Consolidated interim report of the Grupa Azoty Group for Q1 2019

Contents

Interim condensed consolidated financial statements for the three months ended March 31st 2019

(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 2019	for the period Jan 1– Mar 31 2018
Profit/loss		
Revenue	3,364,884	2,497,102
Cost of sales	(2,516,577)	(1,922,628)
Gross profit	**848,307**	**574,474**
Selling and distribution expenses	(235,755)	(148,510)
Administrative expenses	(202,814)	(184,935)
Other income	28,216	11,389
Other expenses	(29,867)	(13,988)
Operating profit	**408,087**	**238,430**
Finance income	5,848	6,113
Finance costs	(17,774)	(11,918)
Net finance income/(costs)	**(11,926)**	**(5,805)**
Share of profit of equity-accounted investees	2,894	3,895
Profit before tax	**399,055**	**236,520**
Income tax	(76,183)	(48,542)
Net profit	**322,872**	**187,978**
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Cash flow hedging – effective portion of change in fair value	(219)	(4,780)
Translation reserve	836	135
Tax on items that are or may be reclassified to profit or loss	42	908
Total other comprehensive income	**659**	**(3,737)**
Comprehensive income for the year	**323,531**	**184,241**
Net profit attributable to:		
Owners of the Parent	294,776	171,931
Non-controlling interests	28,096	16,047
Comprehensive income for the year attributable to:		
Owners of the Parent	295,433	168,577
Non-controlling interests	28,098	15,664
Earnings per share:		
Basic (PLN)	2.97	1.73
Diluted (PLN)	2.97	1.73

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 2019	as at Dec 31 2018
Assets		
Non-current assets		
Property, plant and equipment	7,808,801	7,665,639
Perpetual usufruct of land	680,878	470,178
Investment property	39,901	43,799
Intangible assets	741,857	763,064
Goodwill	581,224	581,436
Shares	9,113	9,113
Equity-accounted investees	79,455	89,496
Other financial assets	2,485	2,377
Other receivables	203,153	185,397
Deferred tax assets	96,453	75,579
Other assets	367	363
Total non-current assets	**10,243,687**	**9,886,441**
Current assets		
Inventories	1,427,132	1,503,897
Property rights	717,802	261,767
Derivative financial instruments	3,225	2,017
Other financial assets	67,006	15,061
Current tax assets	52,625	67,217
Trade and other receivables	1,840,165	1,553,909
Cash and cash equivalents	604,734	846,532
Other assets	14,493	14,578
Assets held for sale	21,392	9,050
Total current assets	**4,748,574**	**4,274,028**
Total assets	**14,992,261**	**14,160,469**

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(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of financial position (continued)

	as at Mar 31 2019	as at Dec 31 2018
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	1,684	1,861
Translation reserve	4,000	3,166
Retained earnings, including:	4,071,711	3,783,764
Net profit for the year	*294,776*	*9,759*
Equity attributable to owners of the Parent	**6,991,642**	**6,703,038**
Non-controlling interests	**659,288**	**625,188**
Total equity	**7,650,930**	**7,328,226**
Liabilities		
Borrowings	2,477,617	2,488,353
Lease liabilities	385,955	16,806
Other financial liabilities	21,912	21,930
Employee benefit obligations	394,366	394,677
Trade and other payables	8,193	12,446
Provisions	143,511	143,772
Government grants received	147,032	136,002
Deferred tax liabilities	365,053	342,790
Total non-current liabilities	**3,943,639**	**3,556,776**
Borrowings	412,083	362,620
Derivative financial instruments	352	188
Lease liabilities	48,960	8,866
Other financial liabilities	52,308	189,272
Employee benefit obligations	39,347	45,630
Current tax liabilities	21,138	18,178
Trade and other payables	2,514,546	2,598,289
Provisions	34,828	44,425
Government grants received	274,130	7,999
Total current liabilities	**3,397,692**	**3,275,467**
Total liabilities	**7,341,331**	**6,832,243**
Total equity and liabilities	**14,992,261**	**14,160,469**

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 2019

	Share capital	Share premium	Hedging reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2019	**495,977**	**2,418,270**	**1,861**	**3,166**	**3,783,764**	**6,703,038**	**625,188**	**7,328,226**
Profit or loss and other comprehensive income								
Net profit	-	-	-	-	294,776	294,776	28,096	322,872
Other comprehensive income	-	-	(177)	834	-	657	2	659
Comprehensive income for the year	**-**	**-**	**(177)**	**834**	**294,776**	**295,433**	**28,098**	**323,531**
Changes in ownership interests in subsidiaries								
Changes in the Group	-	-	-	-	(7,320)	(7,320)	7,547	227
Total transactions with owners	**-**	**-**	**-**		**(7,320)**	**(7,320)**	**7,547**	**227**
Other	-	-	-	-	491	491	(1,545)	(1,054)
Balance as at March 31st 2019 (unaudited)	**495,977**	**2,418,270**	**1,684**	**4,000**	**4,071,711**	**6,991,642**	**659,288**	**7,650,930**

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 January 1st 2018	**495,977**	**2,418,270**	**15,407**	**(233)**	**3,918,613**	**6,848,034**	**587,248**	**7,435,282**
Profit or loss and other comprehensive income								
Net profit	-	-	-	-	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**
Changes in ownership interests in subsidiaries								
Changes in the Group	-	-	-	-	(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**	**4,086,833**	**7,012,900**	**603,642**	**7,616,542**

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 2019	for the period Jan 1– Mar 31 2018
Cash flows from operating activities		
Profit before tax	**399,055**	**236,520**
Adjustments for:	*212,785*	*174,348*
Depreciation and amortisation	200,307	164,813
Impairment losses	392	21
(Profit)/loss from investing activities	(211)	171
Gain on disposal of financial assets	(478)	(101)
Share of profit of equity-accounted investees	(2,894)	(3,895)
Interest, foreign exchange gains or losses	16,774	12,043
Net change in fair value of financial assets at fair value through profit or loss	(1,105)	1,296
	611,840	***410,868***
Increase in trade and other receivables	(322,401)	(234,543)
Increase in inventories	(378,835)	(255,632)
Decrease in trade and other payables	(39,493)	(105,949)
Increase in provisions, accruals and government grants	366,782	133,514
Other adjustments	(13,936)	9,219
Cash generated from operating activities	***223,957***	***(42,523)***
Income tax paid	(42,910)	(13,705)
Net cash from operating activities	**181,047**	**(56,228)**

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(all amounts in PLN '000 unless indicated otherwise)

Interim condensed consolidated statement of cash flows (continued)

	for the period Jan 1– Mar 31 2019	for the period Jan 1– Mar 31 2018
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	4,042	(1,378)
Acquisition of property, plant and equipment, intangible assets and investment property	(245,189)	(192,117)
Acquisition of other financial assets	(59,000)	(74,073)
Proceeds from sale of other financial assets	3,000	243,350
Interest received	5,318	5,334
Government grants received	40	177
Loans advanced	-	(650)
Repayments of loans advanced	27	1,028
Other proceeds	-	209
Other disbursements	(414)	(1,041)
Net cash from investing activities	**(292,176)**	**(19,161)**
Cash flows from financing activities		
Proceeds from borrowings	258,987	109,041
Repayment of borrowings	(226,782)	(85,162)
Interest paid	(21,309)	(11,510)
Payment of finance lease liabilities	(11,429)	(2,581)
Other cash provided by financing activities	2,210	41,927
Other cash used in financing activities	(133,778)	(16,373)
Net cash from financing activities	**(132,101)**	**35,342**
Total net cash flows	**(243,230)**	**(40,047)**
Cash and cash equivalents at beginning of period	**846,532**	**1,085,885**
Effect of exchange rate fluctuations on cash held	1,432	(8,215)
Cash and cash equivalents at end of period	**604,734**	**1,037,623**

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 2019, the Grupa Azoty Group (the "Group") comprised: Grupa Azoty S.A. (the Parent), direct subsidiaries:

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

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

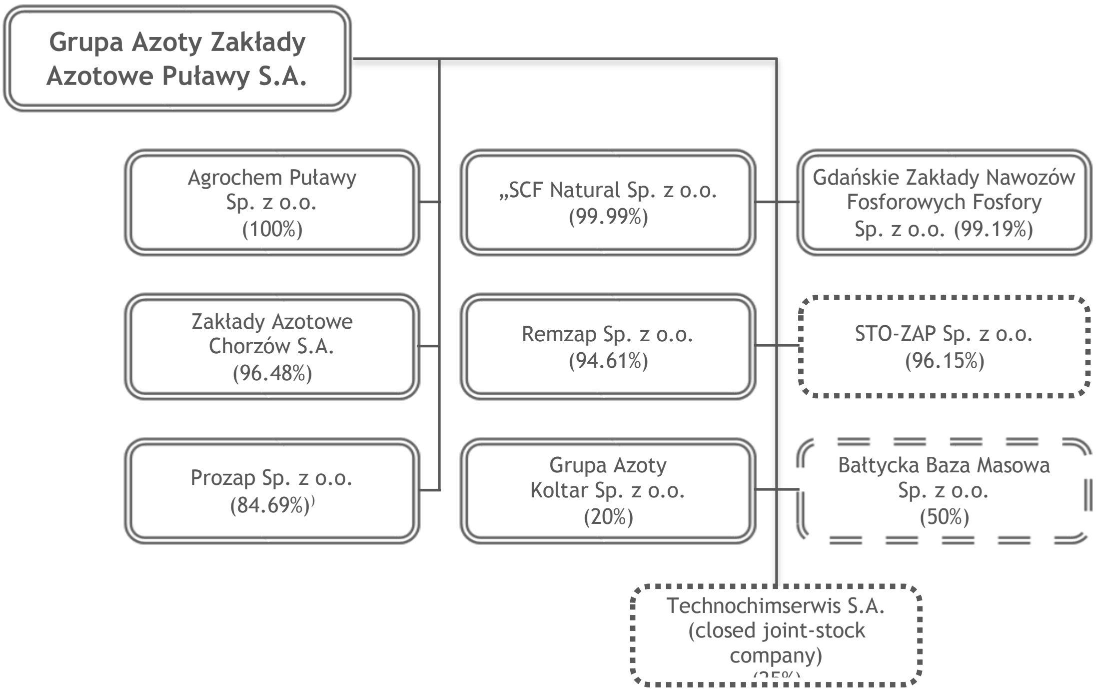
The Parent was entered in the Register of Businesses in the National Court Register (entry No. KRS 0000075450) on December 28th 2001, pursuant to a ruling of the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register, dated December 28th 2001. The Parent's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

The Group's business includes in particular:

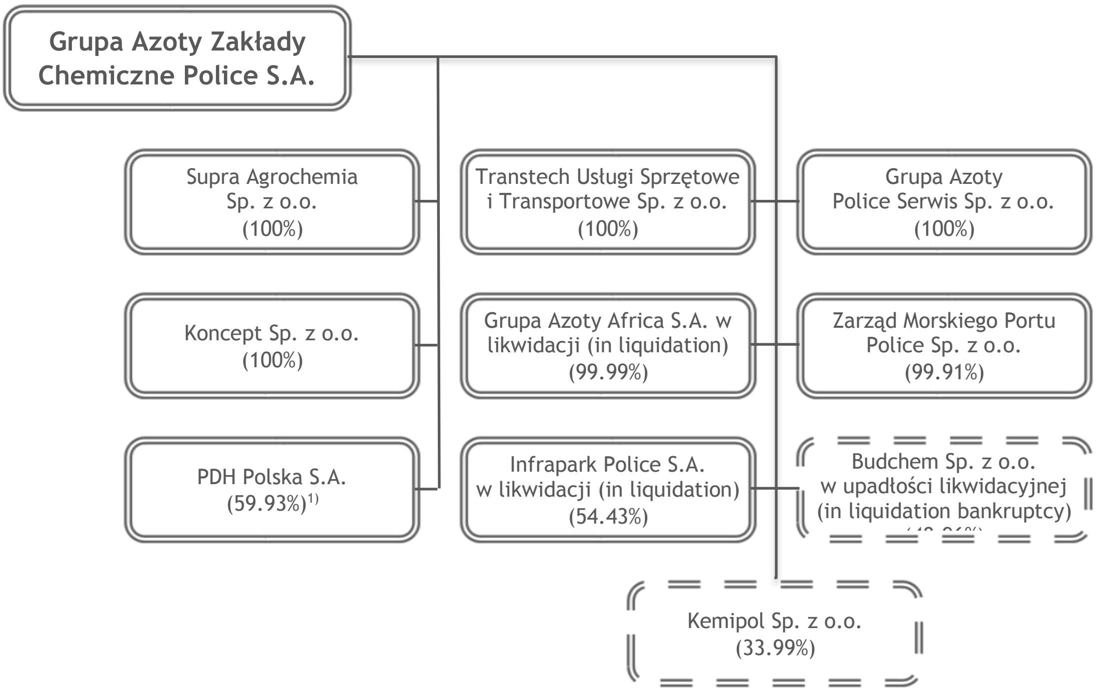
- processing of nitrogen products,
- manufacture and sale of fertilizers,
- manufacture and sale of plastics,
- manufacture and sale of OXO alcohols,
- manufacture and sale of titanium white,
- manufacture and sale of melamine,
- production of sulfur and processing of sulfur-based products.

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

Structure of Grupa Azoty PUŁAWY as at March 31st 2019:



Structure of Grupa Azoty POLICE as at March 31st 2019:



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

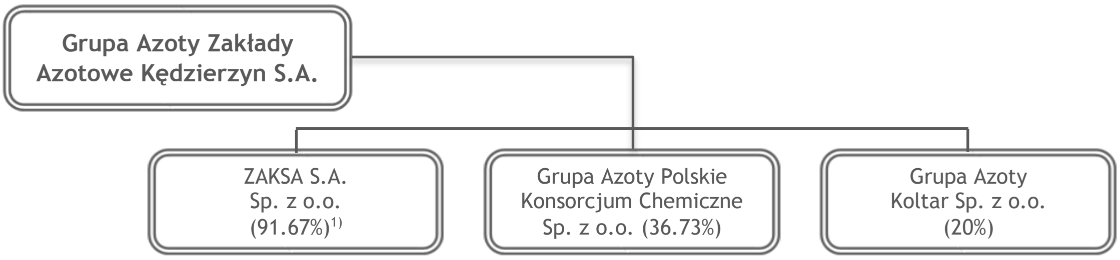
Legend:

Fully-consolidated entities

Equity-accounted entities

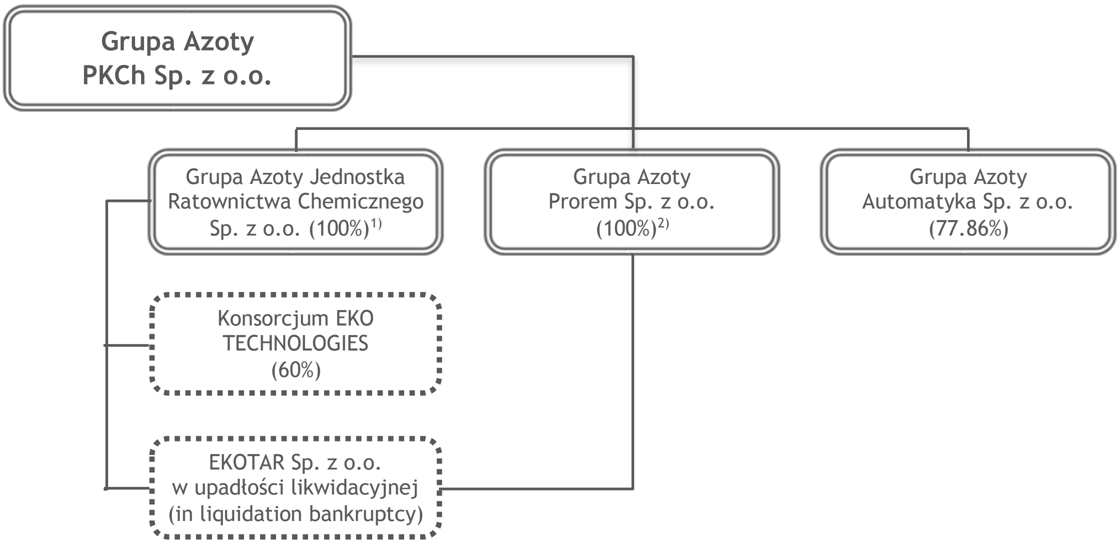
Non-consolidated entities

Structure of Grupa Azoty KĘDZIERZYN as at March 31st 2019:



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

Structure of the Grupa Azoty Polskie Konsorcjum Chemiczne Group as at March 31st 2019:



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

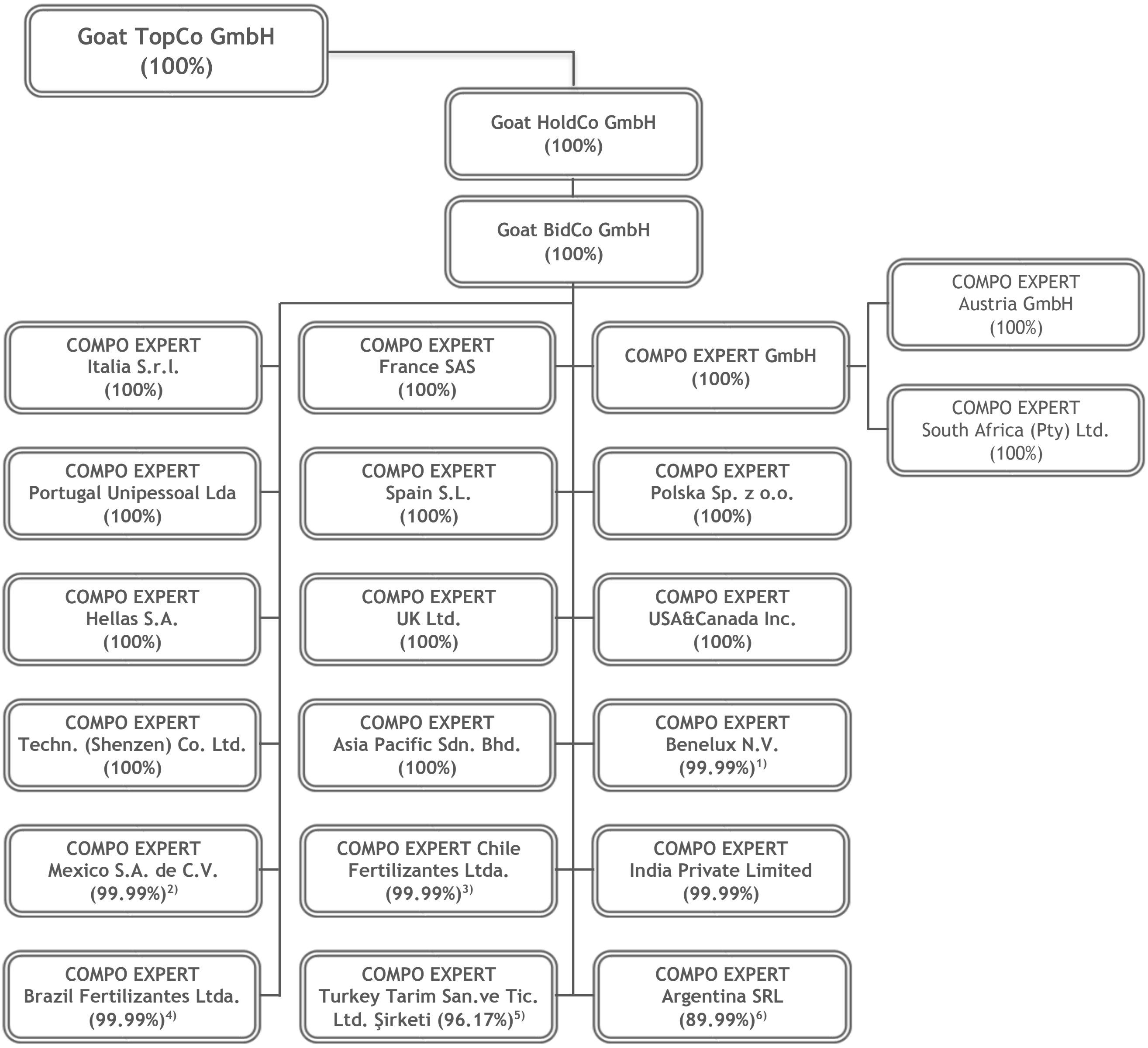
Legend:

Fully-consolidated entities

Equity-accounted entities

Non-consolidated entities

Structure of the Goat TopCo Group as at March 31st 2019:



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

Legend:

Fully-consolidated entities

Equity-accounted entities

Non-consolidated entities

1.2. Changes in the Group's structure

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

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

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

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

Increase of Grupa Azoty POLICE's share capital
On March 4th 2019, the Management Board of Grupa Azoty POLICE resolved to increase the company's share capital through an issue of new shares with pre-emptive rights and to amend the Articles of Association.
On April 26th 2019, the Extraordinary General Meeting of Grupa Azoty POLICE passed a resolution to increase the company's share capital.
The share capital increase will be effected through a secondary public offering ("SPO") for an amount not higher than PLN 1,100,000, addressed to existing shareholders (pre-emptive rights). The share capital increase should be effected by the end of July 2019.
Proceeds from the share issue will be used to support the implementation of the Grupa Azoty Group's strategy for the coming years, in particular to diversify revenue streams and increase profitability, and to step up the efforts to expand the non-fertilizer business lines. The key task undertaken in the pursuit of these strategic goals is the Polimery Police project ("Polimery Police Project") implemented by PDH Polska S.A.

Acquisition of shares in PDH Polska S.A.
On March 27th 2019, the Parent's Management Board passed a resolution to acquire 9,782,808 new shares in PDH Polska S.A. at the issue price of PLN 10.00, i.e. for a total amount of PLN 97,828,080.00.
On March 28th 2019, the Management Board of Grupa Azoty POLICE passed a resolution to acquire 6,551,092 new shares in PDH Polska S.A. at the issue price of PLN 10.00, i.e. for a total amount of PLN 65,510 thousand.
On April 8th 2019, the Supervisory Board of Grupa Azoty POLICE passed a resolution to approve the acquisition by Grupa Azoty POLICE of 6,551,092 shares in PDH Polska S.A.
On April 25th 2019, the Parent's Supervisory Board passed a resolution to approve the acquisition of 9,782,808 shares in PDH Polska S.A. by the Parent.
On April 26th 2019, the General Meeting of PDH Polska S.A. passed a resolution to increase the company's share capital by PLN 163,339 thousand through an issue of 16,333,900 new shares with a par value of PLN 10 per share.
The new shares will be acquired in a private placement, with the pre-emptive rights of the existing shareholders waived in full, by:

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

Planned increase of Grupa Azoty SIARKOPOL's share capital
On April 15th 2019, the Extraordinary General Meeting of Grupa Azoty SIARKOPOL passed a resolution to increase the company's share capital and amend the Articles of Association to reflect the increase. The company's share capital will be increased by an amount not lower than PLN 1,791,530 and not higher than PLN 1,802,810, to an amount not lower than PLN 60,620,090 and not higher than PLN 60,631,370, through the issue of not fewer than 179,153 and not more than 180,281 new Series C registered shares with a par value of PLN 10 per share. The shares will be taken up in exchange for cash contributions paid before the registration of the share capital increase. The issue price of the New Shares was set at PLN 53.38 per share. The New Shares will carry the right to dividend as of January 1st 2019, on a par with the other company shares, that is for the entire 2019. The record date for the pre-emptive rights in respect of the New Shares, within the meaning of Art. 432.2 of the Commercial Companies Code, was set for April 15th 2019.
April 29th 2019 was set as the record date for the pre-emptive rights. The closing date for exercising the pre-emptive rights was May 20th 2019 – the last day on which subscription orders placed in the exercise of pre-emptive rights were accepted. The Series C shares will be allotted within two weeks of the allotment date.
On May 20th 2019, the Parent subscribed for Series C ordinary registered shares in Grupa Azoty SIARKOPOL.
Based on its pre-emptive right, the Parent subscribed for 179,153 Series C shares.

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

2.1. Statement of compliance and general basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements of the Group cover the three months ended March 31st 2019 and contain comparative data for the three months ended March 31st 2018 and as at December 31st 2018.
These interim condensed consolidated financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31st 2018, which were issued on April 25th 2019.
The Company's interim financial results may not be indicative of its potential full-year financial results.
All amounts in these interim condensed consolidated financial statements are presented in thousands of 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

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

a) Implementation of IFRS 16

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

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

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

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

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

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

The Group applies the following methodology to determine the incremental borrowing rate:
- for perpetual usufruct rights to land – the incremental borrowing rate is determined as the sum of the 30-year treasury bond yield and the CDS 30Y Poland index margin,
- for other right-of-use assets – the rate is determined based on the market interest rate for long-term corporate credit facilities advanced to the Grupa Azoty Group.

Effect of implementation of IFRS 16 on the financial statements
Following the implementation of IFRS 16, as at January 1st 2019 the Group's assets increased by PLN 420,517 thousand, including perpetual usufruct right to land by PLN 216,202 thousand, non-current assets available for sale by PLN 11,890 thousand and other assets presented as property, plant and equipment by PLN 192,425 thousand.
As at January 1st 2019, lease liabilities increased by the same amount, i.e. PLN 420,517 thousand.

The amount of finance lease liabilities disclosed in the statement of financial position as at December 31st 2018 was PLN 25,672 thousand.

(all amounts in PLN '000 unless indicated otherwise)

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

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

b) Other standards and interpretations

The following standards effective as of 2019 have no material impact on the Group's operations:

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

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

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) − pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version (not endorsed by the EU by the date of authorisation of these financial statements for issue) – effective for annual periods beginning on or after January 1st 2016;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) − work leading to endorsement of the amendments was deferred by the EU for an indefinite period − effective date was deferred by the IASB for an indefinite period;
- IFRS 17 *Insurance Contracts* (issued on May 18th 2017) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2021;
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) − not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 3 *Business Combinations* (published on October 22nd 2018) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2020;

Amendments to IAS 1 and IAS 8: *Definition of materiality* (published on October 31st 2018) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2020.

c) Judgements and estimates

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

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

The key judgements and estimates made by the Management Board in preparing these interim condensed consolidated financial statements were the same as those made in preparing the consolidated financial statements for the financial year ended December 31st 2018.

3. Selected notes and supplementary information

3.1. Notes

Business segment reporting

Operating segments

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

Operations of the Company's reporting segments:

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

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

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

In 2019, for its internal purposes, the Group prepared and used management information focusing on the following operating segments:

- Nitrogen fertilizers,
- Compound fertilizers,
- Plastics,
- OXO PRODUCTS,
- Melamine,
- Pigments,
- Chemicals,
- Minerals extraction,
- Energy,
- Other Activities.

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 2019 (unaudited)

Continuing operations	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	2,097,044	409,371	752,439	66,413	39,617	3,364,884
Intersegment revenue	634,571	95,651	273,436	791,768	200,153	1,995,579
Total revenue	2,731,615	505,022	1,025,875	858,181	239,770	5,360,463
Operating expenses, including: (-)	(2,398,285)	(466,155)	(952,810)	(861,939)	(271,536)	(4,950,725)
selling and distribution expenses (-)	*(177,566)*	*(17,391)*	*(40,811)*	*(30)*	*43*	*(235,755)*
administrative expenses (-)	*(93,016)*	*(30,477)*	*(43,870)*	*(4,218)*	*(31,233)*	*(202,814)*
Other income	7,917	358	1,927	13,068	4,946	28,216
Other expenses (-)	(9,035)	(703)	(647)	(12,305)	(7,177)	(29,867)
Segment's EBIT	**332,212**	**38,522**	**74,345**	**(2,995)**	**(33,997)**	**408,087**
Finance income	-	-	-	-	-	5,848
Finance costs (-)	-	-	-	-	-	(17,774)
Share of profit of equity-accounted investees	-	-	-	-	-	2,894
Profit before tax	**-**	**-**	**-**	**-**	**-**	**399,055**
Income tax	-	-	-	-	-	(76,183)
Net profit	**-**	**-**	**-**	**-**	**-**	**322,872**
EBIT	332,212	38,522	74,345	(2,995)	(33,997)	408,087
Depreciation and amortisation	79,584	15,687	28,032	28,171	26,123	177,597
Unallocated depreciation and amortisation	-	-	-	-	-	22,710
EBITDA	**411,796**	**54,209**	**102,377**	**25,176**	**(7,874)**	**608,394**

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.
** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.
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(all amounts in PLN '000 unless indicated otherwise)

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

	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)

Geographical areas

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

Revenue

	for the period Jan 1– Mar 31 2019	for the period Jan 1– Mar 31 2018
	unaudited	*unaudited*
Poland	1,684,205	1,343,945
Germany	260,264	207,275
Other EU countries	946,702	713,478
Asia	119,899	60,912
South America	72,124	6,460
Other countries	281,690	165,032
Total	**3,364,884**	**2,497,102**

No single customer accounted for more than 10% of revenue in Q1 2019 and Q1 2018.

Note 1 Contingent liabilities, contingent assets and guarantees

Contingent assets

	as at Mar 31 2019	as at Dec 31 2018
	unaudited	*audited*
Contingent receivables	29,993	30,595

Contingent liabilities and guarantees/sureties

	as at Mar 31 2019	as at Dec 31 2018
Guarantees	444	760
Other contingent liabilities	31,156	30,483
	31,600	**31,243**

Note 2 Accounting estimates and assumptions

Changes in impairment losses on property, plant and equipment

	for the period Jan 1– Mar 31 2019	for the period Jan 1– Mar 31 2018
	unaudited	*unaudited*
At beginning of period	**351,730**	**343,418**
Effect of business acquisitions/combinations	9,113	43
Recognised	143	382
Reversed (-)	-	(357)
Used (-)	(3,061)	(59)
At end of period	**357,925**	**343,427**

(all amounts in PLN '000 unless indicated otherwise)

Changes in inventory write-downs

	for the period Jan 1– Mar 31 2019	for the period Jan 1– Mar 31 2018
	unaudited	*unaudited*
At beginning of period	**48,739**	**44,472**
Effect of acquisition of companies	-	7
Recognised	3,708	5,903
Reversed (-)	(720)	(378)
Used (-)	(6,732)	(2,822)
At end of period	**44,995**	**47,182**

Changes in impairment losses on receivables

	for the period Jan 1– Mar 31 2019	for the period Jan 1– Mar 31 2018
	unaudited	*unaudited*
At beginning of period	**82,290**	**98,045**
Effect of acquisition of companies	-	164
Recognised	2,970	1,963
Reversed (-)	(2,380)	(1,595)
Used (-)	(139)	(2,251)
At end of period	**82,741**	**96,326**

3.2. Accounting for the price of shares in Goat TopCo GmbH

The acquisition price of Goat TopCo GmbH was not finally accounted for in the financial statements as at March 31st 2019, as the measurement of the fair value of assets, liabilities and contingent liabilities was still in progress.
In accordance with IFRS 3, the Group should account for the acquisition within 12 months from the acquisition date. For detailed information on the provisional accounting for the acquisition price, see Section 1.2.1 of the Grupa Azoty Group's full-year consolidated financial statements for the 12 months to December 31st 2018.

As at March 31st 2019, goodwill was EUR 127,579 thousand, or PLN 548,756 thousand, and was not amortised.

3.3. Related-party transactions

Significant related-party transactions

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

   In the three months ended March 31st 2019, 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 2019, 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.

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

No such events occurred.

3.5. Dividend

In Q1 2019 and as at the issue date of the Q1 2019 report, the Parent did not pay or declare any dividend.
On May 9th 2019, the Parent's Management Board passed a resolution on allocation of the Company's net profit for the financial year 2018, proposing that the Company's net profit for the financial year 2018, of PLN 171,064 thousand, be fully contributed to the Company's reserve funds, despite the Company's commitment to dividend payments declared in its dividend policy.
The profit retention will allow the Company to maintain a position of financial security in the context of its investment plans, especially its ability to finance the equity contribution to the Polimery Police Project.
On May 17th 2019, the Company's Supervisory Board gave a favourable opinion on the proposal of the Company's Management Board to the Annual General Meeting to allocate the entire net profit for the financial year 2018 to the Company's reserve funds.
A final decision on the 2018 profit allocation will be made by the Annual General Meeting.

3.6. Seasonality of operations

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

Mineral fertilizers
The first half of each year is a period of increased field work activity in the agricultural sector, preceded by increased demand for means of agricultural production (including mineral fertilizers). The Group follows a policy of mitigating seasonality through optimum volume allocation:
- As part of all-year supplies to the distribution network, and
- By partial sales of products on geographical markets with different seasonality patterns.

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

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

Interim condensed separate financial statements for the three months ended March 31st 2019

(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 2019	for the period Jan 1– Mar 31 2018
Profit/loss		
Revenue	558,146	476,410
Cost of sales	(413,044)	(352,994)
Gross profit	**145,102**	**123,416**
Selling and distribution expenses	(26,601)	(23,375)
Administrative expenses	(40,623)	(38,301)
Other income	4,222	2,721
Other expenses	(3,849)	(4,945)
Operating profit	**78,251**	**59,516**
Finance income	6,080	5,878
Finance costs	(14,984)	(10,313)
Net finance income	**(8,904)**	**(4,435)**
Profit before tax	**69,347**	**55,081**
Income tax	(12,248)	(9,388)
Net profit	**57,099**	**45,693**
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Cash flow hedging – effective portion of change in fair value	(219)	(4,780)
Tax on items that are or may be reclassified to profit or loss	42	908
Total other comprehensive income	**(177)**	**(3,872)**
Comprehensive income for the year	**56,922**	**41,821**
Earnings per share:		
Basic (PLN)	0.58	0.46
Diluted (PLN)	0.58	0.46

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 2019	as at Dec 31 2018
Assets		
Non-current assets		
Property, plant and equipment	1,648,130	1,650,232
Perpetual usufruct of land	26,734	365
Intangible assets	48,611	49,108
Investment property	15,583	15,885
Shares	5,012,908	5,012,908
Other financial assets	290,170	285,626
Other receivables	10,341	9,757
Deferred tax assets	13,836	10,277
Total non-current assets	**7,066,313**	**7,034,158**
Current assets		
Inventories	234,375	246,106
Property rights	68,346	35,688
Derivative financial instruments	793	720
Other financial assets	44,851	47,340
Trade and other receivables	314,239	238,558
Cash and cash equivalents	845,797	1,000,980
Assets held for sale	95	95
Total current assets	**1,508,496**	**1,569,487**
Total assets	**8,574,809**	**8,603,645**

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 2019	as at Dec 31 2018
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	1,684	1,861
Retained earnings, including:	1,929,179	1,872,080
Net profit for the year	*57,099*	*171,064*
Total equity	**4,845,110**	**4,788,188**
Liabilities		
Borrowings	2,311,665	2,311,248
Lease liabilities	31,665	1,695
Other financial liabilities	22,069	21,930
Employee benefit obligations	51,289	51,289
Trade and other payables	32	32
Provisions	31,069	31,069
Government grants received	40,229	40,666
Total non-current liabilities	**2,488,018**	**2,457,929**
Borrowings	826,495	893,947
Lease liabilities	4,347	714
Other financial liabilities	51,999	103,122
Employee benefit obligations	3,511	3,511
Current tax liabilities	4,375	493
Trade and other payables	309,576	352,908
Provisions	1,208	1,205
Government grants received	40,170	1,628
Total current liabilities	**1,241,681**	**1,357,528**
Total liabilities	**3,729,699**	**3,815,457**
Total equity and liabilities	**8,574,809**	**8,603,645**

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 2019

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at January 1st 2019	**495,977**	**2,418,270**	**1,861**	**1,872,080**	**4,788,188**
Profit or loss and other comprehensive income					
Net profit	-	-	-	57,099	57,099
Other comprehensive income	-	-	(177)	-	(177)
Comprehensive income for the year	**-**	**-**	**(177)**	**57,099**	**56,922**
Balance as at March 31st 2019 (unaudited)	**495,977**	**2,418,270**	**1,684**	**1,929,179**	**4,845,110**

for the period ended March 31st 2018

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at January 1st 2018, adjusted	**495,977**	**2,418,270**	**15,407**	**1,828,096**	**4,757,750**
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 (unaudited)	**495,977**	**2,418,270**	**11,535**	**1,873,789**	**4,799,571**

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 2019	for the period Jan 1– Mar 31 2018
Cash flows from operating activities		
Profit before tax	**69,347**	**55,081**
Adjustments for:	*38,593*	*32,992*
Depreciation and amortisation	29,743	26,514
Impairment losses	121	4
Loss on investing activities	64	196
Interest, foreign exchange gains or losses	8,798	5,544
Net change in fair value of financial assets at fair value through profit or loss	(133)	734
	107,940	***88,073***
Increase in trade and other receivables	(72,746)	(53,777)
Increase in inventories	(20,926)	(15,069)
(Decrease)/Increase in trade and other payables	(24,545)	4,889
Increase/(Decrease) in provisions, accruals and government grants	37,930	(7,870)
Other adjustments	(3,500)	-
Cash generated from operating activities	***24,153***	***16,246***
Income tax paid	(11,883)	(2,081)
Net cash from operating activities	**12,270**	**14,165**

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 2019	for the period Jan 1– Mar 31 2018
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	360	220
Acquisition of property, plant and equipment, intangible assets and investment property	(39,566)	(38,498)
Acquisition of other financial assets	-	(28,395)
Interest received	4,115	3,246
Loans advanced	(18,230)	(4,447)
Repayments of loans advanced	16,246	17,564
Other disbursements	(221)	(400)
Net cash from investing activities	**(37,296)**	**(50,710)**
Cash flows from financing activities		
Proceeds from borrowings	40,668	-
Repayment of borrowings	(109,460)	(75,410)
Interest paid	(11,642)	(6,268)
Payment of finance lease liabilities	(2,368)	(111)
Other cash provided by financing activities	-	41,424
Other cash used in financing activities	(47,622)	-
Net cash from financing activities	**(130,424)**	**(40,365)**
Total net cash flows	**(155,450)**	**(76,910)**
Cash and cash equivalents at beginning of period	**1,000,980**	**572,711**
Effect of exchange rate fluctuations on cash held	267	155
Cash and cash equivalents at end of period	**845,797**	**495,956**

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 IAS 34 *Interim Financial Reporting*. These interim condensed separate financial statements of the Company cover the three months ended March 31st 2019 and contain comparative data for the three months ended March 31st 2018 and as at December 31st 2018.
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 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 2018, which were issued on April 25th 2019.

The Company's interim financial results may not be indicative of its potential full-year financial results.
All amounts in these interim condensed separate financial statements are presented in thousands of złoty.
These interim condensed separate financial statements have been prepared on the assumption that the Company will continue as a going concern for the foreseeable future. As at the date of authorisation of these financial statements, no circumstances were identified which would indicate any threat to the Company continuing as a going concern.

1.2. Accounting policies and computation methods

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 financial statements for the year ended December 31st 2018, except for those presented below and related to IFRS 16 *Leases* having taken effect.

a) Implementation of IFRS 16

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

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

The Company decided to implement IFRS 16 using the modified retrospective approach, with no adjustments of the comparative data. In connection with the adoption of the modified approach, on the date of initial application of IFRS 16 the comparative data was not restated.

Effect on the Company's accounting – the Company as a lessor

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

Effect on the Company accounting – the Company as a lessee

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

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

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

- for perpetual usufruct rights to land – the incremental borrowing rate is determined as the sum of the 30-year treasury bond yield and the CDS 30Y Poland index margin,
- for other right-of-use assets – the rate is determined based on the market interest rate for long-term corporate credit facilities advanced to the Grupa Azoty Group.

Effect of implementation of IFRS 16 on the financial statements

Following the implementation of IFRS 16, as at January 1st 2019 the Company's assets increased by PLN 34,938 thousand, including perpetual usufruct right to land by PLN 26,463 thousand and other assets disclosed as property, plant and equipment by PLN 8,475 thousand.
As at January 1st 2019, lease liabilities increased by the same amount, i.e. PLN 34,938 thousand.
The amount of finance lease liabilities disclosed in the statement of financial position as at December 31st 2018 was PLN 2,409 thousand.

(all amounts in PLN '000 unless indicated otherwise)

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

	Dec 31 2018 audited	Impact of change	Dec 31 2018 restated
Liabilities			
Lease liabilities	-	1,695	1,695
Other financial liabilities	23,625	(1,695)	21,930
Total non-current liabilities	**2,457,929**	**-**	**2,457,929**
Lease liabilities	-	714	714
Other financial liabilities	103,836	(714)	103,122
Total current liabilities	**1,357,528**	**-**	**1,357,528**
Total liabilities	**3,815,457**	**-**	**3,815,457**
Total equity and liabilities	**8,603,645**	**-**	**8,603,645**

b) Other standards and interpretations

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

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

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

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) − pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version (not endorsed by the EU by the date of authorisation of these financial statements for issue) – effective for annual periods beginning on or after January 1st 2016;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) − work leading to endorsement of the amendments was deferred by the EU for an indefinite period − effective date was deferred by the IASB for an indefinite period;
- IFRS 17 *Insurance Contracts* (issued on May 18th 2017) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2021;
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) − not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2020;
- Amendments to IFRS 3 *Business Combinations* (published on October 22nd 2018) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2020;

Amendments to IAS 1 and IAS 8: *Definition of materiality* (published on October 31st 2018) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2020.

Management's discussion and analysis:
the Grupa Azoty Group in Q1 2019

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 2019, the Grupa Azoty Group comprised Grupa Azoty S.A. (the Parent) and ten direct subsidiaries together with entities included in their respective groups.

Parent

Grupa Azoty S.A. is the Parent of the 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.

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 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 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).

Goat TopCo GmbH
The company's registered office is located in Münster, Germany.
The Company is a holding company for 22 subsidiaries, including the main operating company COMPO EXPERT GmbH, one of the world's largest manufacturers of speciality fertilizers for professional customers.

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's services encompass comprehensive design support for investment projects in the chemical industry − from study and concept work to engineering design, building permit design and

(all amounts in PLN '000 unless indicated otherwise)

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

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością
The company's registered office is located in Tarnów. 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 countrywide railway transport services. It is one of the few organisations in Poland to hold licences required to perform comprehensive repairs of rail car chassis and tank cars used in the transport of dangerous materials (according to RID).

Grupa Azoty 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 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.

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.

Parent's equity interests in subsidiaries as at March 31st 2019

(in relevant currency)

Company	Registered office/address	Share capital	% equity interest
Goat TopCo GmbH	Krögerweg 10 48155, Münster, Germany	25,000 EUR	100.00
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, Poland	36,000,000 PLN	100.00
Grupa Azoty Folie Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów	5,500,000 PLN	100.00
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów	58,828,560 PLN	99.37
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
Grupa Azoty KOLTAR Sp. z o.o.	ul. Kwiatkowskiego 8 33-101 Tarnów, Poland	54,600,000 PLN	60.00

The Parent and its subsidiaries as at March 31st 2019

1 **Parent**

- Grupa Azoty „Compounding" Sp. z o.o. **100%**
- Grupa Azoty „Folie" Sp. z o.o. **100%**
- Grupa Azoty KOLTAR Sp. z o.o. **60%**
- Grupa Azoty PKCh Sp. z o.o. **63.27%**

2 Grupa Azoty PUŁAWY **95.98%**

3 Grupa Azoty POLICE **66%**

4 Grupa Azoty KĘDZIERZYN **93.48%**

5 Grupa Azoty SIARKOPOL **99.37%**

6 Grupa Azoty ATT Polymers GmbH **100%**

7 Goat TopCo GmbH **100%**

Source: Company data

1.2. Business segments

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

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

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

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

Chemicals
The Chemicals segment is an important part of the Group's business, comprising OXO alcohols, plasticizers, melamine, technical grade urea, titanium white, sulfur, AdBlue® , and other products.
They are manufactured in Kędzierzyn, Puławy, Police, and Grzybów. The 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. The Group is Poland's only producer of titanium white.

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

Nitrogen fertilizers

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

Urea – 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.

Speciality fertilizers

Speciality fertilizers are designed to meet the specific requirements of various sectors, including fruit and vegetable growing, horticulture or maintenance of green areas. In addition to the primary components − nitrogen (N), phosphorous (P) and potassium (K), such fertilizers also contain secondary nutrients and microelements. They may also contain inhibitors that reduce nutrient leaching.
Available in solid (coated or uncoated) or in liquid form, this product range also includes fertigation and foliar fertilizers.
Currently, they are marketed under a number of trade names, including Blaukorn®, NovaTec®, Hakaphos®, Basfoliar®, Easygreen®, DuraTec®, Basacote® and Floranid®Twin.

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 coverings 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 who obtain it as a by-product from flue gas desulfurisation or crude oil refining.

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

SOURCES OF STRATEGIC RAW MATERIALS

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

Ammonia
The procurement strategy is based primarily on the optimisation of intragroup supplies. Intragroup supplies are transacted on arm's length terms. The 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 2019, the Group companies signed electricity supply contracts under their existing framework agreements. Thanks to the joint procurement strategy for electricity supplies, they secured competitive prices and favourable terms of the contracts. Given the volatility of the electricity market and its changing legal framework, the Group's policy is to purchase electricity under forward contracts concluded for various periods and on the SPOT market, including on the Polish Power Exchange.

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

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 Russia and Belarus are the primary suppliers of potassium chloride. The Group's procurement strategy is chiefly based on quarterly framework agreements, with supplementary deliveries sourced from Western Europe. The Group pursues a centralised procurement strategy by making joint purchases for Grupa Azoty POLICE and GZNF Fosfory Sp. z o.o.

Coal
The Group purchases coal mainly on the domestic market. Purchasing large volumes of coal of the required quality from geographically remote markets is not economically viable given the transport costs and price formulae (ARA).
On the domestic market, 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 bearing on the Group's financial performance in Q1 2019 included the continuing strong domestic GDP growth coupled with falling unemployment and rising household incomes, as well as a sound state of public finance.

The positive domestic fundamentals contributed to a very stable PLN/EUR exchange rate, while the volatility of PLN against the USD reflected fluctuations in the EUR/USD exchange rate.

Overall, in Q1 2019, the Polish currency remained stable against the euro and depreciated by approximately 2.0% against the US dollar on the year-end 2018. Also the average PLN/EUR exchange rate in Q1 remained unchanged from the Q4 2018 level, whereas the average PLN/USD exchange rate fell slightly quarter on quarter, by approximately 0.6%.

Thus, the Polish currency weakened slightly against the US dollar, while stabilising against the euro, which accounts for a major part of the Group's currency exposure. Consequently, the exchange rate changes had no material effect 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 Group used natural hedging, factoring and discounting of foreign currency receivables as its primary currency risk hedging tools, supported by currency forwards.

In the first quarter of 2019, some more of Grupa Azoty S.A.'s subsidiaries trading in the euro acceded to the agreement with PKO BP under which the bank provides the Group with a euro physical cash pooling service. The physical cash pooling in EUR allows the Group companies to avail themselves of the Group's global liquidity limit in that currency, which further reduces their exposure to the currency risk in EUR by correcting potential mismatches in revenue and expenditure over time.

In Q1 2019, the Grupa Azoty Group's hedging tools were EUR and USD forward swaps, executed in the periods of depreciation of the Polish złoty to supplement forward hedges for EUR and USD sale, and in addition, the Group purchased a single put option to hedge USD sale, reflecting its planned net exposure in both currencies.

The Group's net result on hedging transactions settled in Q1 2019 was a gain of PLN 357 thousand, with the net result on remeasurement of hedging instruments also positive at PLN 1,046 thousand.

In the first quarter of 2019, the Group's overall net result on the settlement of hedging transactions and remeasurement of hedging instruments was a gain of PLN 1,403 thousand.

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 hedging covers currency risk. The hedging item consists of two foreign currency credit facilities denominated in the euro, contracted with the EIB, in the amount of EUR 118,053 thousand as at March 31st 2019.

As at March 31st 2019, the fair value of the facility was PLN 510,771 thousand. The hedging reserve as at March 31st 2019 included PLN 2,269 thousand on account of the effective hedge whose value as at March 31st 2019 was PLN 50,000 thousand.

As at March 31st 2019, the fair value of the facility was PLN 214,346 thousand and the hedging reserve as at March 31st 2019 included: PLN (190) thousand on account of the effective hedge.

In Q1 2019, the Group did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

Prices of CO_2 emission allowances

In the first quarter of 2019, the prices of CO_2 emission allowances (EUA) ranged between EUR 19 and EUR 25. Strong volatility of the EUA market prices indicates a considerable risk of further price hikes.

The Group purchases emission allowances in line with the joint management model for CO_2 emission allowances adopted by the Group, under an approved procurement plan. The Grupa Azoty Group pursues a policy of a rolling reduction of its deficit in CO_2 emission allowances through spot and futures transactions with a three-year time horizon.

In Q1 2019, the Group took measures to adapt to the changed situation and mitigate negative financial effects of the higher prices of CO_2 emission allowances by purchasing them during temporary price declines typical of high market volatility. In Q2 2019, the Group plans to continue to purchase emission allowances, mainly under futures contracts.

2.2. Market overview

AGRO FERTILIZERS

Economic conditions in agriculture

In Q1 2019, the prices of key agricultural produce were higher year on year. The most substantial price increase was estimated for wheat; in the first quarter of 2019, its price oscillated around PLN 845 per tonne, up 24.5% year on year. Price increases were also recorded for maize (up 16.7%, to PLN 736/t) and rapeseed (up 5.8%, to PLN 1,657/t).

As at the end of February (the most recent data available), direct payments distributed by the Agency for Restructuring and Modernisation of Agriculture totalled PLN 12.3bn, which means that 85.4% of the PLN 14.8bn allocated for that purpose was already disbursed to farmers. The second tranche of the drought compensation was also paid in the reporting period. It was announced that PLN 1.94bn in drought compensation had been paid out by the end of February (of which PLN 540m – in 2019). According to the Agency for Restructuring and Modernisation of Agriculture, the value of crops lost to last year's drought was estimated (based on submitted applications) at PLN 2.2bn.

In the period under review, the economic situation of the Polish agricultural sector continued to be viewed as relatively poor, mainly on account of losses caused by last year's drought, which were not fully compensated by the year-on-year rises in agricultural produce prices, nor by the relatively high level of direct payments.

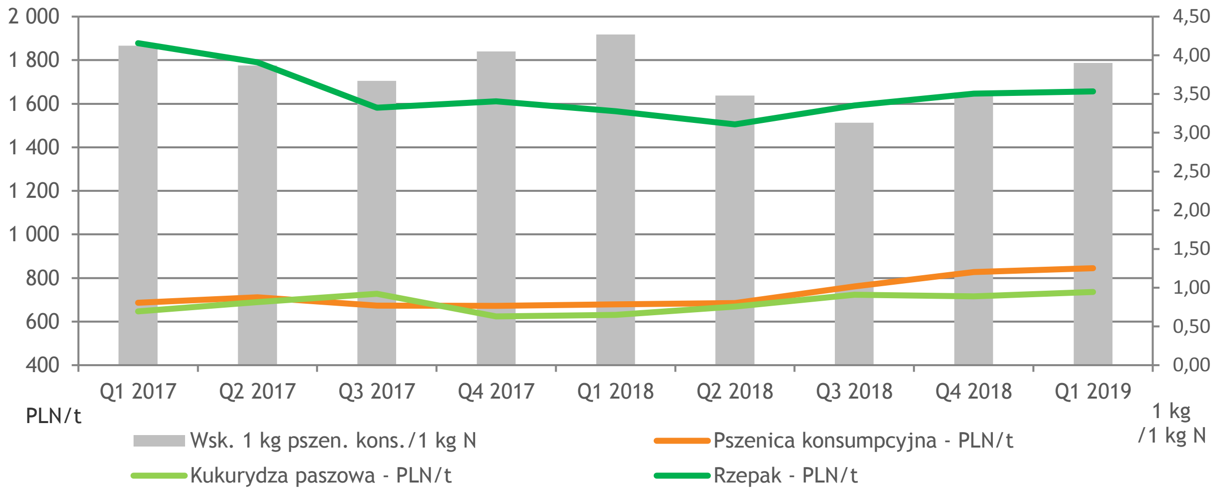
The condition of winter crops in Poland in Q1 2019 was assessed as relatively good. Differences seen in their development reflected different timings of sowing and autumn growth periods. The least promising crops were eliminated, the land thus made available for other crops (chiefly maize). Losses in winter crops caused by freezing were assessed as low, given the relatively weak frost and presence of a snow cover in winter. At the end of the period under review, low rainfall was an issue, as a factor relevant to the field emergence of spring crops expected in the period, which may reduce future yields.

According to Stratégie grains data (of April 11th 2019), no aggregate forecasts of grain production in Poland for the 2019/20 season have yet been released. The preliminary estimates by main crops are quite optimistic, with the following increases forecast relative to the previous season: wheat – to 11.29m tonnes from 9.82m tonnes (up 14%), maize – to 4.3m tonnes from 4.1m tonnes (up 4.8%) and barley – to 3.73m tonnes from 3.05m tonnes (up 22%). According to Statistics Poland (GUS), the previous year's production in Poland totalled 26.8m tonnes, down 16% on 2017.

According to Stratégie grains data, an increase in total grain production in the 2019/20 season is also expected for the entire European Union. Current forecasts for the EU suggest a production volume of 308.3m tonnes, compared with 280.4m tonnes in the previous season (up 10%).

(all amounts in PLN '000 unless indicated otherwise)

Prices of wheat, maize and rapeseed



Source: Ministry of Agriculture and Rural Development.

Average prices of wheat, maize and rape seed

	Average Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	PLN/t	*PLN/t*	*%*	*PLN/t*	*PLN/t*	*PLN/t*
Consumable wheat	679	845	24.5	829	829	856
Maize	631	736	16.7	731	731	740
Rapeseed	1,566	1,657	5.8	1,644	1,644	1,664

Source: Ministry of Agriculture and Rural Development.

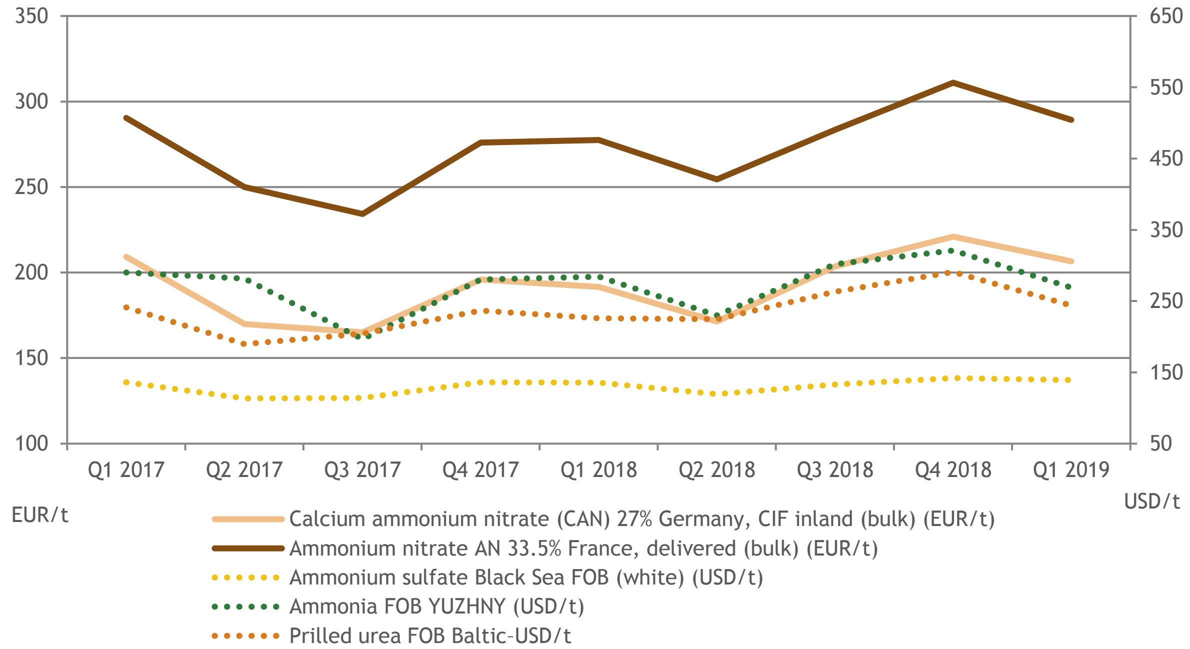
Nitrogen fertilizers

The prices of nitrate fertilizers grew year on year, by 7.7% for CAN and 4.3% for AN. On the markets covered by research, due to the visible slowdown and passive attitude by the agricultural sector, the prices of nitrate fertilizers remained relatively stable in the first quarter of 2019, with a slight downward trend towards the period's end.

The key drivers of demand included: the fact that a significant portion of the agricultural sector's demand for the first nitrogen application had been covered by purchases made in earlier months, postponing of purchases until deeper price reductions and good availability of the product on the market, where no immediate pressure to make purchases was thus seen in the period. It was also important that under the new Nitrates Directive nitrogen fertilizers may be applied from March 1st 2019. Demand in the latter part of the spring fertilizing season is expected to depend chiefly on the weather conditions and price-adjustment policies of key market players.

(all amounts in PLN '000 unless indicated otherwise)

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



Source: ICIS, Argus FMB, Profercy.

Average prices of nitrogen fertilizers

	Averag e Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	EUR/t	*EUR/t*	*%*	*EUR/t*	*EUR/t*	*EUR/t*
CAN 27% Germany CIF inland (bulk)	192	207	7.7	193	193	219
AN 33.5% France, delivered (bulk)	277	289	4.3	275	275	308
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Ammonia (FOB Yuzhny)	284	269	5.4↓	263	263	276
Urea (FOB Baltic)	226	244	8.1	229	229	266
AS (Black Sea FOB white)	135	139	2.7	133	133	145

Source: ICIS, Argus FMB, Profercy.

The average prices of urea rose 8.1% year on year. However, the global slowdown and oversupply in Q1 2019 were also felt by the urea segment. The product's prices in the Baltic region over the three months under review were falling steadily (by approximately 13.7% between January and March 2019). The global market balance was materially affected by reduced supplies from the formerly key market players, i.e. China and Iran. In terms of demand, India was the region with the strongest impact on prices at the end of Q1 2019. In March an increase in demand for urea was reported, slowing down the downward price trend globally.

India's market activity as well as demand from Europe and the US are expected to be the main factors affecting urea prices in the next period.

Despite their relative stabilisation, ammonia prices in Q1 2019 were down 5.4% year on year. Key factors behind the decline were the continuing slowdown combined with global product oversupply. The market activity was largely limited to contractual supplies, periodically disrupted by unfavourable weather conditions.

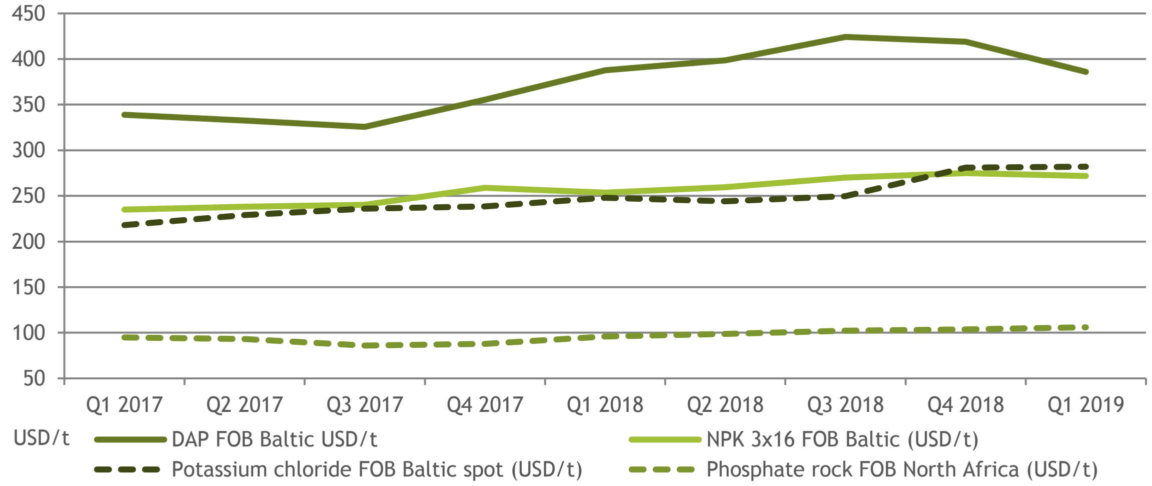
The global balance was affected by rescheduled downtimes of Europe's major ammonia plants (putting off the planned shutdown of an ammonia unit at BASF (Germany) and failure to re-start an ammonia unit at OPZ (Ukraine)).

(all amounts in PLN '000 unless indicated otherwise)

In the coming months, global prices will also be affected by the launch, in late March 2019, of a new ammonia unit with an annual capacity of 1m tonnes.

Market of compound fertilizers

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



Source: WFM, FERTECON, Profercy.

Average prices of compound fertilizers and raw materials for their production

	Average Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	USD/t	*USD/t*	%	*USD/t*	*USD/t*	*USD/t*
DAP (FOB Baltic)	388	386	0.4↓	371	371	402
NPK3x16 (FOB Baltic)	254	272	7.1	270	270	275
Potassium chloride (FOB Baltic spot)	248	282	13.6	278	278	285
Phosphate rock (FOB North Africa)	96	106	9.9	106	106	106

Source: WFM, FERTECON, Profercy.

Demand for DAP fertilizers in Eastern and Central Europe was weak at the end of Q1 2019, with prices on a falling trend. However, the average prices for the entire quarter did not differ materially versus Q1 2018. The period was marked by the activity of Russian DAP manufacturers on the European market. Prices declined also in Italy and Ireland, and stayed put in the United Kingdom. A rise in demand is expected at the beginning of Q2 2019.
March was a month of very active demand for NPK fertilizers in Russia, which resulted in considerable market saturation. From early January to the end of March, the prices remained broadly flat. The average quarterly NPK price in 2019 was approximately 7% up on the same period last year. In Europe, demand was rather weak, slightly better only in Romania, Bulgaria and Ukraine, where some customer activity was seen in the market. Nevertheless, some suppliers decided to cut down prices in those countries.
In Q1 2019, demand for phosphate fertilizers on the key markets (China, India, Brazil and the US) was lower than expected by suppliers.
In Q2 2019, the output of phosphate fertilizers is likely to decline. In Morocco and the US, maintenance shutdowns are slated to begin, with a permanent shutdown of one plant planned in Canada. But with higher output in Saudi Arabia, the global supply will be rather balanced. After Brazil's and India's strong support of demand for phosphate fertilizers in the second quarter of 2019, the demand is forecast to stabilise in the following months with a possible adjustment in the prices of both finished products and raw materials for the production of phosphate fertilizers, i.e. phosphate rock and phosphoric acid.

In Q1 2019, the prices of phosphate rock did not change relative to the last quarter of 2018. In Q3/Q4 2018, strong demand for DAP and MAP, persisting from the end of 2017, finally weakened, as customers resisted further price rises. Its weakening affected also the prices of the raw materials, halting a further increase in phosphate rock and phosphoric acid prices. The phosphate rock prices were 9.9% higher year on year in Q1 2019. In the same period, the prices of phosphoric acid supplied to Europe declined by nearly 5% quarter on quarter, but rose by approximately 11% year on year. In 2018, the increase in phosphoric acid prices was so steep that most Indian producers were forced to discontinue production of DAP fertilizers: as production cost considerably exceeded the price of the imported fertilizer. It should be noted that 2018 witnessed record high volumes of global phosphate rock and phosphoric acid production. In China, environmental and technical audits of the fertilizer plants and phosphate rock mines continued, resulting in temporary or permanent closures of some facilities.

In Q1 2019, the average prices of potassium chloride were up by approximately 14% year on year. Contracts with China and India for the year 2018/2019 should be settled by mid-2019; until then, the prices charged to other customers, including those from Poland, will be adjusted in keeping with the prices paid by customers from China and India. According to preliminary data, the first quarter of 2019 was not as bad as expected, with potassium chloride imports to China, India and Brazil growing dynamically, which kept the prices from falling any further.
Despite additional production capacities launched in 2019, buyers are not expected to benefit from any significant surge in supply. Until the prices reach the level recorded at the end of Q4 2018, strong demand from Brazil and Asia is likely to absorb the entire additional supply.
In Q2 2019, the prices of potassium chloride should remain stable, and demand is likely to be supported by further imports from Brazil. Analysts' forecasts for H2 2019 indicate that negotiations of contracts for the year 2019/2020 may lead to a rollover of the 2018/2019 prices under the contracts with India and China. If the phosphate market is further weakened, it will be rather difficult for potassium chloride producers to justify price increases in H2 2019.

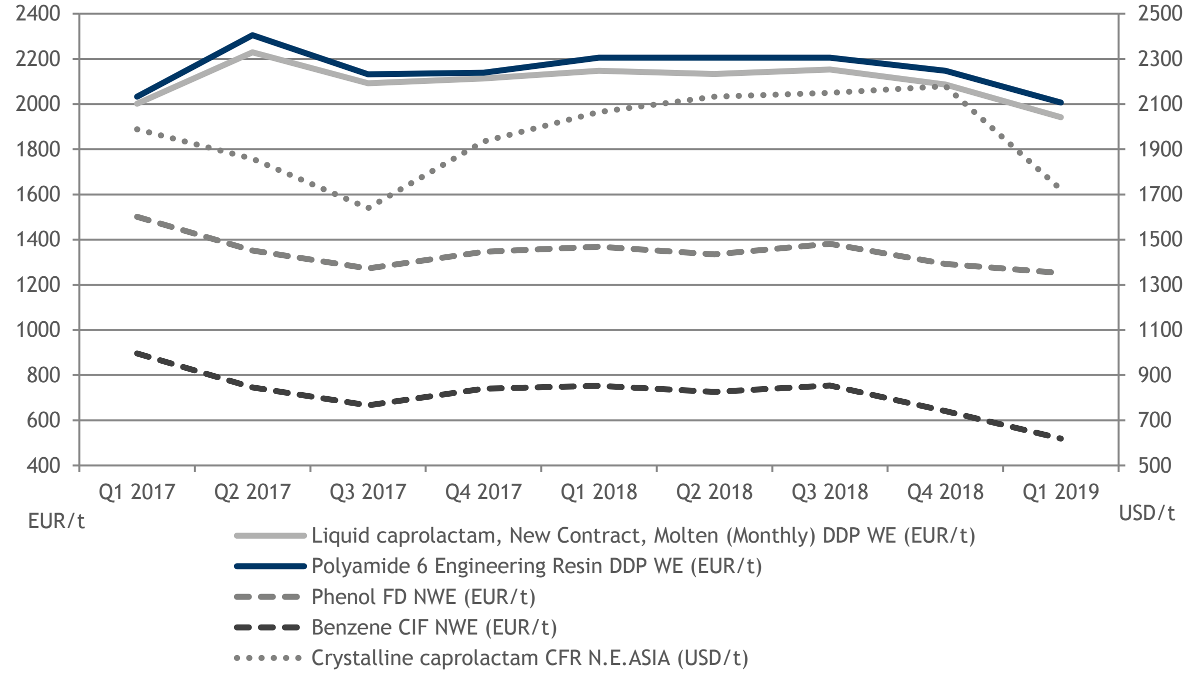
PLASTICS

Polyamide 6 chain

As in previous periods, in the first quarter of 2019 the market situation along the polyamide 6 chain continued to be shaped mainly by supply and demand forces and, to a lesser extent, by oil prices, feeding through to the prices of petroleum products. Although their prices were rising steadily from February, the average quarterly prices of benzene and phenol decreased by, respectively, 31% and 8.5% year on year.
The rising prices of benzene and phenol in the first quarter were not fully reflected in caprolactam prices, which inched up slightly only in March. As a result of weak demand from processing markets, the prices of polyamide 6 declined over the quarter.
The average price of caprolactam (CPL) in Asia in Q1 2019 (CFR, NE Asia), i.e. USD 1,721/t, was down 16.6% year on year, and the average prices of caprolactam from European manufacturers (DDP WE) fell by 9.6%, to EUR 1,942/t in the same period.
The average price of polyamide 6 (PA6, Engineering Resin Virgin, DDP, WE) was EUR 2,007/t, a 9% decrease compared with Q1 2018.
Year on year, in Q1 2019 the supply of polyamide 6 on the European market remained strong, with lower-than-expected demand from downstream industries.
The weaker demand was mainly attributable to low consumption by the automotive sector, observed since the second half of 2018 and forecast to persist until this year's end. Some market participants expect the situation to improve earlier following the entry into force of new CO_2 emissions regulations, while others predict that their impact will only be felt in a longer term. Demand from other sectors remained stable, stronger than from the automotive sector. The lower overall demand led to a decline in the operating rates of some polyamide manufacturers and weaker demand for caprolactam. Maintenance shutdowns of some caprolactam units scheduled for May–June may tighten supply in the region.

(all amounts in PLN '000 unless indicated otherwise)

Prices of PA6, caprolactam, benzene and phenol



Source: TECNON, ICIS.

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

	Average Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	EUR/t	*EUR/t*	*%*	*EUR/t*	*EUR/t*	*EUR/t*
Benzene (FOB, NWE)	752	519	31.0↓	574	485	574
Phenol (FD, NWE)	1,368	1,252	8.5↓	1,300	1,218	1,300
Caprolactam (Liq., DDP, WE)	2,148	1,942	9.6↓	1,942	1,927	1,957
Polyamide 6 (PA 6) (DDP, WE)	2,205	2,007	9.0↓	1,985	1,985	2,040
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Caprolactam (CFR, NE Asia)	2,064	1,721	16.6↓	1,681	1,631	1,852
	USD/bbl	*USD/bbl*	*%*	*USD/bbl*	*USD/bbl*	*USD/bbl*
Crude oil (BRENT)	67.07	63.70	5.02↓	66.77	59.90	66.77

Source: ICIS, Tecnon, Rzeczpospolita.

In the coming periods, prices along the polyamide chain will mainly be driven by supply versus demand on the end-use markets, which will also be affected by global macroeconomic factors. Another factor with bearing on the Plastics Segment's market are the prices of petrochemical feedstocks, putting pressure on price movements along the product chain. It should be noted that the current price spread between PA6 and CPL is low, which may force non-integrated manufacturers out of the market.
On the other hand, a long-term outlook for PA6 producers extending their product chains towards much more technologically advanced products is favourable.

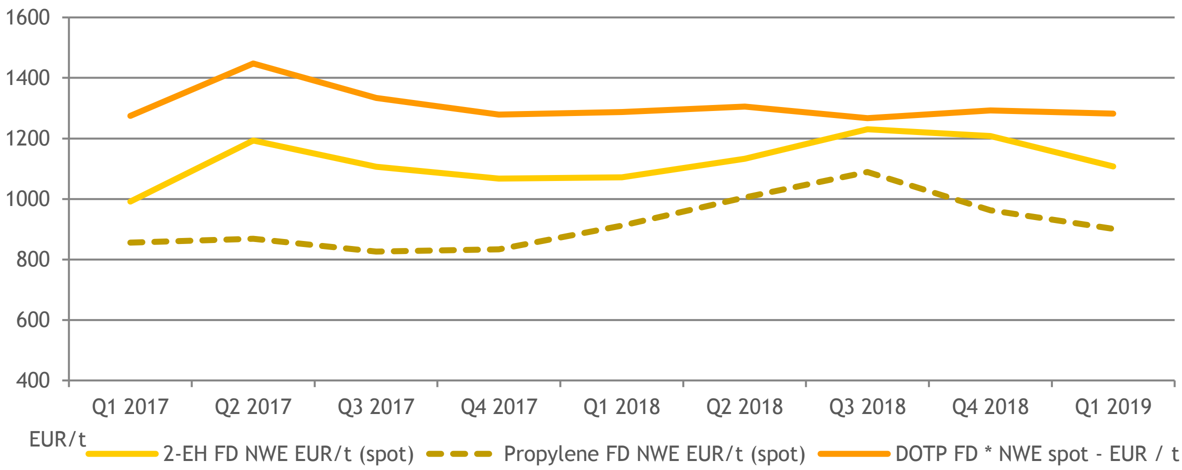
(all amounts in PLN '000 unless indicated otherwise)

CHEMICALS

OXO product chain

In Q1 2019, the prices of 2-EH went up 3.4% year on year, mainly as a result of higher purchase costs of raw materials used in its production, as well as continued strong demand for 2-EH.
The beginning of the year was marked by limited availability of OXO alcohols across Europe, but the situation gradually improved over the quarter. At the same time demand remained relatively low, in line with the seasonal pattern. Demand for OXO alcohols began to rise gradually at the beginning of March. In the near future, an increase in the DOTP plasticizer output should trigger a rise in demand for 2-EH.
In Q1 2019, the prices of DOTP were down 0.5% year on year.
The supply of plasticizers in Europe was relatively solid, although there were periods when the volumes of DOTP supplied by European manufacturers were insufficient to meet overall demand despite DOTP imports. Key customers were gradually rebuilding their plasticizer stocks ahead the summer season, when demand from the construction and automotive industries is usually stronger. The market is concerned that consumption of plasticizers (including DOTP) in the coming months may fall short of forecasts. In the event of a slowdown in the construction sector and, especially, in the automotive industry, demand for plasticizers may slack off. In addition, a new DOTP unit was launched, its output intended to be sold on the European market.

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 prices of 2-EH, DOTP and propylene

	Average Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	EUR/t	*EUR/t*	*%*	*EUR/t*	*EUR/t*	*EUR/t*
2-EH (FD NWE spot)	1,071	1,107	3.4	1,073	1,073	1,148
DOTP (FD NWE spot)	1,288	1,282	0.5↓	1,285	1,280	1,285
Propylene (FD NWE spot)	911	901	1.1↓	901	899	904

Source: ICIS.

In Q1 2019, the spot prices of propylene were down 1.1% year on year, while its contract prices rose by more than 1%.

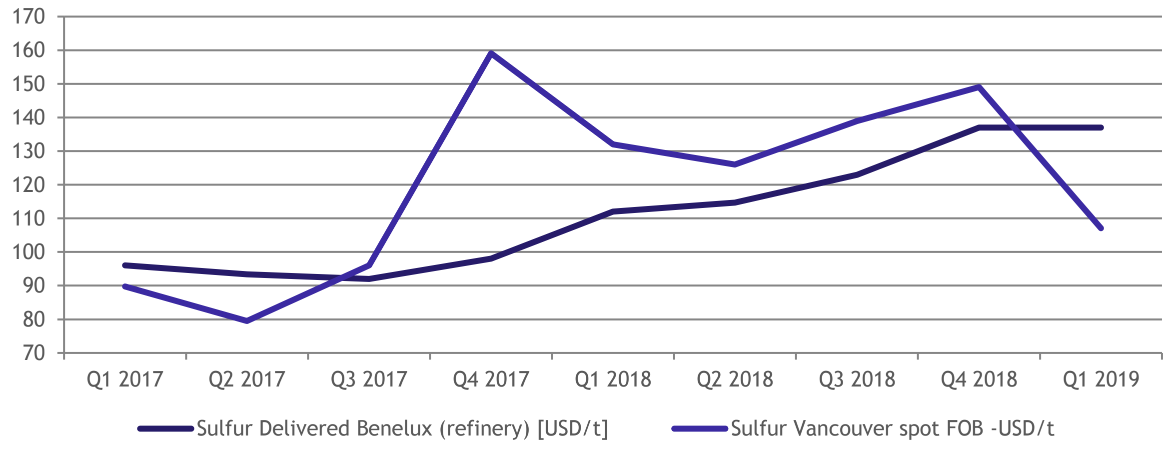
The supply of and demand for propylene remained fairly stable, with demand below expectations, especially in February. The processing industry built and maintained high stocks of propylene to mitigate possible production problems from supply constraints anticipated ahead of an upcoming wave of cracker maintenance shutdowns.

(all amounts in PLN '000 unless indicated otherwise)

The coming months are likely to see a further rise in propylene prices. At the end of Q2 and beginning of Q3 2019, the supply and demand situation is expected to deteriorate as a result of the maintenance shutdowns announced by propylene manufacturers. In H2, the availability of propylene is expected to gradually improve, which may push down its prices. In 2019, demand for propylene will most likely increase by about 2.5% year on year.

Sulfur

Prices of sulfur



Source: FERTECON.

Average prices of sulfur

	Averag e Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Sulfur (Delivered Benelux refinery)	112	137	22.3	137	137	137
Sulfur (Vancouver spot FOB)	132	107	18.7↓	103	103	115

Source: FERTECON.

In the first quarter of 2019, the prices of refinery sulfur in Europe rose by approximately 22%, while the prices of prilled sulfur in North America decreased about 19% year on year. In January and February 2019, the prices of prilled sulfur continued on a downward trend initiated in Q4 2018. However, at the end of Q1 2019, this trend decelerated and the prices stabilised, especially those of prilled sulfur exported from the Middle East. In Q1 2019, liquid sulfur came under strong supply pressures. A number of factors limiting production in Western Europe led to a situation where any major plant failure presented a serious problem to buyers. The demand-supply balance on Western European markets is so fragile that any unscheduled shutdown by one of the largest market players makes an instant dent in the availability of liquid sulfur on those markets.

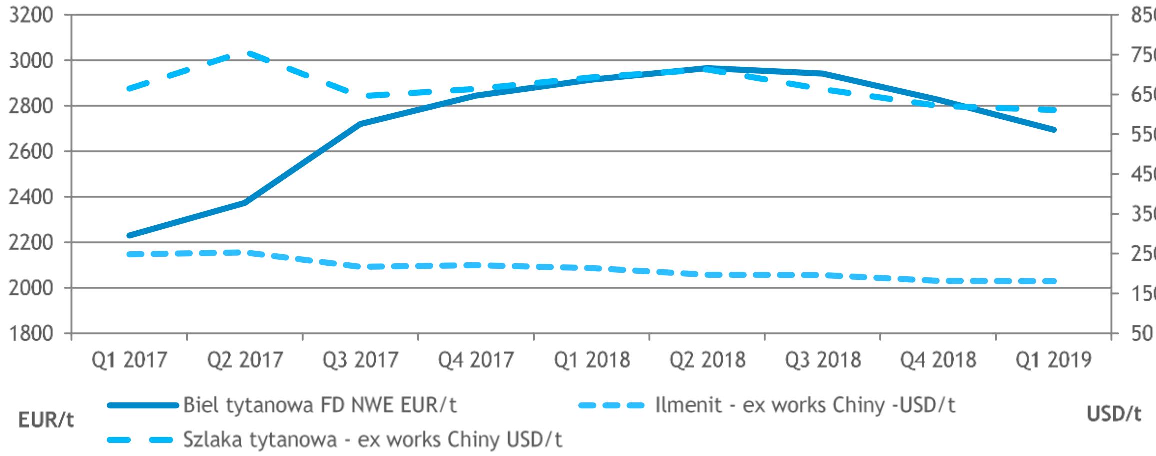
Despite growing demand from China and India, it is expected that liquid sulfur prices may further decline from Q2 2019 onwards. The main price drivers here will include additional petrochemical sulfur capacities (increased supply) and additional volumes of sulfuric acid from the steel industry in China. Analysts argue that this may lead to considerable changes in the Chinese market, which could cut down on sulfur imports. This, coupled with large additional capacities of the petrochemical industry, will in the long term have the global effect of exerting downward pressure on the prices of prilled sulfur howsoever determined (China, the Middle East and Canada). Given the difficulties in making projections for the phosphate market, on which the sulfur market largely relies, analysts expect a possible slight increase in the prices in Q3 2019 followed by declines in Q4 2019. The prices should eventually reach the levels comparable with those recorded in the first quarter.

The liquid sulfur prices in Western Europe may follow a completely different path. Short-term projections for both the NW Europe and Benelux delivered pricing bases are not indicative of any possible price reductions in 2019. This will be due to a stable supply and demand balance, absence of new production capacities, closing down of some obsolete refineries, maintenance shutdowns, and increased throughput of crude oil with a lower sulfur content. A rise in sweet crude imports was seen in Europe already in 2018. Considering further restrictions related to the implementation of the IMO's 2020 Directive, the share of sweet crude seems quite likely to increase even further, thus reducing the projected output of liquid sulfur.

Pigment chain

In Q1 2019, the prices of titanium white were falling across most global markets, On the continued downward trend triggered in the second half of 2018 by imports of large volumes of the pigment from China to Europe, and a slump in demand following the economic slowdown in the European Union, which led to an increase in customers' stocks. After two years without any seasonal fluctuations, the market again exhibited seasonality, which manifested itself in reduced demand for titanium white from the paints and coatings sector. Year on year, the average price of titanium white on the European market was down 7.5%.
A pick-up in demand was seen in Europe at the beginning of Q2 2019. According to market sources, the volumes of titanium white stocks held by customers returned to standard levels, while demand for titanium white imported into Europe from China slackened after two rounds of price increases by Chinese producers in early 2019 prompted by the RMB's weakening against major currencies. Both factors, combined with the price stabilisation programmes implemented by major global manufacturers of titanium white, finally halted the downward trend in the prices of titanium white across Europe. The contract prices are expected to be rolled over to the second quarter, supported by the beginning of a high season.

Prices of titanium white, ilmenite and titanium slag



Source: ICIS, CCM.

(all amounts in PLN '000 unless indicated otherwise)

Average prices of titanium white and raw materials for its production

	Average Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	EUR/t	*EUR/t*	*%*	*EUR/t*	*EUR/t*	*EUR/t*
Titanium white FD NWE	2,915	2,695	7.5↓	2,675	2,675	2,735
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Ilmenite Ex Works China	214	181	15.4↓	185	177	185
Titanium slag ex Works China	693	611	11.8↓	616	602	616

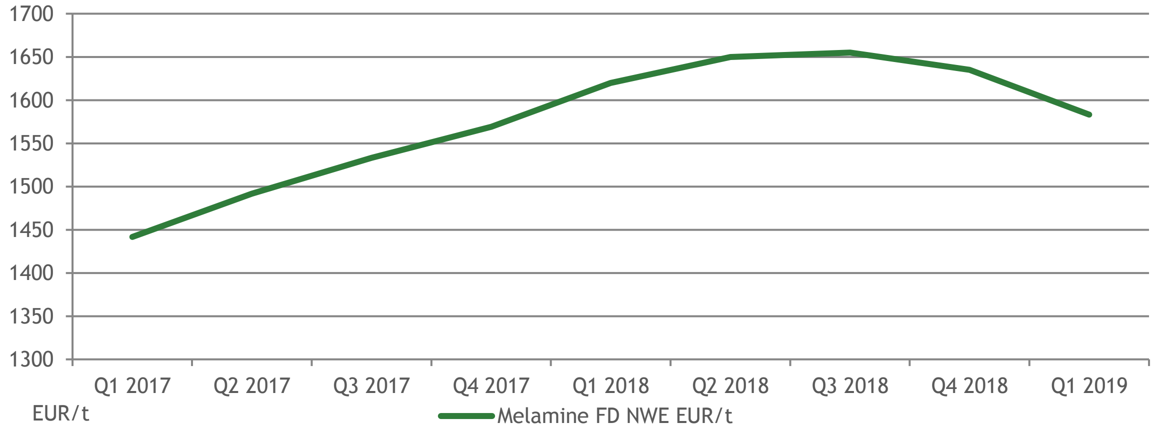
Source: ICIS, CCM.

As the prices of titanium white fell, so did the purchase prices of titanium-bearing minerals. The ilmenite prices tend to follow the market price of titanium with a lag of about six months. On the representative Chinese market, the average price of ilmenite in Q1 2019 was 15.4% lower than in the same period of 2018.
Titanium slag is produced by smelting ilmenite with coke. As no investments are made in new furnaces, the titanium slag market is undersupplied, especially in the case of 74%-76% titanium slag used in the sulfate-based production of titanium white. Some of the manufacturers discontinued the production of titanium slag with a lower titanium content and switched to producing slags with a 90% or higher TiO_2 content, given better sales margins achieved in chlorine-based production of titanium white. Thus, despite the falling prices of titanium white, the global price of titanium slag remains high. On the other hand, the slag price in China is subject to significant fluctuations due to government inspections of pollutant emissions into the environment. In 2017 and 2018, such inspections reduced production volumes, driving up the slag prices dramatically. In the first quarter of 2019, after the Chinese New Year, slag production was resumed, but some producers reduced their prices in an attempt to boost sales. The average Ex Works prices of 74%-76% titanium slag in the Sichuan Province were USD 611/t, down 11.8% year on year.

Melamine

According to ICIS, in Q1 2019 the average European contract prices of melamine fell by 3.1% both year on year and quarter on quarter. The average spot prices of melamine fell 2.3% year on year and 7.9% quarter on quarter. The price reduction was attributable to cheaper melamine offered by suppliers from price-competitive regions, particularly Asia (China, Qatar, Japan), and significant oversupply.

Prices of melamine



Source: ICIS, Global Bleaching Chemicals.

(all amounts in PLN '000 unless indicated otherwise)

Average prices of melamine

	Average Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	EUR/t	*EUR/t*	*%*	*EUR/t*	*EUR/t*	*EUR/t*
Melamine	1,620	1,583	2.3↓	1,575	1,575	1,600

Source: ICIS, Global Bleaching Chemicals.

In Q1 2019:

- The Indian producer Gujarat State Fertilizer & Chemical (GSFC) launched production from a new unit with a capacity of 40,000 tonnes/year. Prior to the launch, India's total production capacity had been 15,000 tonnes/year.
- The Japanese manufacturer Mitsui Chemical resumed production at a plant with an annual capacity of 40,000 tonnes, after it had been shut down at the end of 2018 due to mechanical issues.

In Q1 2019, the demand and supply in Europe remained balanced, although demand on the European market was lower than in the corresponding period of 2018. Low margins were recorded on melamine exports.

Talks commenced to negotiate melamine prices for Q2 2019, but they are not expected to be determined until mid-April 2019. The global demand and supply trends, especially in Asia, and the scale of price pressure from the European spot market will be material pricing factors.

The European market may be affected by Brexit-related economic disturbances as well as tensions in the US-China trade relations. In 2019, interest in European melamine on the Indian market may dwindle, after new capacities have come online in that country.

The impact of the US-China trade war on the chemical industry, particularly in China, has been aggravating. In the second part of Q1 2019, the majority of Chinese melamine plants were working at 60%–70% of their nominal capacity, while several smaller factories were shut down, as the margins were deteriorating due to low sales.

The entry into force, on February 1st 2019, of the free trade agreement between Japan and the European Union may increase the European customers' interest in Japanese melamine.

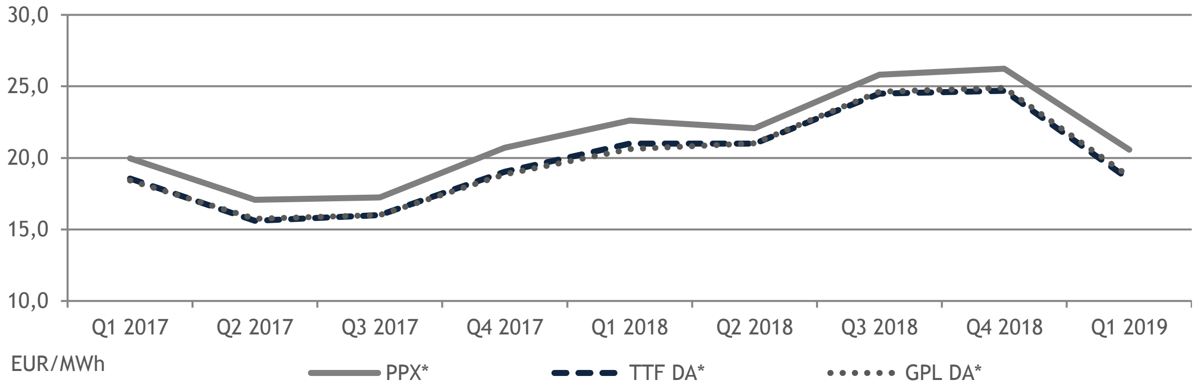
ENERGY

Natural gas

In Q1 2019, natural gas prices were falling on all markets covered by research. The spot prices of gas on the TTF commenced the quarter above EUR 22/MWh, to end it below EUR 15/MWh. The price decline was driven by lower-than-usual demand as temperatures were above seasonal averages. Other drivers included high supply of the fuel, large volumes of gas stocks held in storage and decreasing coal prices. The average ARA price for a next-month delivery of coal fell by over 25% during the quarter. Due to a considerable downward adjustment of LNG prices in the Pacific region (new liquefaction capacities and the mild winter in Asia), supplies to Europe proved more favourable to many distributors, remaining at record high levels. At the same time, pipeline supplies were at their normal stable levels. The low demand and high supply were reflected in gas stock volumes, which were decreasing at a rate much slower than a year earlier. As at the end of March 2019, the volumes of gas stored in European storage facilities represented 41% of their capacity (42 billion cubic metres), up 23% year on year, and 11% on the five-year average.

(all amounts in PLN '000 unless indicated otherwise)

Prices of natural gas



**Excluding transmission.*

Source: PGNiG tariff, ICIS.

Average prices of natural gas

	Average Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	EUR/MWh	*EUR/MWh*	*%*	*EUR/MWh*	*EUR/MWh*	*EUR/MWh*
TTF DA *	21.0	18.5	11.9↓	15.7	15.7	21.6
GPL DA*	20.6	18.7	9.3↓	16.0	16.0	21.7
PPX*	22.6	20.6	9.1↓	17.8	17.8	23.9

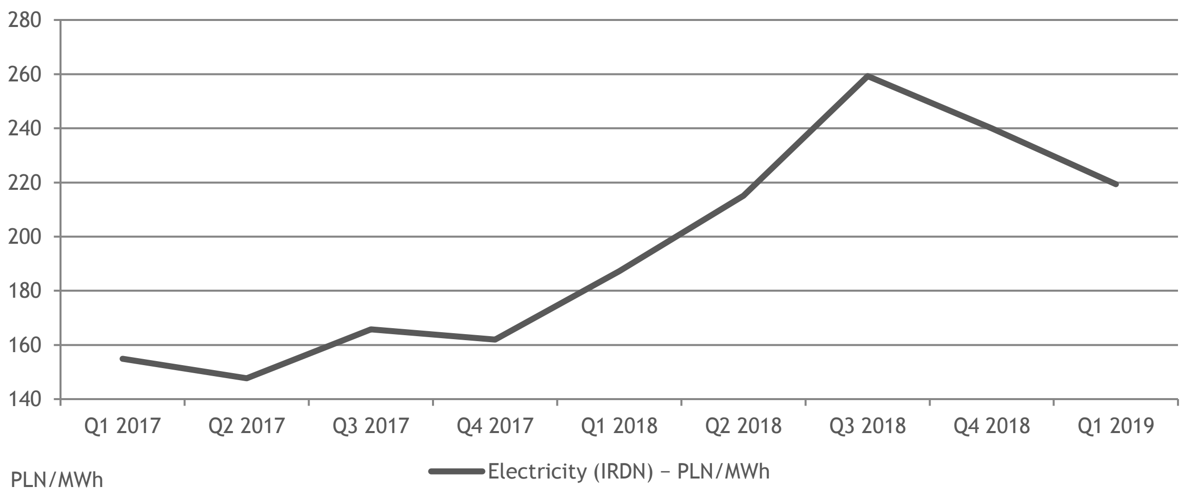
**Excluding transmission.*

Source: PGNiG tariff, ICIS.

The very high level of gas stocks and LNG supplies should translate into oversupply of gas on the European market, thus putting pressure on prices later in 2019. The price development will now be driven more by the supply and demand trends than the situation prevailing on the markets of other energy commodities.

Electricity

The average electricity prices went up over 17% year on year. Compared with the previous quarter, the prices declined by another 9%. The Polish market is largely affected by climate regulations, the legal regime, as well as the need to continue upgrading generation capacities (expenditure on new capacities) and to maintain the operating capacity reserve (effect on production costs).



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 prices of electricity

(all amounts in PLN '000 unless indicated otherwise)

	Average Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	PLN/MWh	*PLN/MWh*	*%*	*PLN/MWh*	*PLN/MWh*	*PLN/MWh*
Electricity	187.2	219.4	17.3	198.5	76.9	335.7

Source: The Polish Power Exchange.

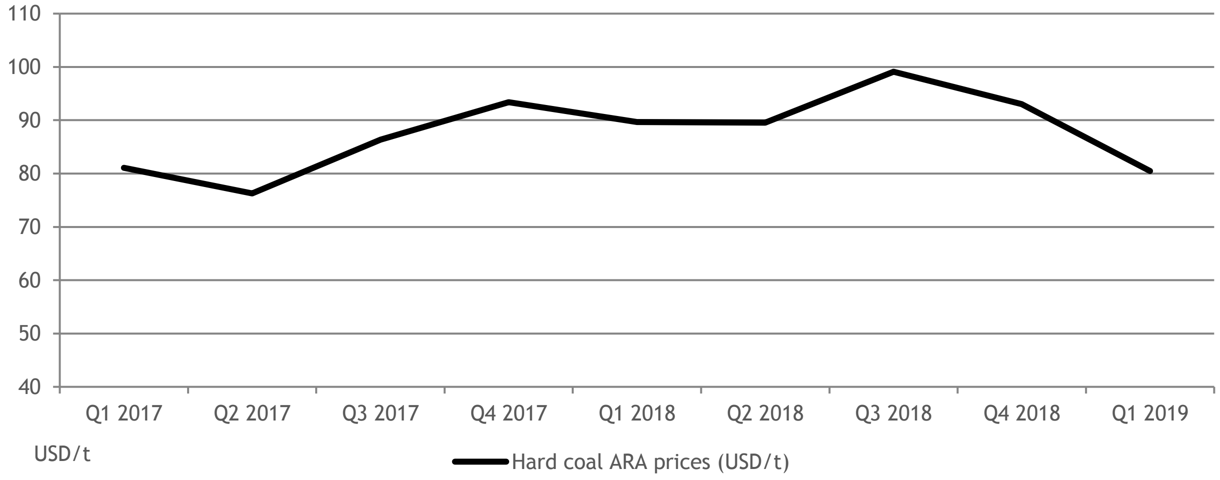
Electricity prices will be driven by the following factors:

- Fluctuations in the high prices of coal on global and domestic markets;
- Changes to the RES support system;
- Legal regulations to reduce electricity prices (excise duty, compensation for higher prices of CO_2 emission units, reduction of transition charge);
- Increasingly widespread use of energy efficient solutions leading to reduced electricity consumption;
- Price volatility for CO_2 emission allowances (in Q1 2019, the prices fell).

Coal

In Q1 2019, the downward trend begun in H2 2018 continued. The average coal prices fell by more than 10% year on year, to reach the period's low of USD 71.65/t at the end of the quarter.
The current situation on the international coal market is described as highly volatile. The prices will come under downward pressure, driven by the level of stocks held in Europe, the EU policy of reducing coal consumption in favour of gas, and growing purchases on Asian markets.
Analysts expect the prices in 2019 to remain below USD 80/t.

Prices of hard coal



Source: ARA prices.

Average prices of hard coal

	Average Q1 2018	Average Q1 2019	y/y	Mar 2019	MIN 2019	MAX 2019
	USD/t	*USD/t*	*%*	*USD/t*	*USD/t*	*USD/t*
Coal	89.7	80.5	10.2↓	76.3	71.7	88.6

Source: ARA prices.

(all amounts in PLN '000 unless indicated otherwise)

2.3. Key financial and economic data

2.3.1. Consolidated financial information

Item	Q1 2019	Q1 2018	change	% change
Revenue	3,364,884	2,497,102	867,782	34.8
Cost of sales	(2,516,577)	(1,922,628)	(593,949)	30.9
Gross profit	**848,307**	**574,474**	**273,833**	**47.7**
Selling and distribution expenses	(235,755)	(148,510)	(87,245)	58.7
Administrative expenses	(202,814)	(184,935)	(17,879)	9.7
Gross profit	**409,738**	**241,029**	**168,709**	**70.0**
Net other expenses	(1,651)	(2,599)	948	(36.5)
Operating profit	**408,087**	**238,430**	**169,657**	**71.2**
Net finance costs	(11,926)	(5,805)	(6,121)	105.4
Share of profit of equity-accounted investees	2,894	3,895	(1,001)	(25.7)
Profit before tax	**399,055**	**236,520**	**162,535**	**68.7**
Income tax	(76,183)	(48,542)	(27,641)	56.9
Net profit	**322,872**	**187,978**	**134,894**	**71.8**
EBIT	**408,087**	**238,430**	**169,657**	**71.2**
Depreciation and amortisation	200,307	164,813	35,494	21.5
EBITDA	**608,394**	**403,243**	**205,151**	**50.9**

Source: Company data.

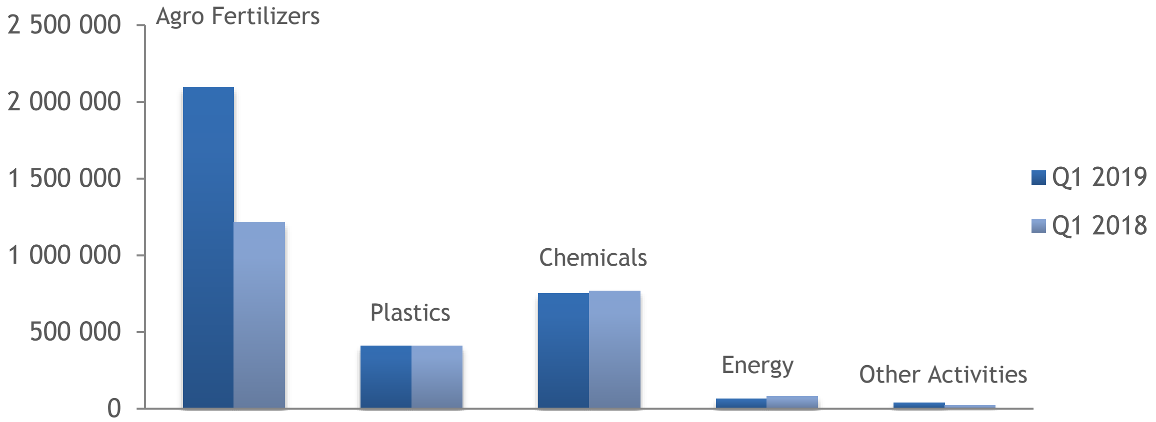
2.3.2. Segment results

EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other
External revenue	2,097,044	409,371	752,439	66,413	39,617
Profit/(loss) on sales	333,330	38,867	73,065	(3,758)	(31,766)
EBIT	332,212	38,522	74,345	(2,995)	(33,997)

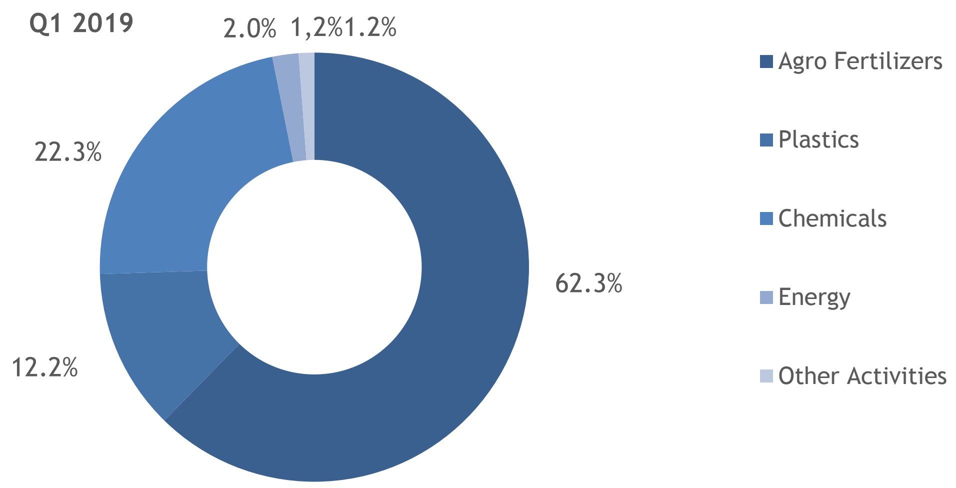
Source: Company data.

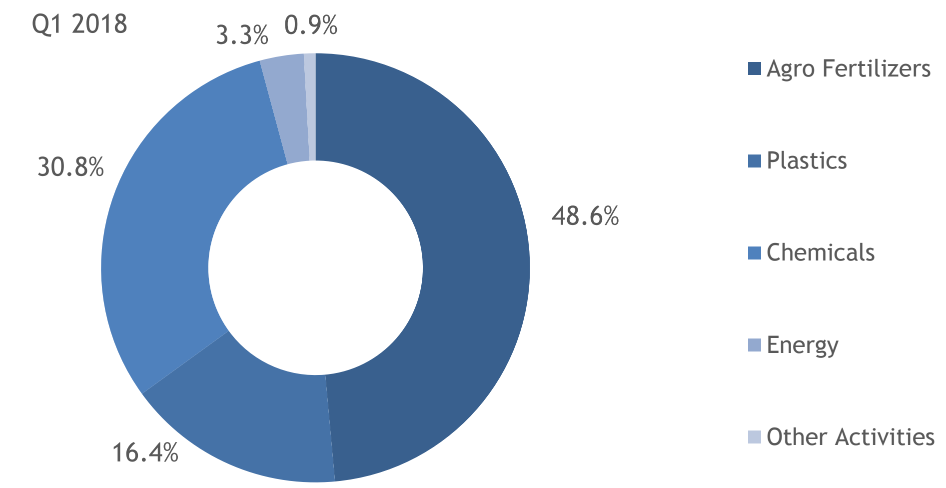
Revenue by segment



Source: Company data.

Revenue by segment





Source: Company data.

Agro Fertilizers

In Q1 2019, revenue in the Agro Fertilizers segment was PLN 2,097,044 thousand and accounted for 62.3% of the Group's total revenue. Relative to Q1 2018, the segment's revenue rose by 73.0%. EBIT reported by the Agro Fertilizers segment was positive.

(all amounts in PLN '000 unless indicated otherwise)

Sales on the domestic market accounted for approximately 58.9% of the segment's revenue.

Plastics
In Q1 2019, revenue in the Plastics segment was PLN 409,371 thousand and accounted for 12.2% of the Group's total revenue. The segment's revenue was down 0.4% year on year. EBIT reported by the Plastics segment was positive.
More than 88.6% of the segment's revenue was derived from sales on foreign markets.

Chemicals
In Q1 2019, revenue in the Chemicals segment amounted to PLN 752,439 thousand, having decreased 2.1% year on year. The segment's revenue accounted for 22.3% of the Group's total revenue.
EBIT reported by the Energy segment was positive.
Sales on foreign markets accounted for approximately 61.1% of the Chemicals segment's revenue.

Energy
In Q1 2019, revenue in the Energy segment was PLN 66,413 thousand and accounted for approximately 2.0% of the Group's total revenue. Year on year, the segment's revenue decreased by 19.9%.
EBIT reported by the Energy segment was negative.

Other Activities
In Q1 2019, revenue of the Other Activities segment was PLN 39,617 thousand and accounted for 1.2% of the Group's total revenue, having increased by 80.7% relative to Q1 2018. but its EBIT was negative.

2.3.3. Structure of operating expenses

Operating expenses by nature of expense

	Q1 2019	Q1 2018	change	% change
Depreciation and amortisation	199,348	163,870	35,478	21.7
Raw materials and consumables used	1,847,002	1,482,464	364,538	24.6
Services	276,710	211,116	65,594	31.1
Salaries and wages, including surcharges, and other benefits	428,478	352,218	76,260	21.7
Taxes and charges	105,158	86,870	18,288	21.1
Other expenses	31,950	23,483	8,467	36.1
Total	**2,888,646**	**2,320,021**	**568,625**	**24.5**

Source: Company data.

Structure of other operating expenses [%]

	Q1 2019	Q1 2018
Depreciation and amortisation	6.9	7.1
Services	9.6	9.1
Salaries and wages, including surcharges, and other benefits	14.8	15.2
Taxes and charges	3.6	3.7
Other expenses	1.1	1.0
Total	**36.1**	**36.1**

Source: Company data.

(all amounts in PLN '000 unless indicated otherwise)

2.3.4. Assets, equity and liabilities

Structure of assets

	Q1 2019	Q1 2018	change	% change
Non-current assets, including:	**10,243,687**	**8,051,105**	**2,192,582**	**27.2**
Property, plant and equipment	7,808,801	6,813,292	995,509	14.6
Intangible assets	741,857	376,057	365,800	97.3
Perpetual usufruct of land	680,878	475,374	205,504	43.2
Goodwill	581,224	32,468	548,756	1,690.1
Other receivables	203,153	147,867	55,286	37.4
Deferred tax assets	96,453	56,178	40,275	71.7
Current assets, including:	**4,748,574**	**3,882,769**	**865,805**	**22.3**
Trade and other receivables	1,840,165	1,353,303	486,862	36.0
Inventories	1,427,132	1,083,842	343,290	31.7
Property rights	717,802	364,988	352,814	96.7
Cash and cash equivalents	604,734	1,037,623	(432,889)	(41.7)
Other financial assets	67,006	11,314	55,692	492.2
Total assets	**14,992,261**	**11,933,874**	**3,058,387**	**25.6**

Source: Company data.

Structure of equity and liabilities

	Q1 2019	Q1 2018	change	% change
Equity	**7,650,930**	**7,616,542**	**34,388**	**0.5**
Non-current liabilities, including:	**3,943,639**	**2,258,701**	**1,684,938**	**74.6**
Borrowings	2,477,617	1,481,269	996,348	67.3
Employee benefit obligations	394,366	338,337	56,029	16.6
Lease liabilities	385,955	14,451	371,504	2,570.8
Deferred tax liabilities	365,053	178,810	186,243	104.2
Government grants received	147,032	92,760	54,272	58.5
Provisions	143,511	127,113	16,398	12.9
Current liabilities, including:	**3,397,692**	**2,058,631**	**1,339,061**	**65.0**
Trade and other payables	2,514,546	1,609,589	904,957	56.2
Borrowings	412,083	149,307	262,776	176.0
Government grants received	274,130	138,469	135,661	98.0
Provisions	48,960	7,460	41,500	556.3
Total equity and liabilities	**14,992,261**	**11,933,874**	**3,058,387**	**25.6**

Source: Company data.

(all amounts in PLN '000 unless indicated otherwise)

2.3.5. Financial ratios

Profitability ratios [%]

	Q1 2019	Q1 2018
Gross profit margin	25.2	23.0
EBIT margin	12.1	9.5
EBITDA margin	18.1	16.1
Net profit margin	9.6	7.5
ROA	2.2	1.6
ROCE	3.5	2.4
ROE	4.2	2.5
Return on non-current assets	3.2	2.3

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

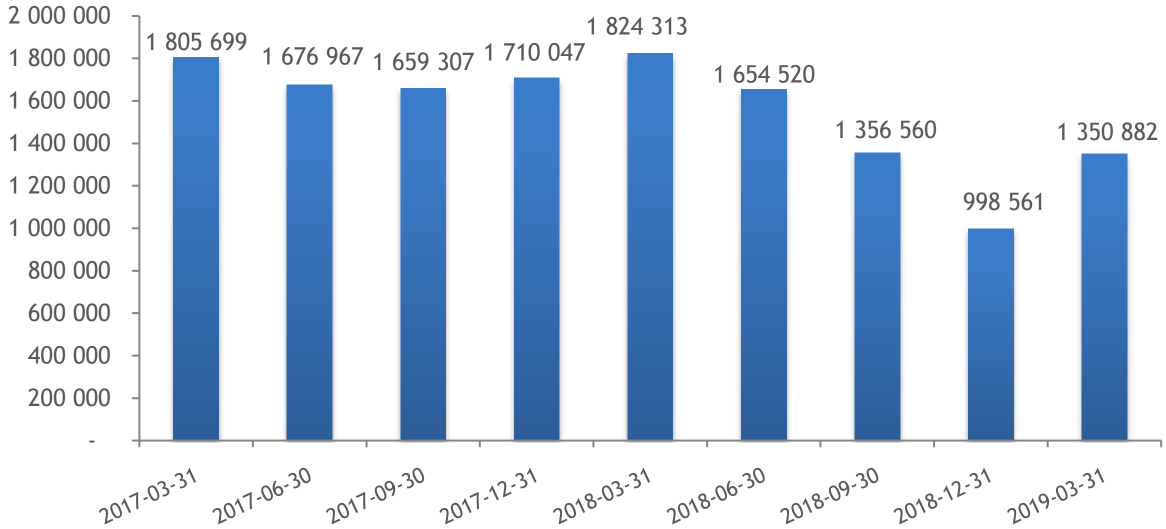
Liquidity ratios

	Q1 2019	Q1 2018
Current ratio	1.4	1.9
Quick ratio	1.0	1.4
Cash ratio	0.2	0.5

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.

(all amounts in PLN '000 unless indicated otherwise)

Operational efficiency ratios

	Q1 2019	Q1 2018
Inventory turnover	51	51
Average collection period	49	49
Average payment period	90	75
Cash conversion cycle	10	25

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

Debt ratios [%]

Ratio	Q1 2019	Q1 2018
Total debt ratio	49.0	36.2
Long-term debt ratio	26.3	18.9
Short-term debt ratio	22.7	17.3
Equity-to-debt ratio	104.2	176.4
Interest cover ratio	2,498.9	2,334.3

Source: Company data.

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

2.4. Financial liquidity

The Parent and other Group companies remain fully solvent, with good credit standing. The Group is able to pay its liabilities as they fall due and to hold and generate free operating cash flows.

The liquidity management policy operated by the Group consists in maintaining surplus cash and available credit facilities, and in ensuring that their level is safe and adequate to the scale of the Group's business.

2.5. Borrowings

In Q1 2019, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to service its debt.
The Group has access to umbrella overdraft limits related to the PLN and EUR physical cash pooling arrangements and under a multi-purpose credit facility, which may be used as directed by the Parent at times of increased demand for funding from any of the Group companies. The Grupa Azoty Group also has access to bilateral overdraft limits and multi-purpose facilities available to the Group companies.
The amount of limits under overdraft and multi-purpose credit facilities available to the Group as at March 31st 2019 was PLN 623m.
In addition, as at the reporting date, the Group had access to corporate credit facilities of approximately PLN 2,353m.
The Group also had access to special purpose loans totalling PLN 52m.
As at March 31st 2019, under the agreements specified above the Group had access to total credit limits of approximately PLN 3,028m.
The Group's financial condition is sound, and there are no material threats or risks of its deterioration in the future. The Group complies with the covenants applicable under its credit facility agreements, which enable it to significantly increase 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

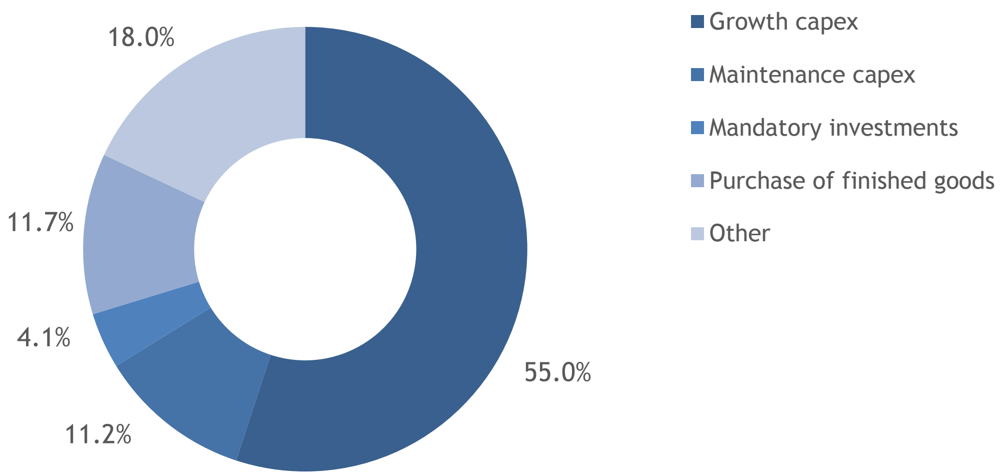
There were no other one-off items that would materially impact the Group's assets, equity and liabilities, capital, net profit/loss or cash flows.

2.7. Key investment projects

Main items of the Grupa Azoty Group's capital expenditure in Q1 2019 amounted to PLN 148,148 thousand (including amounts spent on components, major overhaul work and improvements). Structure of the key capital expenditure:

- Growth capex PLN 81,527 thousand
- Maintenance capex PLN 16,549 thousand
- Mandatory investments PLN 6,035 thousand
- Purchase of finished goods PLN 17,329 thousand
- Other (components, major overhauls, catalysts, other) PLN 26,708 thousand

Structure of the Grupa Azoty Group's main capital expenditure in Q1 2019



Source: Company data.

The Grupa Azoty Group's main capital expenditure in Q1 2019:

- Parent PLN 19,368 thousand
- Grupa Azoty PUŁAWY Group PLN 80,090 thousand
- Grupa Azoty KĘDZIERZYN Group PLN 15,761 thousand
- Grupa Azoty POLICE Group PLN 13,733 thousand
- PDH Polska S.A. PLN 5,097 thousand
- Grupa Azoty SIARKOPOL PLN 3,376 thousand
- Grupa Azoty Compounding Sp. z o.o. PLN 3,366 thousand
- Grupa Azoty KOLTAR Sp. z o.o. PLN 2,764 thousand
- Goat TopCo GmbH PLN 1,893 thousand*)
- Grupa Azoty ATT Polymers GmbH PLN 1,419 thousand*)
- Grupa Azoty PKCh Sp. z o.o. PLN 1,281 thousand

*) Translated at the EUR/PLN exchange rate quoted by the National Bank of Poland for March 29th 2019: EUR 1 = PLN 4.3013 (table No. 63/A/NBP/2019).

(all amounts in PLN '000 unless indicated otherwise)

Key investment projects implemented by the Group

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q1 2019	Project purpose	Scheduled completion date
Parent					
Chemical Technology and Development Centre	74,100	60,495	8,771	Construction of R&D centre for Grupa Azoty S.A.	2019
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	103,709	18,074	To raise the efficiency of nitric acid production and improve the economics of production of nitric acid-based fertilizers	2024
Facility for production of granulated fertilizers based on ammonium nitrate	385,000	312,844	20,432	To improve the quality of fertilizers by applying modern mechanical granulation	2020
Upgrade of steam generator OP-215 No. 2 to reduce NOx emissions	93,000	7,309	2,505	To bring the steam generator into compliance with new NOx emission standards and restore it to proper working condition	2020
Grupa Azoty POLICE					
Change of phosphoric acid production method (DA-HF technology)	83,350	80,418	-	To raise the efficiency of phosphoric acid production and improve the acid quality	2019
Grupa Azoty KĘDZIERZYN					
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	180,000	31,538	169	To rebuild the capacity of synthesis gas compression for the Ammonia Plant through the installation of a new compressor	2020
PDH Polska S.A.					
Propane Dehydrogenation (PDH) unit with related infrastructure, and polypropylene (PP) production unit	5,276,829	164,471	4,599	Construction of a propylene dehydrogenation plant (PDH) and a polypropylene production plant with associated infrastructure, including the expansion of the Police Sea Port to include a propane and ethylene handling and storage terminal.	2023
Grupa Azoty Compounding Sp. z o.o.					
Modified Plastics Plant	120,000	13,622	3,366	Construction of plastics modification unit	2019

Source: Company data.

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

Exchange rates

In the first quarter of 2019, the EUR/PLN exchange rate remained in a sideways trend, ranging between 4.26 and 4.35. As for Q2 2019, the Group expects the EUR/PLN exchange rate to continue sideways, with a possible slight depreciation of the złoty.

However, the Group does not expect any breakout from the ongoing consolidation unless there are external supply shocks and/or further strengthening of the US dollar vs the currency basket, and the złoty may weaken moderately in the medium term.
As for the USD/PLN pair, the US currency is expected to appreciate further against the euro, which should keep the USD/PLN exchange rate at relatively high levels, ranging between 3.75 and 3.90. Although the FED is expected to delay further rate rises in 2019, the US dollar should remain strong at least until the first signs of a gradual economic recovery are seen in the eurozone.
It is assumed that the forecast currency trends should not have a material bearing on the Group's performance in H1 2019.

Interest rates in Poland

Interest rates in Poland remained stable throughout Q1 2019 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 Group (1M WIBOR) should remain 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 that the 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 2019, considering that core inflation remains low following a prolonged period of deflation.
The American FED is delaying further rate increases in 2019 on concerns about whether the favourable economic climate in the US will continue, e.g. in the face of further trade disputes with China.
In view of these factors, any adverse changes to the current low interest rates on debt in the currencies used by the Group to finance its activities (PLN and EUR) are unlikely before the end of 2019. Thus the risk of the Group's financial condition or results of operations deteriorating on higher borrowing costs should be considered low.
A limited rise of the WIBOR and/or EURIBOR rates is unlikely before 2020 if inflation escalates.
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.

Regulatory area

- In Q1 2019, work on a new Fertilizer Regulation continued at the EU level. On March 27th 2019, the European Parliament passed a legislative resolution on a proposal concerning a Regulation of the European Parliament and of the Council laying down the rules on the making available on the market of CE marked fertilizing products and amending Regulation (EC) No 1069/2009 and Regulation (EC) No 1107/2009 (582 votes in favour, 38 votes against, 7 abstentions). The final version of the Regulation is expected to be published in the Official Journal of the European Union in the second quarter of 2019, and it would finally enter into force after a three-year *vacatio legis* period.
- In March 2019, the European Parliament passed a legislative resolution on a proposal concerning a Directive of the European Parliament and of the Council on the reduction of the impact of certain plastic products on the environment (560 votes in favour, 35 votes against, 28 abstentions). The directive proposes a variety of measures in respect of specific single use plastic products, taking into account consumers' needs and behaviour as well as business opportunities. The directive is expected to come into force in the first half of 2019. Afterwards, it will be implemented by member states. The directive concerns in particular the industry of disposable plastic packaging and other single use products.
- In Poland, work is being continued to implement the EU NEC Directive, setting new national emission reduction commitments for the six main pollutants: sulfur dioxide, nitrogen oxides, volatile organic compounds, ammonia, particulate matter (soot) and methane for 2020–2030. Reducing ammonia emissions will play a key role with regard to both mineral and organic fertilizers. Compared with emission levels from 2005, the target for Poland is to reduce ammonia emissions by 1% yearly from 2020 to 2029, and 17% from 2030 onwards. The Polish government must submit its air pollution control programme, monitoring data, and air pollutant emission inventory and projections to the European Commission. Currently, at the ministerial and advisory level, work is under way to prepare draft laws and regulations implementing the directive in Poland. The probable time for public consultation is the second half of 2019.

- On March 6th 2019, a draft of the Polish Fertilizers and Fertilization Act was submitted to the Parliament for first reading by the committees (to the Committee on Agriculture and Rural Development). The purpose of the amendments is to achieve the objectives set out in the national document concerning the directions for the construction of agricultural biogas plants for 2010–2020 and the provisions of Directive 2009/28/EC of the European Parliament and of the Council on the promotion of the use of energy from renewable sources, amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC. It is also intended to introduce a central register of fertilizers, plant growth enhancers and post-fermentation products marketed in Poland in order to fully identify such products. The amendments are viewed as positive by the Group.
- Following the publication of amendments to the EU ETS Directive, in March 2018 the European Commission continued its work on the implementing acts for phase 4 of the scheme (2021–2030). Commission Implementing Regulation (EU) 2018/2066 of 19 December 2018 on the monitoring and reporting of greenhouse gas emissions has been published – it will come into force as of January 1st 2021, with the exception of transitional provisions. It lays down rules for the monitoring and reporting of greenhouse gas emissions and activity data pursuant to Directive 2003/87/EC in subsequent trading periods. Commission Delegated Regulation (EU) 2019/331 of 19 December 2018 determining transitional Union-wide rules for harmonised free allocation of emission allowances has come into force. Under the regulation, installations covered by the ETS may apply for free allocations for the next trading period until May 31st 2019. National implementation measures are to be presented to the European Commission by September 30th 2019 and will be used for updating the benchmarks. The following documents are to be published in the Official Journal of the European Union: Commission Delegated Decision of 15 February 2019 concerning the determination of sectors and subsectors deemed at risk of carbon leakage for the period 2021 to 2030, Commission Delegated Regulation establishing the Innovation Fund. The European Commission has commenced a consultation process under the ongoing review of the Guidelines on certain state aid measures in the context of the greenhouse gas emission allowance trading scheme post 2020.
- A formal pre-notification procedure at the European Commission has commenced for the bill on the compensation scheme for energy-intensive sectors and subsectors in Poland and – after additional consultations at an interministerial level – the draft is awaiting to be re-discussed at the Council of Ministers Standing Committee. The proposed bill concerns aid to undertakings operating in sectors at significant risk of carbon leakage due to EUA costs passed on in electricity prices (aid for indirect emission costs).
- On April 15th 2019, the European Commission decided not to raise any objections to the cogeneration support scheme and cogeneration charge reductions introduced by the Act on the Promotion of Electricity of December 14th 2018 (Solutions reducing the cost of electricity for energy-intensive sectors). A notification procedure regarding reduced capacity charges, provided for in the Act on the Capacity Market of December 8th 2017, is under way. A decision of the European Commission to initiate formal investigation into the matter is expected.
- Work is continuing on secondary legislation to the Waste Act of December 14th 2012:
  - The Minister of the Environment's Regulation on the amounts ofsecurity for claims (under Art. 48a.22 of the Waste Act).
  - The Minister of the Environment's draft Regulation on the video monitoring of waste storage facilities and landfill sites (under Art. 25.8a of the Waste Act; the draft has been notified to the European Commission).

    The draft secondary legislation defines in more detail the obligations introduced to the Waste Act by the Amending Act of July 20th 2018 designed (in line with the rationale for the draft) to solve the problem of abandoning waste in places which are not intended for such purpose as well as in places where waste management activities have been discontinued in violation of the applicable laws, and to solve the problem of an increased number of fires of waste storage sites, particularly evident in May 2018.
  - The Minister of the Environment's draft Regulation on specific requirements for the storage of waste (draft submitted for public consultation in the first half of February 2019; at present, the mover of the draft is analysing the received comments).

    The draft regulation relies on the possibility provided for in Art. 25.7 and Art. 25.8 of the Waste Act. In accordance with the Regulatory Impact Analysis, the new regulation is required because of the recent escalation of incidents of illegal waste management, in particular ones that violate the provisions of valid permits to collect or process waste. The Ministry believes there could be links between some of those illegal activities and fires occurring at waste storage or landfill sites.
- Work is being continued on a draft Act Amending the Waste Act and Certain Other Acts which, according to the Regulatory Impact Analysis, results from the need to clarify the provisions relating

to the operation of a database on products and packaging, and on waste management (BDO) as an electronic system. Following its approval by the Legal Committee (in March 2019) and the Council of Ministers Standing Committee, the draft was submitted to the Polish Parliament on April 29th 2019.

International trade policy

- China continues to apply anti-dumping (AD) duties on imports of caprolactam originating in the European Union and the United States (extended in October 2017 for a period of five years) and polyamide 6 from the European Union, the United States, Russia and Taiwan (the most recent decision to uphold the anti-dumping duties for another five years was made in April 2016). The duty on caprolactam imports applies, among others, to the Grupa Azoty Group companies based in Puławy and Tarnów, for which the rates were set at 4.4% and 4.9%, respectively. In the case of polyamide 6, the customs duty rate for the Tarnów-based company was set at 9.7%.
- On the other hand, anti-dumping duty continues to apply on imports of melamine from China. The measures took the form of a fixed duty of EUR 415 per tonne on all imports from China with the exception of three cooperating Chinese exporting producers, which were granted a minimum import price of EUR 1,153 per tonne. The measures were imposed for a period of five years, i.e. until July 2nd 2022.
- Also, anti-dumping (AD) duty continues to apply on imports of ammonium nitrate from Russia, at a rate announced on November 16th 2018 following a review carried out at the request of EU agricultural producers' associations. The five-year period since the most recent extension of anti-dumping (AD) duty in 2014 expires in September 2019. In Q2 2019, EU producers will be able to apply to the European Commission for an extension of the anti-dumping (AD) duty on imports of ammonium nitrate originating in Russia for another five years. Once such application has been submitted, the EC will have 15 months to carry out a review and decide whether to uphold or lift the duty. Until that time, the duty will continue to apply.
- An anti-dumping (AD) procedure concerning urea and ammonium nitrate mixtures (UAN) imported from Russia, Trinidad and Tobago, and the US is pending. The European Commission's final decision in this respect is expected to be implemented in September 2019. On April 12th 2019, the European Commission decided to impose, for a period of six months, temporary anti-dumping duty on imports of urea and ammonium nitrate mixtures, at rates ranging from 16.3% to 34%, depending on the country of origin or manufacturer.
- Ukraine continues to apply anti-dumping duties of about 32% on nitrogen fertilizers from Russia. The anti-dumping duty on ammonium nitrate was set at 29.25% for Dorogobuzh and at 42.96% for other Russian exporters (previously, the anti-dumping duty was set at the rate of 31.84%). The duties were imposed in 2014 and are to expire in 2019. The situation may be changed by a WTO ruling as, in 2015, Russia applied to the organisation for consultation, claiming that the imposition of customs duties was in breach of the WTO Anti-Dumping Agreement – the case is pending.
- Negotiations within the UK government and with the European Commission regarding the UK leaving the European Union (Brexit) are still at an impasse – the new Brexit deal deadline is October 31st 2018.
- Negotiations of the European Union's trade agreements with the following third countries are in progress: Vietnam (entry into force in 2019), Singapore (awaiting adoption by the Council), the Southern Common Market (Argentina, Brazil, Paraguay, Uruguay – negotiation phase), Mexico (the texts of the agreements are now undergoing a legal review), Chile (negotiation phase), Australia and New Zealand (negotiation phase).

3. Other information

3.1. Other significant events

Approval of pre-selected bidder in tender for implementation of Polimery Police project
On March 19th 2019, the Management Board of PDH Polska S.A. passed a resolution to approve/qualify Hyundai Engineering Co., Ltd. as a pre-selected bidder in the tender to award a lump-sum turn-key contract for the execution of the Polimery Police Project.
A review of the bids indicated that the amount of remuneration under the general contractor agreement for the Polimery Police Project (basic scope) would not exceed EUR 1bn. Accordingly, based on estimates as at March 19th 2019, the total amount of capital expenditure on the project should not exceed EUR 1.2bn. In addition to the general contractor's remuneration, the amount includes the capital expenditure incurred to date, the costs of site preparation, payment for technology licences and purchase of catalysts. The project's total budget, including the cost of its financing the during the construction phase and reserve funds required under the project finance model, should not exceed EUR 1.5bn. Moreover, it is currently assumed that PDH Polska S.A. will require additional working capital financing of EUR 176m during the operation phase.

Events after the reporting period

Letters of intent concerning financing of the Polimery Police Project
On April 12th 2019, PDH Polska S.A. received letters of intent from Korea Overseas Infrastructure & Urban Development Corporation and from Hyundai Engineering Co., Ltd. regarding their potential involvement in the financing of the Polimery Police Project through a contribution to the share capital of PDH Polska S.A. of up to USD 50m by Korea Overseas Infrastructure & Urban Development Corporation and up to USD 80m by Hyundai Engineering Co., Ltd.
On April 18th 2019, the Management Board of PDH Polska S.A. passed a resolution to finally select Hyundai Engineering Co., Ltd. as the general contractor under a tender to award a contract for turnkey execution of the Polimery Police project for a lump-sum price of EUR 992,811 thousand exclusive of VAT (basic scope).
Additionally, in connection with the implementation of the Project Grupa Azoty POLICE will be required to make capital expenditure to, *inter alia*, adapt the energy infrastructure, improve fire safety measures, and reduce the adverse environmental impact of the existing and planned units. Based on current assessment of the Grupa Azoty POLICE Management Board, the expenditure will not exceed PLN 100m.
On April 18th 2019, the Supervisory Board of PDH Polska S.A. approved the conclusion of a contract with the selected general contractor.

Preliminary approval of the EPC Contractor bid
On April 16th 2019, the Management Board of Grupa Azoty PUŁAWY passed a resolution on preliminary approval of the bid submitted by a Consortium of Polimex-Mostostal S.A., Polimex Energetyka Sp. z o.o. and SBB ENERGY S.A. in the tender procedure for the selection of an EPC contractor for the 'Construction of a Coal-Fired Power Generation Unit in Puławy' project, as the basis for further steps related to the project.
According to estimates by the Management Board of Grupa Azoty PUŁAWY, the project cost should not exceed PLN 1.2bn.
The final bid selection in the tender procedure to select the EPC contractor and signing of the EPC contract are scheduled for the third quarter of 2019. The project execution is expected to take 36 months.
The new 100MWe hard coal-fired unit will be built on the premises of Grupa Azoty PUŁAWY's CHP plant, ensuring energy security to the company, also in the context of its planned investments in the fertilizers and chemicals business.
Fuel for the new generation unit will be procured as part of the company's existing coal procurement system. The new 100MWe/300MWt unit will operate in the heating and condensing mode, with a pulverised coal-fired drum type boiler and a closed cooling system featuring mechanical draft cooling towers.
The boiler will have an integrated Selective Catalytic Reduction (SCR) system for nitrogen oxide reduction, and is also to be equipped with a wet lime FGD system.
The project will meet EU environmental standards in line with the BAT Conclusions.

Letter of intent concerning financing of the Polimery Police Project
On April 26th 2019, the Parent, Grupa Azoty POLICE and PDH Polska S.A. signed a letter of intent with Grupa Lotos S.A. as a starting point for negotiations of Grupa Lotos' potential involvement in the financing of the Polimery Police Project planned by PDH Polska S.A., by way of Grupa Lotos acquiring new shares in, and contributing up to PLN 500m to the share capital of, PDH Polska S.A.
In accordance with the terms of the letter of intent, the parties will conduct negotiations to agree all material aspects of Grupa LOTOS' participation in the financing of the Polimery Police Project. The letter of intent does not firmly commit the parties to carry out the contemplated transaction. The letter of intent remains valid until October 31st 2019.

Investment cooperation agreement
On May 10th 2019, the Parent, Grupa Azoty POLICE and PDH Polska S.A. signed an investment cooperation agreement with Hyundai Engineering Co., Ltd, and Korea Overseas Infrastructure & Urban Development Corporation ("KIND"), providing the basis for further negotiations between the parties concerning potential involvement by Hyundai and KIND in the financing of the Polimery Police Project planned by PDH Polska S.A., by way of Hyundai and KIND acquiring new shares in, and contributing respectively up to USD 80m and USD 50m to the share capital of, PDH Polska S.A.
The agreement does not firmly commit the parties to follow through with the contemplated investment. The investment will be conditional, among other things, on the positive outcome of the project due diligence and on whether Hyundai and KIND obtain internal corporate approvals for making the investment. The agreement remains valid until December 1st 2019.

General Contractor contract for the Polimery Police Project
On May 11th 2019, PDH Polska S.A. and Hyundai Engineering Co., Ltd. signed a lump-sum turn-key contract for the execution of the Polimery Police Project.
The contract provides for EPC execution of the Polimery Police Project, which will consist in the construction of a new petrochemical complex in Police, comprising five sub-projects:
- propane dehydrogenation (PDH) unit,
- polypropylene production (PP) unit,
- polypropylene packaging, storage, logistics and forwarding system,
- auxiliary systems and inter-unit connections,
- handling and storage terminal with port facilities to unload and store propane and ethylene from sea ships.

Under the contract, PDH Polska S.A. may also order the execution of an optional work scope, on the terms and conditions and for the price strictly specified in the contract. The total price for the optional work scope has been set at EUR 35,938 thousand.
The total budget of the Polimery Police Project has been estimated at approximately EUR 1.5bn, of which approximately EUR 1.2bn will be capital expenditure. The balance will comprise non-capitalised operating costs of PDH Polska S.A., finance costs during the construction phase, as well as estimated provisions for debt service and cost overruns, all required under the chosen project finance model.

3.2. Significant agreements

The agreements are presented in chronological order.
In Q1 2019 and as at the date of this report for Q1 2019, none of the Group companies defaulted on credit facilities or other borrowings or breached any material covenants under significant credit facility or other loan agreements.

Material agreements

Agreements and annexes to contracts of a financial nature

Annex to the EUR Physical Cash Pooling Agreement (EUR PCP) with PKO BP
On January 31st 2019, the Parent, acting together with other Grupa Azoty Group companies, and PKO Bank Polski S.A. signed Annex 2 to the EUR Physical Cash Pooling Agreement of November 2nd 2018, as amended. Under the Annex, new Group companies (GZNF Fosfory Sp. z o.o., Grupa Azoty PKCh Sp. z o.o., Grupa Azoty Compounding Sp. z o.o., Grupa Azoty ATT Polymers GmbH, Grupa Azoty SIARKOPOL, Grupa Azoty KOLTAR Sp. z o.o., AGROCHEM PUŁAWY Sp. z o.o., and Grupa Azoty Automatyka Sp. z o.o.) have been covered by the Agreement.

Annex to the PLN Physical Cash Pooling Agreement (PLN PCP) with PKO BP
On March 5th 2019, the Parent, acting together with other Grupa Azoty Group companies, and PKO Bank Polski S.A. signed Annex 5 to the PLN Physical Cash Pooling Agreement of September 20th 2016, as amended. Under the Annex, a new Group company (SCF Natural Sp. z o.o.) has been covered by the Agreement.

Statement by Compo Expert GmbH on joining the Payments Servicing Agreement with Banco Santander S.A.
On March 25th 2019, the subsidiary Compo Expert GmbH signed a statement on joining the Payments Servicing Agreement with Banco Santander S.A., which had been concluded on December 14th 2018 by the Parent and the Key Subsidiaries, providing for a maximum limit of PLN 250m to finance trade payables under transactions with the suppliers of the company and other Group companies.

Insurance agreements

Consolidated Group Insurance Programme with TUW PZUW
On February 28th 2019, the Grupa Azoty Group companies included in the Grupa Azoty Mutual Insurance Union operating within TUW PZUW executed with TUW PZUW a new Master Agreement for the Consolidated Property Insurance Programme for a period of three years, i.e. from March 1st 2019 to February 28th 2022, under which policies were issued for the first year, i.e. from March 1st 2019 to February 28th 2020, covering the following lines of insurance:
- all-risk property insurance (ALLR),
- all-risk electronic equipment insurance (EEI),
- loss of profit insurance ALLR (BI),
- all-risk machinery insurance (MB).

Trade credit insurance at Grupa Azoty PUŁAWY
In January 2019, Grupa Azoty PUŁAWY and Towarzystwo Ubezpieczeń Euler Hermes S.A. (TUEH) signed a new global Trade Credit Risk Insurance Contract for the period from February 1st 2019 to January 31st 2020.

Project co-financing agreements

- On March 12th 2019, Grupa Azoty PUŁAWY and the National Centre for Research and Development signed an agreement for co-financing of the 'Development of a technology for the production of liquid fertilizers based on phosphorous bearing materials of sedimentary origin' project, implemented in a consortium with Grupa Azoty POLICE. Total co-financing granted to the consortium is PLN 7.4m. As at March 31st 2019, no amounts of the co-financing had yet been disbursed.
- On January 31st 2019, Grupa Azoty PUŁAWY and the Ministry of Investments and Development signed an agreement for co-financing of the 'Strengthening GA Zakłady Azotowe Puławy S.A.'s R&D&I potential' project under the Smart Growth Operational Programme. Total co-financing granted to Grupa Azoty PUŁAWY is PLN 20.6m. As at March 31st 2019, no amounts of the co-financing had yet been disbursed.

Commercial contracts

Execution of contract with JSC Belarusian Potash Company
On January 24th 2019, Grupa Azoty POLICE, a subsidiary of the Parent, and JSC Belarusian Potash Company of Minsk, Belarus, executed a potassium chloride purchase contract.
The estimated value of the contract is PLN 130,000 thousand. The contract was concluded for a definite term from January 1st 2019 to June 30th 2019. Under the contract, potassium chloride is to be delivered according to an agreed delivery schedule and commercial terms.
The other terms and conditions of the contract do not differ from standard terms typically applied in such contracts.

Execution of contract for purchase of phosphate rock
On February 5th 2019, Grupa Azoty POLICE, a subsidiary of the Parent, entered into a trilateral contract with Ameropa AG of Binningen, Switzerland (as the seller) and Somiva SA of Dakar-Yoff, Senegal (as the producer) for the purchase of low-cadmium phosphate rock sourced from Senegal.
The contract was executed for a definite period from February 1st 2019 to February 28th 2021, setting out 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 240,000 thousand.
The other terms and conditions of the contract do not differ from standard terms typically applied in such contracts.

3.3. Sureties for credit facilities or loans, guarantees issued

In Q1 2019, the Grupa Azoty Group did not issue any guarantees with a significant aggregate value.
In Q1 2019, 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 2019.

Intragroup loans

Acting under the Intragroup Financing Agreement of April 23rd 2015, as amended:
- on February 25th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 8,430 thousand, of the loan to finance the 'Raw gas compressor (GHH)' project,
- on March 28th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN tranches of, respectively, PLN 5,500 thousand and PLN 4,300 thousand, of the loan to finance projects implemented at the Fertilizers Production Unit and the Oxoplast Business Unit,
- and on April 15th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN a tranche of PLN 4,380 thousand of the loan to finance projects implemented at the Fertilizers Production Unit.

Letters of credit
On March 13th 2019, under a letter of credit issued on September 11th 2018 by PKO BP S.A. at the instruction of Grupa Azoty PUŁAWY, within the framework of a multi-purpose credit facility agreement, EUR 1,056 thousand was paid to the supplier of drum equipment for the mechanical granulation unit. As at March 31st 2019, the outstanding credit balance under the letter of credit was EUR 0.

3.4. Shares and shareholding structure

Number and par value of shares as at the issue date of this quarterly 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 25th 2019 (issue date of the most recent financial report)

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

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

In the period from April 25th 2019 to the issue date of this report, the Parent was not 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

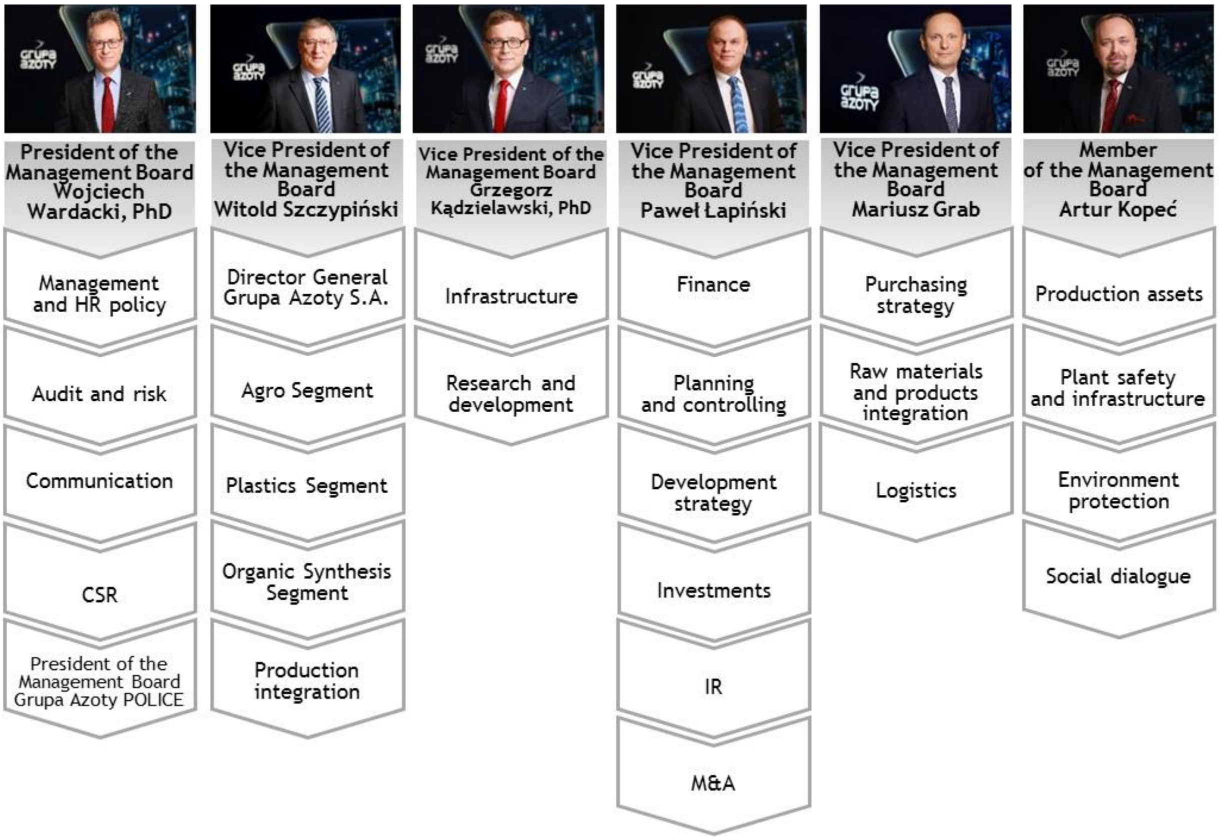
As at the end of the reporting period (March 31st 2019) and as at the date of this report, none of the members of the Parent's Management and Supervisory Boards held any shares in the Parent.

3.6. Composition of the management and supervisory bodies

Parent's Management Board
In Q1 2019, there were no changes in the composition of the Management Board.
Therefore, as at the date of this report, the Company's Management Board consisted of:
- Wojciech Wardacki – President of the Management Board,
- Witold Szczypiński – Vice President of the Management Board,
- Mariusz Grab – Vice President of the Management Board,
- Grzegorz Kądzielawski – Vice President of the Management Board,
- Paweł Łapiński – Vice President of the Management Board,
- Artur Kopeć – Member of the Management Board.

Powers and responsibilities of the Parent's Management Board and Supervisory Board members
On June 28th 2018, 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, the Plastics Segment, and the Organic Synthesis Segment,
- Mariusz Grab – Vice President of the Management Board, responsible for formulation and implementation of the procurement strategy, logistics, and raw material and product integration,
- Grzegorz Kądzielawski – Vice President the Management Board, responsible for development of infrastructure and R&D programmes,
- Paweł Łapiński – Vice President of the Management Board, responsible for finance, controlling, IT, investor relations, M&A, growth strategy, and oversight of investment projects,
- Artur Kopeć – Member of the Management Board, responsible for production assets, plant safety, environmental protection, critical infrastructure, and social dialogue.

Division of duties and responsibilities among Management Board members



Source: Company data.

The Supervisory Board

As at January 1st 2019, the Supervisory Board was composed of:

- Tomasz Karusewicz – Chairman of the Supervisory Board,
- Michał Gabryel – Deputy Chairman of the Supervisory Board,
- Zbigniew Paprocki – Secretary of the Supervisory Board,
- Piotr Czajkowski – Member of the Supervisory Board,
- Monika Fill – Member of the Supervisory Board,
- Robert Kapka – Member of the Supervisory Board,
- Bartłomiej Litwińczuk – Member of the Supervisory Board,
- Ireneusz Purgacz – Member of the Supervisory Board,
- Roman Romaniszyn – Member of the Supervisory Board.

On February 26th 2019, Tomasz Karusewicz resigned as Chairman and Member of the Supervisory Board. No reasons for the resignation were given. On the same day, by way of a resolution of the Parent's Extraordinary General Meeting, Ireneusz Purgacz was removed from the Supervisory Board. At the same time, by way of resolutions of the Parent's Extraordinary General Meeting, the following persons were appointed to the Supervisory Board:

- Paweł Bielski,
- Marcin Pawlicki.

Therefore, as at the date of this report, the Parent's Supervisory Board consisted of:
- Michał Gabryel – Deputy Chairman of the Supervisory Board,
- Zbigniew Paprocki – Secretary of the Supervisory Board,
- Paweł Bielski − Member of the Supervisory Board,
- Piotr Czajkowski – Member of the Supervisory Board,
- Monika Fill – Member of the Supervisory Board,
- Robert Kapka – Member of the Supervisory Board,
- Bartłomiej Litwińczuk – Member of the Supervisory Board,
- Marcin Pawlicki – Member of the Supervisory Board,
- Roman Romaniszyn – Member of the Supervisory Board.

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 2019:
- Ireneusz Purgacz – Chair,
- Michał Gabryel – Member,
- Tomasz Karusewicz – Member.

Following changes in the composition of the Supervisory Board made on February 26th 2019, on March 7th 2019 the Supervisory Board passed a resolution to fill the vacancy on the Audit Committee and appoint its Chair.
The Supervisory Board appointed Marcin Pawlicki and Paweł Bielski to the Committee. It also appointed Michał Gabryel as Chair of the Audit Committee.
As a result, as of March 7th 2019, the Audit Committee is composed of:
- Michał Gabryel – Chair,
- Marcin Pawlicki – Member,
- Paweł Bielski − Member.

Responsibilities of the Audit Committee

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

Other Supervisory Board's committees

On February 1st 2018, the Supervisory Board resolved to establish a Strategy and Development Committee and a Nomination and Remuneration Committee.

As at January 1st 2019, the Strategy and Development Committee was composed of:
- Robert Kapka – Chair,
- Piotr Czajkowski – Member,
- Zbigniew Paprocki – Member.

On March 29th 2019, the Supervisory Board appointed Paweł Bielski to the Strategy and Development Committee.
Following the appointment, the composition of the Audit Committee is as follows:
- Robert Kapka – Chair,
- Paweł Bielski – Member,
- Piotr Czajkowski – Member,
- Zbigniew Paprocki – Member.

As at the date of this report, the Nomination and Remuneration Committee was composed of:
- Bartłomiej Litwińczuk – Chair,
- Piotr Czajkowski – Member,
- Monika Fill – Member,
- Roman Romaniszyn – Member.

4. Supplementary information

Management Board's position on the achievement of forecasts
As no forecasts for 2019 were published, the position of the Parent's Management Board concerning achievement of such forecasts is not presented.
On April 25th 2019, the Management Board of the Parent published the estimated consolidated financial highlights of the Group for the first quarter of 2019.
The Management Board considered the above information as material, because the financial results generated in the first quarter of 2019 were better than those posted for the corresponding periods of the three previous years and differed from market expectations.

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

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

Shares, share issues
In Q1 2019, 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 2019 contains 78 pages

Signatures of members of the Management Board

Signed with qualified electronic signature
………………………………
Wojciech Wardacki, PhD

President of the Management Board

Signed with qualified electronic signature
………………………………
Witold Szczypiński
Vice President of the Management Board,
Director General

Signed with qualified electronic signature
………………………………
Paweł Łapiński
Vice President of the Management Board

Signed with qualified electronic signature
………………………………
Grzegorz Kądzielawski, PhD
Vice President of the Management Board

Signed with qualified electronic signature
………………………………
Mariusz Grab
Vice President of the Management Board

Signed with qualified electronic signature
………………………………
Artur Kopeć
Member of the Management Board

Person responsible for maintaining accounting records

Signed with qualified electronic signature
………………………………
Piotr Kołodziej
Head of the Corporate
Finance Department

Tarnów, May 22nd 2019