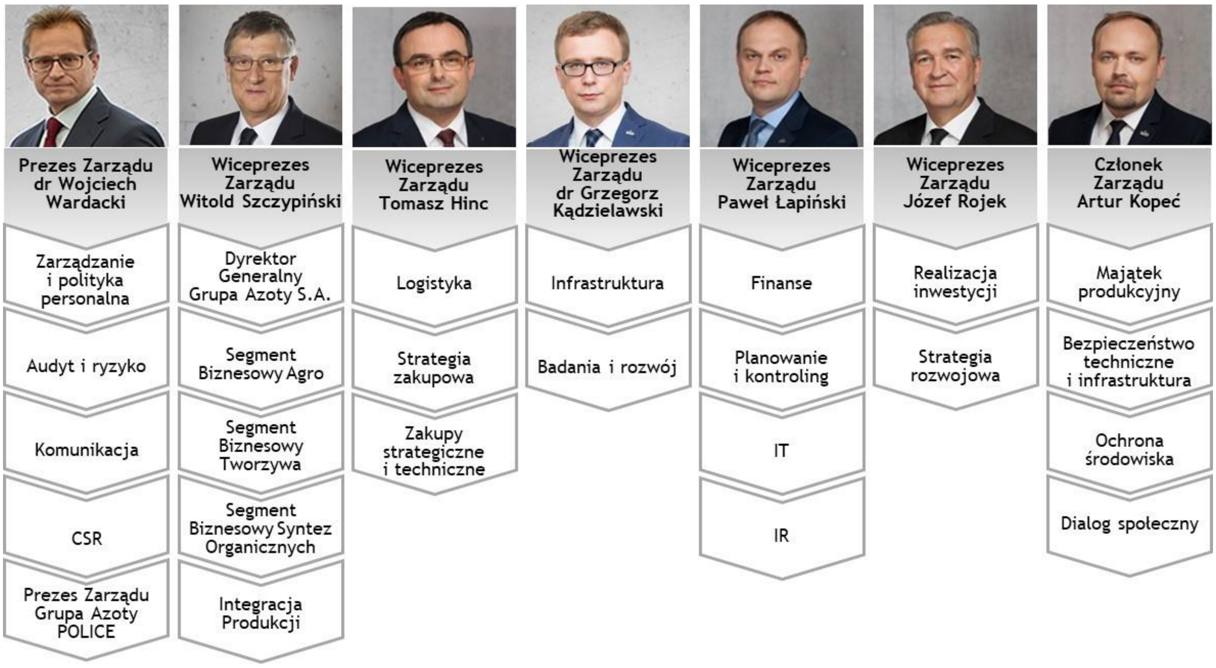
Tomasz Hinc, Vice President of the Management Board, resigned from the Company's Management Board, submitting a resignation letter to the Supervisory Board on March 4th 2018.

Therefore, as at the date of this report, the Company's Management Board was composed of:
- Wojciech Wardacki – President of the Management Board,
- Witold Szczypiński – Vice President of the Management Board,
- Paweł Łapiński – Vice President of the Management Board,
- Grzegorz Kądzielawski – Vice President of the Management Board,
- Józef Rojek – Vice President of the Management Board,
- Artur Kopeć – Member of the Management Board.

Powers and responsibilities of the Parent's Management Board and Supervisory Board members
On June 22nd 2017, the Company's Management Board passed a resolution establishing the following division of responsibilities between the Management Board members:

- Wojciech Wardacki − President of the Management Board, responsible for overall supervision and management of the Group, as well as for the strategy and corporate governance, including exercise of majority shareholder power, human resources management, communication and corporate image (which also covers public relations and CSR),
- Witold Szczypiński – Vice President of the Management Board, Director General of the Parent, responsible for integration of production processes, the Agro Segment, and the Plastics Segment,
- Tomasz Hinc – Vice President of the Management Board, responsible for procurement and logistics,
- Grzegorz Kądzielawski – Vice President the Management Board, responsible for infrastructure and R&D programmes,
- Paweł Łapiński – Vice President of the Management Board, responsible for finance, controlling, IT and investor relations,
- Józef Rojek – Vice President of the Management Board, responsible for investment projects,
- Artur Kopeć – Member of the Management Board, responsible for production assets, plant safety, environmental protection, and social dialogue.

Division of responsibilities between the Management Board members as at December 31st 2017



Wojciech Wardacki – President of the Management Board	Prezes Zarządu dr. Wojciech Wardacki
Management and HR policy	Zarządzanie i polityka personalna
Audit and risk	Audyt i ryzyko
Communication	Komunikacja
CSR	CSR
President of the Management Board of Grupa Azoty Police	Prezes Zarządu Grupa Azoty Police
Witold Szczypiński – Vice President of the Management Board	Wiceprezes Zarządu Witold Szczypiński
Director General of Grupa Azoty S.A.	Dyrektor Generalny Grupy Azoty S.A
Plastics Segment	Segment Biznesowy Tworzywa
Organic Synthesis Segment	Segment Biznesowy Syntez Organicznych
Production integration	Integracja Produkcji
Witold Hinc – Vice President of the Management Board	Wiceprezes Zarządu Witold Hinc
Logistics	Logistyka
Procurement strategy	Strategia Zakupowa
Strategic and technical procurement	Zakupy Strategiczne i techniczne
Grzegorz Kądzielawski – Vice President of the Management Board	Wiceprezes Zarządy dr Grzegorz Kądzielawski

Infrastructure	Infrastruktura
Research and development	Badania i rozwój
Paweł Łapiński – Vice President of the Management Board	Wiceprezes Zarządu Paweł Łapiński
Finance	Finanse
Planning and controlling	Planowanie i kontroling
IT	IT
IR	IR
Józef Rojek – Vice President of the Management Board	Wiceprezes Zarządu Józef Rojek
Project implementation	Realizacja inwestycji
Development strategy	Strategia Rozwojowa
Artur Kopeć - Member of the Management Board	Członek Zarządu Artur Kopeć
Production assets	Majątek Produkcyjny
Plant safety and infrastructure	Bezpieczeństwo techniczne i infrastruktura
Environment protection	Ochrona środowiska
Social dialogue	Dialog społeczny

Source: Company data.

On March 7th 2018, following Tomasz Hinc's resignation from his position on the Parent's Management Board, the Management Board passed a resolution establishing a new division of responsibilities between the Management Board members. The chart below shows the updated division of responsibilities as at March 7th 2018.

Division of responsibilities between the Management Board members as at March 7th 2018

President of the Management Board Wojciech Wardacki, PhD	Prezes Zarządu dr Wojciech Wardacki
Management and HR policy	Zarządzanie i polityka personalna
Audit and risk	Audyt i ryzyko
Communication	Komunikacja
CSR	CSR
President of the Management Board Grupa Azoty POLICE	Prezes Zarządu Grupa Azoty POLICE
Vice President of the Management Board Witold Szczypiński	Wiceprezes Zarządu Witold Szczypiński
Director General Grupa Azoty S.	Dyrektor Generalny Grupa Azoty S.A.
Agro Segment	Segment Biznesowy Agro
Plastics Segment	Segment Biznesowy Tworzywa
Organic Synthesis Segment	Segment Biznesowy Syntez Organicznych
Production integration	Integracja Produkcji
Vice President of the Management Board Grzegorz Kądzielawski, PhD	Wiceprezes Zarządu dr Grzegorz Kędzielawski
Infrastructure	Infrastruktura
Research and development	Badania i rozwój
Vice President of the Management Board Paweł Łapiński	Wiceprezes Zarządu Paweł Łapiński

Finance	Finanse
IT	IT
IR	IR
Tendering and procurement	Zakupy strategiczne i techniczne
Mergers and acquisitions	Fuzje i przejęcia
Vice President of the Management Board Józef Rojek	Wiceprezes Zarządu Józef Rojek
Project implementation	Realizacja inwestycji
Development strategy	Strategia rozwojowa
Logistics	Logistyka
Energy procurement	Zakupy surowców energetycznych
Member of the Management Board Artur Kopeć	Członek Zarządu Artur Kopeć
Production assets	Majątek produkcyjny
Plant safety and infrastructure	Bezpieczeństwo techniczne i infrastuktura
Environment protection	Ochrona środowiska
Social dialogue	Dialog społeczny

Source: Company data.

The Supervisory Board
As a result of these changes, from December 7th 2017 to the date of this report, the composition of the Supervisory Board was as follows:
- Tomasz Karusewicz – Chairman,
- Michał Gabryel – Deputy Chairman,
- Zbigniew Paprocki – Secretary,
- Piotr Czajkowski – Member,
- Monika Fill – Member,
- Robert Kapka – Member,
- Bartłomiej Litwińczuk – Member,
- Ireneusz Purgacz – Member,
- Roman Romaniszyn – Member.

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

Supervisory Board's Audit Committee

To streamline its work and improve control of the Parent and the Group, on July 4th 2013 the Supervisory Board passed a resolution to appoint an Audit Committee.
Composition of the Audit Committee as at January 1st 2018:
- Ireneusz Purgacz – Chair,
- Piotr Czajkowski,
- Michał Gabryel,
- Tomasz Karusewicz.

In Q1 2018, there were no changes in the composition of the Audit Committee.

After the reporting date, Mr Piotr Czajkowski resigned, effective April 19th 2018, from his position as member of the Audit Committee. Consequently, the composition of the Audit Committee as at the date of this report was as follows:
- Ireneusz Purgacz – Chair,
- Michał Gabryel,
- Tomasz Karusewicz.

Responsibilities of the Audit Committee
The Audit Committee operates pursuant to the Rules of Procedure for the Audit Committee, adopted by the Supervisory Board by way of a resolution of July 4th 2013. The main tasks of the Committee include:
- Monitoring of the financial reporting process,
- Monitoring of the effectiveness of the Company's internal control, internal audit and risk management systems,
- Monitoring of financial audit,
- Monitoring of the independence of the auditor and the entity qualified to audit financial statements,
- Monitoring of the audit of full-year separate and consolidated financial statements,
- Monitoring of the work and reports of the independent auditor,
- Analysing selected economic events relevant to the Company's operations.
- Monitoring of the work and reports of the independent auditor.

Other Supervisory Board's committees
On February 1st 2018, the Supervisory Board resolved to establish a Strategy and Development Committee composed of:
- Robert Kapka – Chair,
- Tomasz Karusewicz – Member,
- Zbigniew Paprocki – Member;

and a Nomination and Remuneration Committee composed of:
- Bartłomiej Litwińczuk – Chair,
- Monika Fill – Member,
- Roman Romaniszyn – Member.

4. Supplementary information

Management Board's position on the achievement of forecasts
As no forecasts for 2018 were published, the position of the Parent's Management Board concerning achievement of such forecasts is not presented.

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

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

Shares, share issues

In Q1 2018, the Parent did not issue, redeem or repay any debt or equity securities. The Company had spent the proceeds from Public Offerings by the end of 2013. The proceeds were used in line with the original issue objectives.

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

The Company does not operate any control system for employee share ownership plan.

The consolidated interim report of the Grupa Azoty Group for Q1 2018 contains 90 pages.

Signatures of members of the Management Board

……………………………
Wojciech Wardacki, PhD
President of the Management Board

……………………………
Witold Szczypiński
Vice President of the Management Board
Director General

……………………………
Paweł Łapiński
Vice President of the Management Board

……………………………
Grzegorz Kądzielawski, PhD
Vice President of the Management Board

……………………………
Józef Rojek
Vice President of the Management Board

……………………………
Artur Kopeć
Member of the Management Board

Tarnów, May 9th 2018