



Consolidated interim report
for Q3 2018

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Interim condensed consolidated financial statements for
the three and nine months ended
September 30th 2018, prepared in accordance with IAS 34
Interim Financial Reporting,
as endorsed by the European Union

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

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017	for the period Jul 1– Sep 30 2018	for the period Jul 1– Sep 30 2017
<i>Profit/loss</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue	7,201,697	7,065,760	2,324,668	2,196,069
Cost of sales	(6,074,741)	(5,443,389)	(2,105,594)	(1,738,788)
Gross profit	1,126,956	1,622,371	219,074	457,281
Selling and distribution expenses	(466,230)	(495,181)	(156,070)	(157,176)
Administrative expenses	(568,893)	(529,634)	(186,488)	(185,546)
Other income	35,253	35,220	10,923	8,472
Other expenses	(56,951)	(90,037)	(13,759)	(22,354)
Operating profit/(loss)	70,135	542,739	(126,320)	100,677
Finance income	44,664	29,056	(3,499)	(2,398)
Finance costs	(83,929)	(37,042)	216	1,709
Net finance costs	(39,265)	(7,986)	(3,283)	(689)
Share of profit of equity-accounted investees	10,016	13,007	2,825	4,402
Profit/(loss) before tax	40,886	547,760	(126,778)	104,390
Income tax	(33,233)	(94,533)	9,958	(28,834)
Net profit/(loss)	7,653	453,227	(116,820)	75,556
<i>Other comprehensive income</i>				
Items that will not be reclassified to profit or loss				
Actuarial losses from defined benefit plans	(13,016)	(7,778)	-	7
Tax on items that will not be reclassified to profit or loss	2,472	1,477	-	(2)
	(10,544)	(6,301)	-	(1)

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

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017	for the period Jul 1– Sep 30 2018	for the period Jul 1– Sep 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Items that are or may be reclassified to profit or loss				
Cash flow hedging - effective portion of fair value changes	(12,777)	10,239	11,467	(10,486)
Exchange differences on translating foreign operations	2,406	(2,601)	(322)	(4,291)
Tax on items that are or may be reclassified to profit or loss	2,428	(1,958)	(2,179)	1,980
	(7,943)	5,680	8,966	(12,797)
Total other comprehensive income	(18,487)	(621)	8,966	(12,798)
Comprehensive income for the year	(10,834)	452,606	(107,854)	62,758
Net profit attributable to:				
Owners of the Parent	18,069	402,588	(105,569)	67,086
Non-controlling interests	(10,416)	50,639	(11,251)	8,470
Comprehensive income for the year attributable to:				
Owners of the Parent	838	402,028	(98,593)	57,356
Non-controlling interests	(11,672)	50,578	(9,261)	5,402
Earnings per share:				
Basic (PLN)	0.18	4.06	(1.06)	0.68
Diluted (PLN)	0.18	4.06	(1.06)	0.68

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

Interim condensed consolidated statement of financial position

	as at Sep 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Assets		
Non-current assets		
Property, plant and equipment	7,080,388	6,779,748
Perpetual usufruct of land	471,189	476,616
Investment property	40,652	49,649
Intangible assets	355,902	395,755
Goodwill	32,468	32,468
Shares	8,595	14,690
Equity-accounted investees	85,661	111,059
Other financial assets	2,244	2,226
Other receivables	181,245	137,850
Deferred tax assets	68,237	69,583
Other assets	355	337
Total non-current assets	8,326,936	8,069,981
Current assets		
Inventories	942,135	1,003,214
Property rights	237,458	188,887
Derivative financial instruments	2,036	2,284
Other financial assets	12,303	253,684
Current tax assets	57,663	24,248
Trade and other receivables	1,257,525	1,088,424
Cash and cash equivalents	877,710	1,085,885
Other assets	14,949	10,882
Assets held for sale	11,132	10,555
Total current assets	3,412,911	3,668,063
Total assets	11,739,847	11,738,044

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

Interim condensed consolidated statement of financial position (continued)

	as at Sep 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	5,058	15,407
Translation reserve	2,040	(233)
Retained earnings, including:	3,794,811	3,926,338
<i>Net profit for the year</i>	<i>18,069</i>	<i>456,663</i>
Equity attributable to owners of the Parent	6,716,156	6,855,759
Non-controlling interests	618,663	587,648
Total equity	7,334,819	7,443,407
Liabilities		
Borrowings	1,503,837	1,564,879
Other financial liabilities	35,872	39,592
Employee benefit obligations	356,972	336,781
Trade and other payables	5,062	4,456
Provisions	137,772	122,740
Government grants received	131,643	90,585
Deferred tax liabilities	177,519	177,588
Total non-current liabilities	2,348,677	2,336,621
Borrowings	122,980	70,209
Other financial liabilities	39,402	31,484
Employee benefit obligations	37,831	42,316
Current tax liabilities	9,298	8,916
Trade and other payables	1,781,351	1,769,199
Provisions	30,298	29,805
Government grants received	35,191	6,087
Total current liabilities	2,056,351	1,958,016
Total liabilities	4,405,028	4,294,637
Total equity and liabilities	11,739,847	11,738,044

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

Interim condensed consolidated statement of changes in equity for the period ended September 30th 2018

	Share capital	Share premium	Hedging reserve	Translation reserve	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2018	495,977	2,418,270	15,407	(233)	3,926,338	6,855,759	587,648	7,443,407
Effect of IFRS 9 and IFRS 15	-	-	-	-	(7,389)	(7,389)	(410)	(7,799)
Balance as at January 1st 2018, adjusted	495,977	2,418,270	15,407	(233)	3,918,949	6,848,370	587,238	7,435,608
<i>Profit or loss and other comprehensive income</i>								
Net profit	-	-	-	-	18,069	18,069	(10,416)	7,653
Other comprehensive income	-	-	(10,349)	2,273	(9,155)	(17,231)	(1,256)	(18,487)
Total profit or loss and other comprehensive income	-	-	(10,349)	2,273	8,914	838	(11,672)	(10,834)
<i>Transactions with owners, recognised directly in equity</i>								
Dividends	-	-	-	-	(123,995)	(123,995)	(20,369)	(144,364)
Total contributions by and distributions to owners	-	-	-	-	(123,995)	(123,995)	(20,369)	(144,364)
Changes in the Group's structure	-	-	-	-	(8,737)	(8,737)	2,589	(6,148)
Total transactions with owners	-	-	-	-	(132,732)	(132,732)	(17,780)	(150,512)
Loss of control over a subsidiary	-	-	-	-	-	-	60,889	60,889
Other	-	-	-	-	(320)	(320)	(12)	(332)
Balance as at September 30th 2018 (unaudited)	495,977	2,418,270	5,058	2,040	3,794,811	6,716,156	618,663	7,334,819

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

Interim condensed consolidated statement of changes in equity (continued) for the period ended September 30th 2017

	Share capital	Share premium	Hedging reserve	Translation reserve	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2017	495,977	2,418,270	(7,105)	2,319	3,553,237	6,462,698	576,774	7,039,472
<i>Profit or loss and other comprehensive income</i>								
Net profit	-	-	-	-	402,588	402,588	50,639	453,227
Other comprehensive income	-	-	8,281	-	(6,144)	(560)	(61)	(621)
Total profit or loss and other comprehensive income	-	-	8,281	(2,697)	396,444	402,028	50,578	452,606
<i>Transactions with owners, recognised directly in equity</i>								
Dividends	-	-	-	-	(78,364)	(78,364)	(21,949)	(100,313)
Total contributions by and distributions to owners	-	-	-	-	(78,364)	(78,364)	(21,949)	(100,313)
Changes in the Group's structure	-	-	-	-	277	277	(2,189)	(1,912)
Total transactions with owners	-	-	-	-	(78,087)	(78,087)	(24,138)	(102,225)
Other	-	-	-	-	(103)	(103)	-	(103)
Balance as at September 30th 2017 (unaudited)	495,977	2,418,270	1,176	(378)	3,871,491	6,786,536	603,214	7,389,750

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

Interim condensed consolidated statement of cash flows

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from operating activities		
Profit before tax	40,886	547,760
<i>Adjustments for:</i>	<i>547,848</i>	<i>454,505</i>
Depreciation and amortisation	502,918	427,396
(Reversal)/recognition of impairment losses on assets	(5,202)	19,885
Loss on investing activities	49,741	9,767
Gain on disposal of financial assets	(109)	(4)
Share of profit of equity-accounted investees	(10,016)	(13,007)
Interest, foreign exchange gains or losses	9,970	22,614
Dividends	(447)	(677)
Fair value loss/(gain) on financial assets at fair value	993	(11,469)
	588,734	1,002,265
Increase in trade and other receivables	(190,009)	(213,979)
Decrease/(Increase) in inventories and property rights	13,990	(12,662)
Increase/(Decrease) in trade and other payables	121,709	(221,175)
Increase in provisions, prepayments and grants	66,382	11,669
Other adjustments	(489)	(6,949)
Cash generated from operating activities	600,317	559,169
Income tax paid	(19,876)	(42,868)
Net cash from operating activities	580,441	516,301

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

Interim condensed consolidated statement of cash flows (continued)

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	1,514	5,125
Acquisition of property, plant and equipment, intangible assets and investment property	(770,708)	(761,573)
Dividend received	13,108	13,990
Acquisition of financial assets	(87,065)	(545,455)
Proceeds from sale of financial assets	247,709	808,900
Interest received	14,464	15,436
Government grants received	3,808	1,123
Loans advanced	-	(2,088)
Other disbursements	(2,038)	(13,724)
Net cash from investing activities	(579,208)	(478,266)
Cash flows from financing activities		
Dividends paid	(144,364)	(100,423)
Proceeds from borrowings	140,010	327,420
Repayment of borrowings	(145,561)	(174,371)
Acquisition of non-controlling interests	-	(1,447)
Interest paid	(53,381)	(37,126)
Payment of finance lease liabilities	(7,708)	(9,165)
Other proceeds/(disbursements)	(2,460)	(26,458)
Net cash from financing activities	(213,464)	(21,570)
Total net cash flows	(212,231)	16,465
Cash and cash equivalents at beginning of period	1,085,885	641,895
Effect of exchange rate fluctuations on cash held	4,056	(2,760)
Cash and cash equivalents at end of period, including:	877,710	655,600

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

Supplementary information to the interim condensed consolidated financial statements

1. Description of the Group

1.1. The Group's organisational structure

As at September 30th 2018, the Grupa Azoty Group (the "Group") comprised: Grupa Azoty S.A. (the Parent) and the following nine subsidiaries:

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

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

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.

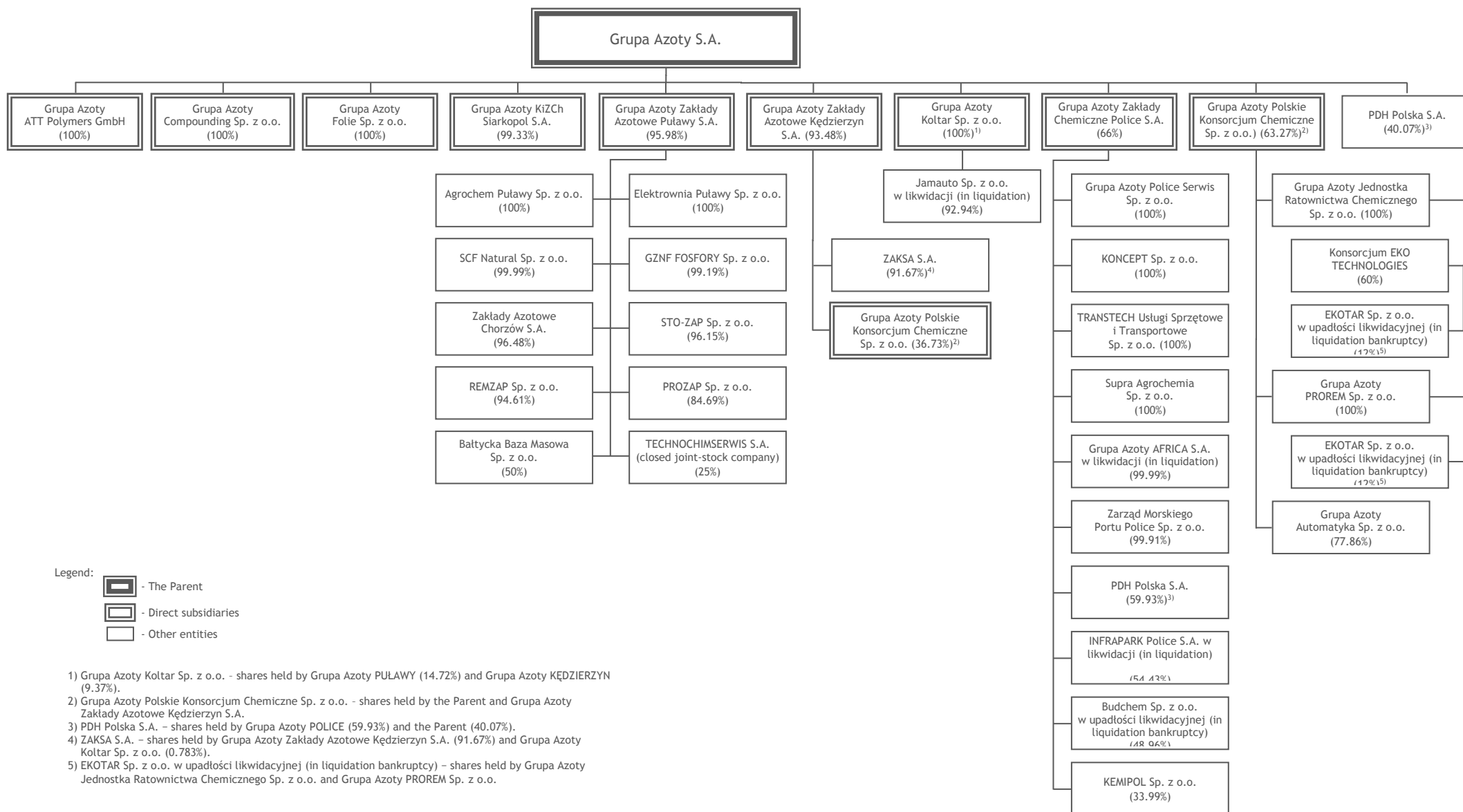
Since April 22nd 2013, the Parent has been trading under the name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).

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 the Grupa Azoty Group as at September 30th 2018:



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.

Acquisition of ordinary shares in Grupa Azoty SIARKOPOL by the Parent

On July 12th 2018, the Management Board of the Parent approved the exercise of its pre-emptive rights to Series B ordinary registered shares in Grupa Azoty SIARKOPOL on the following terms:

- number of shares subscribed for - 382,856,
- price per share - PLN 53.38,
- total price payable - PLN 20,436,853.28.

The Parent exercised its pre-emptive rights, submitted the subscription form and paid for the acquired Series B shares in Grupa Azoty SIARKOPOL by the prescribed deadline, i.e. July 17th 2018.

Share capital increase at Grupa Azoty Compounding Sp. z o.o.

On July 27th 2018, the Extraordinary General Meeting of Grupa Azoty Compounding Sp. z o.o. resolved to increase the company's share capital by PLN 30,000 thousand, from PLN 6,000 thousand.

The increase was effected by way of an issue of 300,000 new, equal and indivisible shares with a par value of PLN 100 per share.

All the new shares in the increased share capital were acquired by the existing shareholder, Grupa Azoty S.A., in exchange for a cash contribution of PLN 30,000 thousand.

The increase was registered on September 17th 2018.

Merger of Grupa Azoty KOLTAR Sp. z o.o., CTL CHEMKOL Sp. z o.o., and CTL KOLZAP Sp. z o.o.

On August 1st 2018, the merger of Grupa Azoty KOLTAR Sp. z o.o., Grupa Azoty Chemkol Sp. z o.o. and Grupa Azoty KOLZAP Sp. z o.o., effected by way of transferring all the assets of Grupa Azoty Chemkol Sp. z o.o. and Grupa Azoty KOLZAP Sp. z o.o. (the acquirees) to Grupa Azoty KOLTAR Sp. z o.o. (the acquirer), was entered in the National Court Register.

The share capital of the combined entity totals PLN 43,156.7 thousand and comprises 431,567 shares with a par value of PLN 100 per share.

The merger marks the closing of the Grupa Azoty Group's railway assets consolidation project.

Preparations to merge Grupa Azoty PUŁAWY and Elektrownia Puławy Sp. z o.o.

On August 7th 2018, a decision was made to commence preparations for the merger of Grupa Azoty PUŁAWY and its subsidiary Elektrownia Puławy Sp. z o.o.

Grupa Azoty PUŁAWY is the sole owner of Elektrownia Puławy Sp. z o.o. The merger is to be effected pursuant to Art. 492.1.1, Art. 515.1 and Art. 516.6 of the Commercial Companies Code, i.e. without increasing the share capital of Grupa Azoty PUŁAWY, by transferring all assets of Elektrownia Puławy to Grupa Azoty PUŁAWY in line with the simplified procedure (merger through acquisition).

The merger will be effected based on the merger plan, signed by the Management Boards of both companies on September 26th 2018.

Share capital increase at Grupa Azoty SIARKOPOL

On August 23rd 2018, under a resolution of the Annual General Meeting of June 6th 2018, the Management Board of Grupa Azoty SIARKOPOL allotted in a private placement 382,856 Series B ordinary registered shares with a par value of PLN 10 per share. The shares were offered to the existing shareholders only. All the new shares were allotted to the Parent.

On October 31st 2018, the increase in Grupa Azoty Siarkopol's share capital was registered in the National Court Register. Consequently, the Parent's equity interest in the company increased to 99.37%.

Share capital increase at PDH Polska S.A.

Following payment of the second instalment towards a share capital increase at PDH Polska S.A. made on August 31st 2018, the Parent currently holds 12,182,125 shares in that company, representing 40.07% of its share capital.

Currently, the total number of shares of all issues is 30,400,000, with a par value of PLN 10 per share.

Agreement for acquisition of shares in Goat TopCo GmbH

On September 6th 2018, the Parent and Goat Netherlands B.V. of Amsterdam, a member of the XIO Group, entered into a conditional share purchase agreement for 25,000 shares in Goat TopCo GmbH (Goat TopCo) of Münster, Germany, representing 100% of the company's share capital, for a consideration of no more than EUR 235m.

The transaction is to consist in the acquisition of 100% of shares in Goat TopCo (a special purpose vehicle), which is a holding company for 22 other entities, including the main operating company COMPO EXPERT GmbH of Münster, Germany, one of the largest global manufacturers of speciality fertilizers (the COMPO EXPERT Group). The transaction will be financed entirely with credit facilities available to Grupa Azoty.

The agreement defines in detail the financial mechanisms of the transaction, including price determination, rules governing the seller's warranty and liability, transaction closing conditions, such as obtaining approval from the Parent's General Meeting and antitrust clearance, commitments between the agreement date and the transaction closing date, as well as rules governing mutual reimbursement of costs if the transaction is unsuccessful.

On October 2nd and October 8th 2018, the Parent announced partial satisfaction of conditions for closing the transaction (i.e. the conditions related to antitrust clearance), having obtained relevant clearance from the antitrust authorities in Germany and Austria. On October 12th 2018, the Parent was notified of clearance given on October 11th 2018 for the acquisition of shares in Goat TopCo GmbH by the Turkish Competition Authority.

On October 12th 2018, the Parent's Extraordinary General Meeting passed a resolution to grant consent to Grupa Azoty's acquisition of shares representing 100% of the share capital of Goat TopCo GmbH under the conditional share purchase agreement, subject to clearance by the relevant antitrust authorities, on the financial terms stipulated in the conditional agreement, for a price not higher than EUR 235m. The Extraordinary General Meeting's resolution took effect as of its date.

As a result, since clearance from all antitrust authorities specified in the agreement and approval from the Extraordinary General Meeting were obtained, the necessary conditions stipulated in the agreement have been satisfied.

The transaction is consistent with the Parent's strategy to reinforce the Grupa Azoty Group's position among the leading providers of agricultural solutions. It will open new opportunities for Grupa Azoty to diversify its business while acquiring highly innovative technologies, know-how, and an extended distribution network. The COMPO EXPERT Group's products will complement Grupa Azoty's portfolio, bringing advanced solutions in speciality fertilizers.

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

2.1. Statement of compliance and general basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements of the Group cover the three and nine months ended September 30th 2018 and contain comparative data for the three and nine months ended September 30th 2017 and as at December 31st 2017.

Interim condensed consolidated financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31st 2017, which were authorised for issue on April 18th 2018.

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

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

These interim condensed consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of

authorisation of these financial statements, no circumstances were identified which would indicate any threat to the Group companies continuing as going concerns.

2.2. Accounting policies and computation methods

a) Changes in International Financial Reporting Standards

The accounting policies applied to prepare these interim condensed consolidated financial statements are consistent with the policies applied to draw up the Group's full-year consolidated financial statements for the year ended December 31st 2017, except for the application of new or amended standards and interpretations effective for annual periods beginning on or after January 1st 2018.

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

- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that the date of a transaction for the purpose of determining the exchange rate to be applied on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the date of a transaction is established for each payment or receipt.

The interpretation has no material effect on the Group's interim condensed financial statements.

- *Amendments to IAS 40 Transfers of Investment Property*

The amendments specify when an entity transfers property (including property under construction) to, or from, investment property. The amendments clarify that a change of use occurs if property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. A change in management's intentions for the use of property by itself does not constitute evidence of a change in use.

The amendments have no material effect on the Group's interim condensed financial statements.

- *Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions*

The International Accounting Standards Board (IASB) published amendments to IFRS 2 Share-based Payment to clarify the following areas: accounting for vesting conditions and conditions other than vesting conditions in the measurement of a cash-settled share-based payment transactions; recognising a share-based payment transaction settled net of tax withholdings; and recognising modification of share-based payment transactions from cash-settled to equity-settled.

The amendments have no material effect on the Group's interim condensed financial statements.

- *Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments give companies whose business model is to predominantly issue insurance contracts the option to defer the effective date of IFRS 9 until January 1st 2021. Those entities that apply such deferral approach may continue to prepare their financial statements in accordance with IAS 39.

The amendments do not apply to the Group.

- *Amendments to IAS 28 Investments in Associates and Joint Ventures introduced as part of the Annual Improvements to IFRS 2014-2016 Cycle*

The amendments specify that an entity which is a venture capital organisation, mutual fund, trust fund or a similar entity, including an investment-related insurance fund, may elect to measure its investment in an associate or joint venture at fair value through profit or loss in accordance with IFRS 9. An entity makes such election separately for each associate or joint venture on initial recognition of that associate or joint venture. If an entity that is not an investment entity itself holds an interest in an associate or joint venture that is an investment entity, such entity may elect, using the equity method, to maintain the fair value measurement used by the associate or joint venture that is an investment entity in respect of that associate's or joint venture's interests in subsidiaries. This election is made separately for each associate or joint venture on: a) the initial recognition of that associate or joint venture that is an investment entity; b) the date on which the associate or joint venture becomes an investment entity; c) the date on which the associate or joint venture that is an investment entity becomes a parent.

The amendments have no material effect on the Group's interim condensed financial statements.

- *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards introduced as part of the Annual Improvements to IFRS 2014-2016 Cycle*

The short-term exemptions from applying other IFRSs included in Par. E3-E7 of IFRS 1 were deleted. The amendments have no material effect on the Group's interim condensed financial statements.

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

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

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

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) – pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version (not endorsed by the EU by the date of authorisation of these financial statements for issue) - effective for annual periods beginning on or after January 1st 2016;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) – work leading to endorsement of the amendments was deferred by the EU for an indefinite period – effective date was deferred by the IASB for an indefinite period;
- IFRS 16 *Leases* (issued on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019;
- 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;
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on June 7th 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 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) - 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 2019;
- *Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2015-2017 Cycle* (issued on December 12th 2017) – 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 2019;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on February 7th 2018) - not endorsed by the EU as at the date of authorisation of these financial statements - effective for annual periods beginning on or after January 1st 2019;
- *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.

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

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

c) Implementation of IFRS 15

The Group has applied IFRS 15 *Revenue from Contracts with Customers* since January 1st 2018. IFRS 15 replaces the existing revenue recognition guidance contained in IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related Interpretations.

In line with the core principle of IFRS 15, the Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the

Group expects to be entitled in exchange for those goods or services. In view of the above, it is critical to correctly determine the moment and amount of revenue recognised by the Group.

The standard has introduced the following single five-step model framework for revenue recognition:

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

In accordance with IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when (or as) control of the goods or services is passed to the customer, either over time or at a point in time.

The Group has decided to implement IFRS 15 using the modified retrospective method (i.e. with the cumulative effect of first-time adoption of IFRS 15, recognised as at January 1st 2018, only with respect to contracts that were not yet completed as at that date).

Item	Adjustments resulting from first-time adoption of IFRS 15
Decrease in retained earnings resulting from deferred recognition of revenue from transport services for deliveries made under selected Incoterms	(48)
Decrease in retained earnings resulting from reallocation of granted contract discounts between contractual performance obligations on a standalone selling price basis	(134)
Increase in retained earnings resulting from the need to recognise costs of construction services and not only in the amount actually incurred in a given period (instead of the estimated stage of completion)	132
Decrease in retained earnings resulting from recognition of revenues from construction services up to the amount of costs incurred	(160)
Deferred tax	13
TOTAL	(197)

The identified impact of amendments following from the adoption of IFRS 15 by the Group concerns:

- Contracts with customers for the sale of goods, including contracts with delivery terms based on Incoterms CIF, CIP, CFR, CPT. Previously, the entire revenue was recognised at the moment control over goods was passed to the customer.

Under IFRS 15, a transport (or transport and insurance) service provided under the above Incoterms after control over goods is passed is subject to separation as a separately identifiable performance obligation to which a part of the transaction price will be allocated and revenue will be recognised separately when the service is provided (i.e. later than before).
- In contracts with customers, the Group grants customers discounts for the next quarter (or month) in exchange for meeting the obligation to collect the goods in the current quarter (or month) in the full amount specified in the contractually agreed schedule for that quarter (or month). The discount is granted in a specified amount in PLN per unit of goods, as a reduction of the VAT-exclusive price specified in the price list valid in the following quarter (or month).

In accordance with IFRS 15, the Company separates an additional performance obligation in the form of an economic right under granted discounts, i.e. the right to purchase goods at reduced prices in the future, i.e. in the next quarter (or month). The Group allocates a portion of the transaction price from the current quarter (or month) to the additional performance obligation based on the proportion of the standalone selling price.
- The Group concludes with customers contracts which were previously accounted for in accordance with IAS 11. The implementation of IFRS 15 determines the conditions that need to be met in order for the contract revenue, previously accounted for in accordance with IAS 11, to be recognised over time (instead of at a point in time), and additionally determines in what situations the Group is entitled to recognise contract revenue only up to the amount of contract costs (the zero profit method).

Previously, with regard to selected contracts, the Group recognised revenue only up to the amount of incurred costs.

In accordance with IFRS 15, the Group determines whether contract revenue is recognised over time or at a certain point in time. Additionally, the Group determines whether it may recognise revenue only up to the amount of recognised costs.
- The Group concludes with customers contracts which were previously accounted for in accordance with IAS 11, applying in particular the regulations that govern the recognition of costs under those contracts in accordance with the above standard. Following the implementation of IFRS 15, the regulations governing the recognition of costs under those contracts ceased to apply.

Previously, contract costs were recognised pro rata to the man-hours worked (in relation to the planned total man-hours); pro rata to the survey of works; in an amount not higher than the amount of recognised revenue.

In accordance with IFRS 15, the Group must recognise the costs it actually incurs.

The table below shows the impact of amendments to IFRS 15 on the Group's statement of profit or loss for the period January 1st - September 30th 2018.

	Before implementing IFRS 15	Impact of change	After implementing IFRS 15
Revenue	7,210,651	(8,954)	7,201,697
Cost of sales	(6,076,384)	1,643	(6,074,741)
Gross profit	1,134,267	(7,311)	1,126,956
Selling and distribution expenses	(474,137)	7,907	(466,230)
Profit before tax	40,290	596	40,886
Income tax	(33,271)	38	(33,233)
Net profit	7,019	634	7,653

The impact of amendments to IFRS 15 on the Group's statement of financial position as at September 30th 2018 is presented below:

	Before implementing IFRS 15	Impact of change	After implementing IFRS 15
Assets			
Non-current assets			
Deferred tax assets	68,500	(263)	68,237
Total non-current assets	8,327,199	(263)	8,326,936
Current assets			
Inventories	942,620	(485)	942,135
Trade and other receivables	1,259,431	(1,906)	1,257,525
Total current assets	3,415,302	(2,391)	3,412,911
Total assets	11,742,501	(2,654)	11,739,847
Equity and liabilities			
Equity			
Retained earnings	3,794,434	377	3,794,811
Equity attributable to owners of the Parent	6,715,779	377	6,716,156
Non-controlling interests	618,629	34	618,663
Total equity	7,334,408	411	7,334,819
Liabilities			
Deferred tax liabilities	177,772	(253)	177,519
Total non-current liabilities	2,348,930	(253)	2,348,677
Trade and other payables	1,784,758	(3,407)	1,781,351
Total current liabilities	2,059,758	(3,407)	2,056,351
Total liabilities	4,408,688	(3,660)	4,405,028
Total equity and liabilities	11,742,501	(2,654)	11,739,847

The table below shows the impact of amendments to IFRS 15 on the Group's statement of cash flows for the period January 1st - September 30th 2018.

	Before implementing IFRS 15	Impact of change	After implementing IFRS 15
Cash flows from operating activities			
Profit before tax	40,290	596	40,886
Increase in trade and other receivables	(192,334)	2,325	(190,009)
Decrease in inventories and property rights	13,731	259	13,990
Increase in trade and other payables	124,407	(2,698)	121,709
Increase in provisions, prepayments and grants	66,864	(482)	66,382
Net cash from operating activities	580,441	-	580,441

d) Implementation of IFRS 9

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

The Group made changes to enable effective implementation of IFRS 9 with respect to:

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

The Group has developed rules for the classification of financial assets, based on which it verified the cash flow characteristics of its financial assets and the business models used in the Group to manage the financial assets.

Interest (equity investments) held were measured at fair value and an analysis was performed which showed that except for trade receivables - factoring and discounting, the Group's other financial assets give rise to cash flows that are payments of principal and interest, and are held as part of a business model whose sole objective is to collect cash flows from assets, and are therefore classified as financial assets measured at amortised cost.

Under its factoring agreements and discounting agreements, the Group sells trade receivables which, based on the business models required under IFRS 9, have been classified as the model whose objective is achieved by both collecting cash flows and selling financial assets. Accordingly, trade receivables covered by the factoring or discounting agreements have been classified as financial assets measured at fair value through other comprehensive income. Given the potential sale of the assets and the short period between initial recognition and maturity, their fair value is equal to their carrying amount.

Following analyses of the impact of implementation of the new IFRS 9, a fair value measurement of shares held (equity investments) was performed. The measurement was carried out using the DCF method based on the assumptions of the Long-Term Growth Forecast prepared by the Parent for 2017-2022. The nature of the business in which revenue is based on costs is included in the Forecast based on the expected operating costs taking into account anticipated rises in inflation.

Below is presented the impact of the measurement as at January 1st 2018

	as at Jan 1 2018	Impact of change	as at Jan 1 2018
Assets			
Non-current assets			
Shares	14,690	(5,563)	9,127
Deferred tax assets	69,583	1,057	70,640
Total non-current assets	8,069,981	(4,506)	8,065,475
Total assets	11,738,044	(4,506)	11,733,538
Equity and liabilities			
Equity			
Retained earnings	3,926,338	(4,506)	3,921,832
Total equity	7,443,407	(4,506)	7,438,901
Total equity and liabilities	11,738,044	(4,506)	11,733,538

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

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

Classification of financial assets

Based on analyses carried out at the end of 2017, the Group defined business models and performed 'solely payments of principal and interest' (SPPI) tests for financial assets open as at December 31st 2017. Following these analyses, the Parent determined the effect of IFRS 9 on the Group's financial statements. In Q3 2018, the Group determined the classification of financial assets recognised for the first time in the period. The table below presents a comparison of key changes in the classification of financial assets resulting from the implementation of IFRS 9.

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

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

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

Impairment of financial assets

In place of the current principles for recognition of credit losses based on the incurred loss, IFRS 9 introduces the concept of the expected loss resulting in the recognition of an impairment loss upon initial recognition of financial assets. The requirements regarding the impairment of financial assets apply in particular to financial assets measured at amortised cost and measured at fair value through other comprehensive income.

For the purpose of estimating expected credit losses, IFRS 9 indicates that it is justified to use both historical data concerning the repayment capacity and reliable data available as at the reporting date, which may increase the accuracy of estimating expected credit losses in future periods.

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

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

With respect to trade receivables, it is expected that historical payment data may reflect credit risk that will be incurred in future periods. Expected credit losses for this group of counterparties have been estimated using a provision matrix and percentage ratios assigned to specific aging ranges of trade receivables (e.g. receivables claimed in court, receivables from insolvent counterparties) that make it possible to estimate the value of trade receivables that are not expected to be repaid.

For financial assets included in the estimation of expected losses other than trade receivables, the Group measures the risk of default of the counterparties based on ratings assigned by credit rating agencies (e.g. to financial institutions) or ratings assigned using an internal credit rating model (e.g. for intra-group loans granted) that is appropriately converted to reflect the probability of default. In accordance with IFRS 9, the expected credit loss was calculated taking into account estimates of potential recoveries from collateral provided and the time value of money.

Below is presented the impact of implementation of IFRS 9 and IFRS 15 on the Group's financial position

	as at Jan 1 2018	Impact of amendments to IFRS 9 and IFRS 15	as at Jan 1 2018
Assets			
Non-current assets			
Property, plant and equipment	6,779,748	-	6,779,748
Perpetual usufruct of land	476,616	-	476,616
Investment property	49,649	-	49,649
Intangible assets	395,755	-	395,755
Goodwill	32,468	-	32,468
Shares	14,690	(5,563)	9,127
Equity-accounted investees	111,059	-	111,059
Other financial assets	2,226	(54)	2,172
Other receivables	137,850	-	137,850
Deferred tax assets	69,583	1,707	71,290
Other assets	337	-	337
Total non-current assets	8,069,981	(3,910)	8,066,071
Current assets			
Inventories	1,003,214	(239)	1,002,975
Property rights	188,887	-	188,887
Derivative financial instruments	2,284	-	2,284
Other financial assets	253,684	-	253,684
Current tax assets	24,248	-	24,248
Trade and other receivables	1,088,424	(3,891)	1,084,533
Cash and cash equivalents	1,085,885	(53)	1,085,832
Other assets	10,882	-	10,882
Assets held for sale	10,555	-	10,555
Total current assets	3,668,063	(4,183)	3,663,880
Total assets	11,738,044	(8,093)	11,729,951

	as at Jan 1 2018	Impact of amendments to IFRS 9 and IFRS 15	as at Jan 1 2018
Equity and liabilities			
Equity			
Share capital	495,977	-	495,977
Share premium	2,418,270	-	2,418,270
Hedging reserve	15,407	-	15,407
Translation reserve	(233)	-	(233)
Retained earnings	3,926,338	(7,389)	3,918,949
Equity attributable to owners of the Parent	6,855,759	(7,389)	6,848,370
Non-controlling interests	587,648	(410)	587,238
Total equity	7,443,407	(7,799)	7,435,608
Liabilities			
Borrowings	1,564,879	-	1,564,879
Other financial liabilities	39,592	-	39,592
Employee benefit obligations	336,781	-	336,781
Trade and other payables	4,456	-	4,456
Provisions	122,740	-	122,740
Government grants received	90,585	-	90,585
Deferred tax liabilities	177,588	(33)	177,555
Total non-current liabilities	2,336,621	(33)	2,336,588
Borrowings	70,209	-	70,209
Other financial liabilities	31,484	-	31,484
Employee benefit obligations	42,316	-	42,316
Current tax liabilities	8,916	-	8,916
Trade and other payables	1,769,199	(236)	1,768,963
Provisions	29,805	(25)	29,780
Government grants received	6,087	-	6,087
Total current liabilities	1,958,016	(261)	1,957,755
Total liabilities	4,294,637	(294)	4,294,343
Total equity and liabilities	11,738,044	(8,093)	11,729,951

e) Judgements and estimates

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

Estimates and the underlying assumptions are subject to ongoing verification. A change in accounting estimates is recognised in the period in which the change is made or in current and future periods if the change in 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 2017.

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:
 - Nitrogen fertilizers (solid: nitro-chalk, ammonium nitrate, urea; liquid: RSM® - urea-ammonium nitrate solution),
 - Nitrogen fertilizers with sulfur (solid: ammonium sulfate, ammonium sulfonitrite, urea-ammonium sulfate, calcium nitrate with sulfur; liquid: RSM®, urea-ammonium sulfate solution),
 - Compound fertilizers (NPK: Polifoski® and Amofoski®; NP: DAP),
 - Nitrogen fertilizers,
 - Ammonia,
 - Technical-grade and concentrated nitric acid,
 - Industrial gases,
- Plastics segment comprises the manufacturing and marketing of the following products:
 - Engineering plastics (PA 6, POM) and their modifications,
 - Modified plastics (PPC, PPH, PBT, PA66),
 - Caprolactam,
 - Plastic products (PA pipes, PE pipes, polyamide casings);
- Chemicals segment comprises the manufacturing and marketing of the following products:
 - Melamine,
 - OXO products (OXO alcohols, plasticizers),
 - Titanium white,
 - Iron sulfate,
 - Solutions based on urea and ammonia;
- Energy segment includes the production of energy carriers (electricity, heat, water, process and instrument air, nitrogen) for the purposes of chemical units and, to a lesser extent, for resale (mainly of electricity) to external customers. As part of its operations, the segment also purchases and distributes natural gas for process needs;
- Other Activities segment comprises the remaining activities, including laboratory services, catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts), property rental, and other activities which are not allocated to any of the segments specified above. None of those activities met the quantitative criteria to be identified as a reportable segment in 2018 and 2017.

Key financial results and performance of each of the segments are discussed below. The key performance metrics for each segment are revenue, EBIT and EBITDA.

The internal management reports of each segment are reviewed by the Management Board on a monthly basis.

For its internal purposes, the Group prepares and uses management information focusing on the following operating segments:

- Nitrogen fertilizers,
- Compound fertilizers,
- Plastics,
- OXO products,
- Melamine,
- Pigments,
- Chemicals,
- Minerals extraction,
- Energy,
- Other

This structure reflects business areas managed from the perspective of the Group's principal companies. The areas were identified based on the key core business areas which make it possible - through diversification of the product portfolio - to mitigate market and economic cycle risks, thus maximising profits and cash flows. The division was made based on the following parameters:

- Target market (B2B or B2C segments), including with respect to industries and, ultimately, customers,
- Nature of the product and its final use (consumption or further processing),
- Nature of the manufacturing process and production lines, including extension of the value chain.

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

Business rationale (sales- and production-related)

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

Formal rationale (IFRS 8 guidelines)

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

Other rationale:

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

Operating segments

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

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Continuing operations						
External revenue	3,425,942	1,194,482	2,269,510	195,305	116,458	7,201,697
Intersegment revenue	1,843,317	277,914	714,749	2,157,358	719,692	5,713,030
Total revenue	5,269,259	1,472,396	2,984,259	2,352,663	836,150	12,914,727
Operating expenses, including: (-)	(5,401,867)	(1,365,700)	(2,821,024)	(2,360,706)	(873,597)	(12,822,894)
<i>selling and distribution expenses (-)</i>	(280,580)	(49,175)	(135,707)	(237)	(531)	(466,230)
<i>administrative expenses (-)</i>	(223,837)	(94,703)	(139,339)	(12,722)	(98,292)	(568,893)
Other income	3,561	2,266	2,628	7,089	19,709	35,253
Other expenses (-)	(12,024)	(462)	(1,884)	(7,757)	(34,824)	(56,951)
Segment's EBIT	(141,071)	108,500	163,979	(8,711)	(52,562)	70,135
Finance income	-	-	-	-	-	44,664
Finance costs (-)	-	-	-	-	-	(83,929)
Share of profit of equity-accounted investees	-	-	-	-	-	10,016
Profit before tax	-	-	-	-	-	40,886
Income tax	-	-	-	-	-	(33,233)
Net profit	-	-	-	-	-	7,653
EBIT*	(141,071)	108,500	163,979	(8,711)	(52,562)	70,135
Depreciation and amortisation	156,972	43,613	84,476	83,655	69,135	437,851
Unallocated depreciation and amortisation	-	-	-	-	-	65,067
EBITDA**	15,901	152,113	248,455	74,944	16,573	573,053

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

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

Operating segments' revenue, expenses and financial results for the nine months ended September 30th 2017 (unaudited)

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	3,661,539	1,095,492	2,028,543	166,490	113,696	7,065,760
Intersegment revenue	1,572,600	231,830	671,843	1,832,617	607,342	4,916,232
Total revenue	5,234,139	1,327,322	2,700,386	1,999,107	721,038	11,981,992
Operating expenses, including: (-)	(4,945,782)	(1,184,475)	(2,505,145)	(2,011,864)	(737,170)	(11,384,436)
<i>selling and distribution expenses (-)</i>	(322,217)	(43,971)	(127,713)	(137)	(1,143)	(495,181)
<i>administrative expenses (-)</i>	(235,675)	(82,020)	(132,033)	(12,691)	(67,215)	(529,634)
Other income	6,924	1,677	1,231	3,341	22,047	35,220
Other expenses (-)	(15,302)	(2,069)	(19,022)	(16,556)	(37,088)	(90,037)
Segment's EBIT*	279,979	142,455	177,450	(25,972)	(31,173)	542,739
Finance income	-	-	-	-	-	29,056
Finance costs (-)	-	-	-	-	-	(37,042)
Share of profit of equity-accounted investees	-	-	-	-	-	13,007
Profit before tax	-	-	-	-	-	547,760
Income tax	-	-	-	-	-	(94,533)
Net profit	-	-	-	-	-	453,227
EBIT*	279,979	142,455	177,450	(25,972)	(31,173)	542,739
Depreciation and amortisation	144,520	35,795	77,299	69,976	61,468	389,058
Unallocated depreciation and amortisation	-	-	-	-	-	38,338
EBITDA**	424,499	178,250	254,749	44,004	30,295	970,135

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

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

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

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Continuing operations						
External revenue	1,109,014	363,231	755,260	54,636	42,527	2,324,668
Intersegment revenue	635,090	96,148	240,763	722,936	276,806	1,971,743
Total revenue	1,744,104	459,379	996,023	777,572	319,333	4,296,411
Operating expenses, including: (-)	(1,881,394)	(443,507)	(992,996)	(782,258)	(319,740)	(4,419,895)
<i>selling and distribution expenses (-)</i>	(93,182)	(15,026)	(47,859)	(32)	29	(156,070)
<i>administrative expenses (-)</i>	(72,075)	(31,413)	(46,499)	(3,397)	(33,104)	(186,488)
Other income	368	1,346	376	2,556	6,277	10,923
Other expenses (-)	(14)	(87)	(398)	(3,445)	(9,815)	(13,759)
Segment's EBIT*	(136,936)	17,131	3,005	(5,575)	(3,945)	(126,320)
Finance income	-	-	-	-	-	(3,499)
Finance costs (-)	-	-	-	-	-	216
Share of profit of equity-accounted investees	-	-	-	-	-	2,825
Loss before tax	-	-	-	-	-	(126,778)
Income tax	-	-	-	-	-	9,958
Net loss	-	-	-	-	-	(116,820)
EBIT*	(136,936)	17,131	3,005	(5,575)	(3,945)	(126,320)
Depreciation and amortisation	52,851	14,839	27,667	28,098	24,849	148,304
Unallocated depreciation and amortisation	-	-	-	-	-	22,129
EBITDA**	(84,085)	31,970	30,672	22,523	20,904	44,113

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

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

Operating segments' revenue, expenses and financial results for the three months ended September 30th 2017 (unaudited)

<i>Continuing operations</i>	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,075,497	352,429	677,642	48,991	41,510	2,196,069
Intersegment revenue	510,645	82,397	193,806	565,725	212,243	1,564,816
Total revenue	1,586,142	434,826	871,448	614,716	253,753	3,760,885
Operating expenses, including: (-)	(1,570,824)	(388,434)	(813,364)	(618,891)	(254,813)	(3,646,326)
<i>selling and distribution expenses (-)</i>	(94,752)	(14,825)	(47,626)	(21)	48	(157,176)
<i>administrative expenses (-)</i>	(80,982)	(27,590)	(45,153)	(3,819)	(28,002)	(185,546)
Other income	98	133	553	1,202	6,486	8,472
Other expenses (-)	(7,760)	(1,325)	(37)	(943)	(12,289)	(22,354)
Segment's EBIT*	7,656	45,200	58,600	(3,916)	(6,863)	100,677
Finance income	-	-	-	-	-	(2,398)
Finance costs (-)	-	-	-	-	-	1,709
Share of profit of equity-accounted investees	-	-	-	-	-	4,402
Profit before tax	-	-	-	-	-	104,390
Income tax	-	-	-	-	-	(28,834)
Net profit	-	-	-	-	-	75,556
EBIT*	7,656	45,200	58,600	(3,916)	(6,863)	100,677
Depreciation and amortisation	51,150	11,929	25,755	25,334	20,551	134,719
Unallocated depreciation and amortisation	-	-	-	-	-	20,573
EBITDA**	58,806	57,129	84,355	21,418	13,688	255,969

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

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

Geographical areas

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

Revenue

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017	for the period Jul 1– Sep 30 2018	for the period Jul 1– Sep 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Poland	3,780,453	3,770,091	1,220,128	1,176,228
Germany	645,577	840,893	216,264	261,664
Other EU countries	2,040,894	1,719,298	630,619	524,164
Asia	153,861	310,631	50,110	89,137
South America	116,778	90,041	30,664	21,245
Other countries	464,134	334,806	176,883	123,631
Total	7,201,697	7,065,760	2,324,668	2,196,069

No single trading partner accounted for more than 10% of revenue in Q3 2018 and Q3 2017.

Note 1 Contingent liabilities, contingent assets and guarantees

Contingent assets

	as at Sep 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Contingent receivables	20,364	28,377

Contingent liabilities and guarantees/sureties

	as at Sep 30 2018	as at Dec 31 2017
Guarantees	6,814	64
Other contingent liabilities	22,481	29,177
	29,295	29,241

Note 2 Accounting estimates and assumptions

Changes in impairment losses on property, plant and equipment

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017	for the period Jul 1– Sep 30 2018	for the period Jul 1– Sep 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	343,418	280,368	349,768	300,714
Effect of acquisition of companies	43	-	-	-
Recognised	7,864	24,281	814	65
Reversed (-)	(578)	(1,798)	(195)	(57)
Used (-)	(2,467)	(2,197)	(2,107)	(68)
At end of period	348,280	300,654	348,280	300,654

Changes in inventory write-downs

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017	for the period Jul 1– Sep 30 2018	for the period Jul 1– Sep 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	44,472	43,028	50,168	49,591
Effect of acquisition of companies	121	-	114	-
Recognised	31,017	16,259	14,173	2,415
Reversed (-)	(13,018)	(11,456)	(9,708)	(9,615)
Used (-)	(17,682)	(5,805)	(9,837)	(365)
At end of period	44,910	42,026	44,910	42,026

Changes in impairment losses on receivables

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017	for the period Jul 1– Sep 30 2018	for the period Jul 1– Sep 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At beginning of period	98,045	80,505	95,627	83,608
Effect of acquisition of companies	1,434	-	1,434	-
Recognised	15,319	11,897	1,111	6,058
Reversed (-)	(11,844)	(4,035)	(1,863)	(1,702)
Used (-)	(18,341)	(892)	(11,696)	(489)
At end of period	84,613	87,475	84,613	87,475

3.2. Related-party transactions

Material related-party transactions:

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

In the three and nine months ended September 30th 2018, the Grupa Azoty Group did not execute any related-party transactions on non-arm's length terms.

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

During the three and nine months ended September 30th 2018, the Grupa Azoty Group did not grant any advances, loans, guarantees or sureties to members of its management or supervisory personnel or persons closely related to them, nor did it enter into any agreements whereby such persons are required to provide benefits to the Group.

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

No such events occurred.

3.4. Dividend

On May 9th 2018, the Management Board of the Parent passed a resolution to propose to the Annual General Meeting that the net profit for 2017, of PLN 354,792,505.28, be allocated as follows:

- PLN 123,994,355.00, i.e. PLN 1.25 per share, to be paid as dividend to shareholders;
- PLN 178,420,719.46 to be transferred to statutory reserve funds;
- PLN 52,377,430.82 to cover retained losses.

On May 17th 2018, the Parent's Supervisory Board approved the Management Board's proposal for the Annual General Meeting to allocate the 2017 net profit in accordance with the Management Board's resolution of May 9th 2018.

On May 30th 2018, the Management Board of the Parent resolved to propose the following dates relating to payment of dividend for 2017:

- June 25th 2018 as the dividend record date, i.e. the date on which the list of shareholders entitled to receive dividend for the financial year from January 1st to December 31st 2017 is determined;
- August 8th 2018 as the dividend payment date.

On June 1st 2018 the Parent's Supervisory Board resolved to endorse the Management Board's recommendation of dates relating to payment of dividend for 2017 for the Annual General Meeting.

On June 28th 2018, the Annual General Meeting passed a resolution to pay dividend for 2017 as follows:

- the amount allocated to dividend payments is PLN 123,994,355.00.
- dividend per share is PLN 1.25.
- dividend will be paid on all Company shares (99,195,484 shares).
- the dividend record date is July 25th 2018.
- the dividend payment date is August 8th 2018.

The Parent paid the dividend when due.

3.5. Seasonality of operations

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

Mineral fertilizers

The third quarter of a year is a period of increased agricultural field work as crops are harvested. Therefore, demand for fertilizer products, particularly in the first half of the third quarter, usually falls to its lowest in a year. This changes at the end of Q3, when demand for fertilizers dedicated to winter crops picks up. Total demand for mineral fertilizers (mainly nitrogen products) in autumn is lower than in spring, which is attributable to the nature of agricultural production technologies. The Group follows a policy of mitigating seasonality through optimum volume allocation:

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

Titanium white market

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.

These interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2018 have been authorised for issue by the Management Board.

Signatures of members of the Management Board

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

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

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

.....
Grzegorz Kądziałowski, PhD
*Vice President of the
Management Board*

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

.....
Artur Kopeć
*Member of the
Management Board*

Person responsible for maintaining accounting records

.....

Tarnów, November 7th 2018



Interim condensed separate financial statements for the
three and nine months ended
September 30th 2018, prepared in accordance with IAS 34
Interim Financial Reporting,
as endorsed by the European Union

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

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017	for the period Jul 1– Sep 30 2018	for the period Jul 1– Sep 30 2017
Profit/loss	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue	1,342,738	1,264,381	436,200	408,381
Cost of sales	(1,101,167)	(944,835)	(377,063)	(303,571)
Gross profit	241,571	319,546	59,137	104,810
Selling and distribution expenses	(69,916)	(75,235)	(24,308)	(26,901)
Administrative expenses	(121,852)	(108,573)	(44,478)	(39,680)
Other income	7,975	7,948	2,250	2,248
Other expenses	(14,319)	(11,387)	(3,577)	(4,912)
Operating profit	43,459	132,299	(10,976)	35,565
Finance income	179,669	244,894	73,939	2,629
Finance costs	(34,920)	(25,459)	(10,037)	(5,898)
Net finance income	144,749	219,435	63,902	(3,269)
Profit before tax	188,208	351,734	52,926	32,296
Income tax	(10,121)	3,532	(97)	(4,898)
Net profit	178,087	355,266	52,829	27,398
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Actuarial losses from defined benefit plans	(1,910)	(1,743)	-	(1)
Tax on items that will not be reclassified to profit or loss	363	331	-	-
	(1,547)	(1,412)	-	(1)

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

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

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017	for the period Jul 1– Sep 30 2018	for the period Jul 1– Sep 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Items that are or may be reclassified to profit or loss				
Cash flow hedging - effective portion of fair value changes	(12,777)	10,239	11,467	(10,486)
Tax on items that are or may be reclassified to profit or loss	2,428	(1,958)	(2,179)	1,980
	(10,349)	8,281	9,288	(8,506)
Total other comprehensive income	(11,896)	6,869	9,288	(8,507)
Comprehensive income for the year	166,191	362,135	62,117	18,891
Earnings per share:				
Basic (PLN)	1.80	3.58	0.53	0.28
Diluted (PLN)	1.80	3.58	0.53	0.28

Interim condensed separate statement of financial position

	as at Sep 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Assets		
Non-current assets		
Property, plant and equipment	1,607,966	1,554,673
Perpetual usufruct of land	366	369
Intangible assets	46,492	46,957
Investment property	16,185	16,449
Shares	3,990,477	3,867,145
Other financial assets	292,460	249,978
Other receivables	36,797	16,882
Deferred tax assets	9,532	17,957
Total non-current assets	6,000,275	5,770,410
Current assets		
Inventories	216,267	212,109
Property rights	32,451	29,852
Derivative financial instruments	747	1,071
Other financial assets	53,883	70,361
Current tax assets	3,566	-
Trade and other receivables	349,433	214,524
Cash and cash equivalents	389,903	572,711
Assets held for sale	95	95
Total current assets	1,046,345	1,100,723
Total assets	7,046,620	6,871,133

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

Interim condensed separate statement of financial position (continued)

	as at Sep 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	5,058	15,407
Retained earnings, including:	1,880,641	1,832,602
<i>Net profit for the year</i>	<i>178,087</i>	<i>354,793</i>
Total equity	4,799,946	4,762,256
Liabilities		
Borrowings	1,311,975	1,357,234
Other financial liabilities	22,692	25,860
Employee benefit obligations	48,297	47,459
Trade and other payables	32	32
Provisions	29,202	27,345
Government grants received	37,743	26,394
Total non-current liabilities	1,449,941	1,484,324
Borrowings	452,434	310,892
Other financial liabilities	31,414	24,315
Employee benefit obligations	3,144	3,038
Current tax liabilities	-	3,178
Trade and other payables	297,528	280,843
Provisions	1,614	1,200
Government grants received	10,599	1,087
Total current liabilities	796,733	624,553
Total liabilities	2,246,674	2,108,877
Total equity and liabilities	7,046,620	6,871,133

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

Interim condensed separate statement of changes in equity

for the period ended September 30th 2018

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at January 1st 2018	495,977	2,418,270	15,407	1,832,602	4,762,256
Impact of IFRS 9 implementation	-	-	-	(4,506)	(4,506)
Balance as at January 1st 2018, adjusted	495,977	2,418,270	15,407	1,828,096	4,757,750
<i>Profit or loss and other comprehensive income</i>					
Net profit	-	-	-	178,087	178,087
Other comprehensive income	-	-	(10,349)	(1,547)	(11,896)
Total profit or loss and other comprehensive income	-	-	(10,349)	176,540	166,191
<i>Transactions with owners, recognised directly in equity</i>					
Dividends	-	-	-	(123,995)	(123,995)
Total transactions with owners	-	-	-	(123,995)	(123,995)
Balance as at September 30th 2018 (unaudited)	495,977	2,418,270	5,058	1,880,641	4,799,946

for the period ended September 30th 2017

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at January 1st 2017	495,977	2,418,270	(7,105)	1,557,618	4,464,760
<i>Profit or loss and other comprehensive income</i>					
Net profit	-	-	-	355,266	355,266
Other comprehensive income	-	-	8,281	(1,412)	6,869
Total profit or loss and other comprehensive income	-	-	8,281	353,854	362,135
<i>Transactions with owners, recognised directly in equity</i>					
Dividends	-	-	-	(78,364)	(78,364)
Total transactions with owners	-	-	-	(78,364)	(78,364)
Balance as at September 30th 2017 (unaudited)	495,977	2,418,270	1,176	1,833,108	4,748,531

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

Interim condensed separate statement of cash flows

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from operating activities		
Profit before tax	188,208	351,734
<i>Adjustments for:</i>	<i>(65,062)</i>	<i>(146,799)</i>
Depreciation and amortisation	82,034	72,946
(Reversal of)/impairment losses on assets	409	(1,224)
Loss on investing activities	846	1,718
Interest, foreign exchange gains or losses	9,869	13,885
Dividends	(159,223)	(231,516)
Fair value loss/(gain) on financial assets at fair value	1,003	(2,608)
	123,146	204,935
Increase in trade and other receivables	(81,923)	(6,877)
Increase in inventories and property rights	(6,755)	(2,110)
Increase/(Decrease) in trade and other payables	26,890	(13,931)
(Decrease)/Increase in provisions, prepayments and grants	(520)	6,662
Other adjustments	(3,500)	(7,000)
Cash generated from operating activities	57,338	181,679
Income tax paid	(4,592)	(15,123)
Net cash from operating activities	52,746	166,556

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

Interim condensed separate statement of cash flows (continued)

	for the period Jan 1– Sep 30 2018	for the period Jan 1– Sep 30 2017
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	528	431
Acquisition of property, plant and equipment, intangible assets and investment property	(153,913)	(190,024)
Dividend received	156,155	231,516
Acquisition of other financial assets	(174,960)	(24,269)
Interest received	10,712	6,631
Loans advanced	(79,376)	(77,918)
Repayments of loans advanced	52,692	40,300
Other disbursements	(1,358)	(2,149)
Net cash from investing activities	(189,520)	(15,482)
Cash flows from financing activities		
Dividends paid	(123,994)	(78,364)
Proceeds from borrowings	96,911	115,673
Repayment of borrowings	-	(95,866)
Interest paid	(36,920)	(18,224)
Payment of finance lease liabilities	(336)	(479)
Other proceeds/(disbursements)	15,372	(26,441)
Net cash from financing activities	(48,967)	(103,701)
Total net cash flows	(185,741)	47,373
Cash and cash equivalents at beginning of period	572,711	326,031
Effect of exchange rate fluctuations on cash held	2,933	-
Cash and cash equivalents at end of period	389,903	373,404

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 and nine months ended September 30th 2018 and contain comparative data for the three and nine months ended September 30th 2017 and as at December 31st 2017.

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

The Company has been established for an indefinite term.

Grupa Azoty's business includes in particular:

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

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

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

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

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. Changes in presentation of financial statements and correction of errors

a) Changes in International Financial Reporting Standards

The accounting policies applied to prepare these interim condensed separate financial statements are consistent with the policies applied to draw up the Company's full-year separate financial statements for the year ended December 31st 2017, except for the application of new or amended standards and interpretations effective for annual periods beginning on or after January 1st 2018.

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

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that the date of a transaction for the purpose of determining the exchange rate to be applied on initial recognition of the related asset, expense or income (or part

thereof) is the date on which an entity initially recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the date of a transaction is established for each payment or receipt.

The interpretation has no material effect on the Company's interim condensed financial statements.

- Amendments to IAS 40 *Transfers of Investment Property*

The amendments specify when an entity transfers property (including property under construction) to, or from, investment property. The amendments clarify that a change of use occurs if property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. A change in management's intentions for the use of property by itself does not constitute evidence of a change in use.

The amendments have no material effect on the Company's interim condensed financial statements.

- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The International Accounting Standards Board (IASB) published amendments to IFRS 2 Share-based Payment to clarify the following areas: accounting for vesting conditions and conditions other than vesting conditions in the measurement of a cash-settled share-based payment transactions; recognising a share-based payment transaction settled net of tax withholdings; and recognising modification of share-based payment transactions from cash-settled to equity-settled.

The amendments have no material effect on the Company's interim condensed financial statements.

- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments give companies whose business model is to predominantly issue insurance contracts the option to defer the effective date of IFRS 9 until January 1st 2021. Those entities that apply such deferral approach may continue to prepare their financial statements in accordance with IAS 39.

The amendments do not apply to the Company.

- Amendments to IAS 28 *Investments in Associates and Joint Ventures introduced as part of the Annual Improvements to IFRS 2014-2016 Cycle*

The amendments specify that an entity which is a venture capital organisation, mutual fund, trust fund or a similar entity, including an investment-related insurance fund, may elect to measure its investment in an associate or joint venture at fair value through profit or loss in accordance with IFRS 9. An entity makes such election separately for each associate or joint venture on initial recognition of that associate or joint venture. If an entity that is not an investment entity itself holds an interest in an associate or joint venture that is an investment entity, such entity may elect, using the equity method, to maintain the fair value measurement used by the associate or joint venture that is an investment entity in respect of that associate's or joint venture's interests in subsidiaries. This election is made separately for each associate or joint venture on: a) the initial recognition of that associate or joint venture that is an investment entity; b) the date on which the associate or joint venture becomes an investment entity; c) the date on which the associate or joint venture that is an investment entity becomes a parent.

The amendments have no material effect on the Company's interim condensed financial statements.

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards introduced as part of the Annual Improvements to IFRS 2014-2016 Cycle*

The short-term exemptions from applying other IFRSs included in Par. E3-E7 of IFRS 1 were deleted. The amendments have no material effect on the Company's interim condensed financial statements.

The Company has not elected to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective in accordance with the European Union regulations. At the date of authorisation of these interim condensed separate financial statements for issue, the Company's Management Board had not completed its assessment of the impact of the new standards and interpretations on the accounting policies applied by the Company with respect to the Company's operations or financial results.

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

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

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) – pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version (not endorsed by the EU by the date of authorisation of these financial statements for issue) - effective for annual periods beginning on or after January 1st 2016;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) – work leading to endorsement of the amendments was deferred by the EU for an indefinite period – effective date was deferred by the IASB for an indefinite period;
- IFRS 16 *Leases* (issued on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019;
- 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;
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on June 7th 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 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) - 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 2019;
- *Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2015-2017 Cycle* (issued on December 12th 2017) – 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 2019;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on February 7th 2018) - not endorsed by the EU as at the date of authorisation of these financial statements - effective for annual periods beginning on or after January 1st 2019;
- *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.

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

c) Implementation of IFRS 15

The Group has applied IFRS 15 *Revenue from Contracts with Customers* since January 1st 2018. IFRS 15 replaces the existing revenue recognition guidance contained in IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related Interpretations.

In line with the core principle of IFRS 15, the Company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. In view of the above, it is critical to correctly determine the moment and amount of revenue recognised by the Company.

The standard has introduced the following single five-step model framework for revenue recognition:

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

In accordance with IFRS 15, the Company recognises revenue when (or as) a performance obligation is satisfied, i.e. when (or as) control of the goods or services is passed to the customer, either over time or at a point in time.

The Company decided to implement IFRS 15 using the modified retrospective method (i.e. with the cumulative effect of first-time adoption of IFRS 15, recognised as at January 1st 2018, only with respect to contracts that were not yet completed as at that date).

The identified impact of changes following from the application of IFRS 15 by the Company concerns contracts executed by the Company with customers for the sale of products, including contracts with delivery terms based on Incoterms CIF, CIP, CFR, CPT. Previously, the entire revenue was recognised at the moment control over goods was passed to the customer.

Under IFRS 15, a transport (or transport and insurance) service provided under the above Incoterms after control over goods is passed will be subject to separation as a separately identifiable performance obligation to which a part of the transaction price will be allocated and revenue will be recognised separately when the service is provided (i.e. later than before).

The table below sets forth the impact of amendments to IFRS 15 on the Company's statement of profit or loss for the period January 1st - September 30th 2018.

	Before implementing IFRS 15	Impact of change	After implementing IFRS 15
Revenue, including:	1,343,202	(464)	1,342,738
Revenue from sale of products and services	1,313,417	(464)	1,312,953
Gross profit	242,035	(464)	241,571
Selling and distribution expenses	70,380	464	69,916
Net profit	178,087	-	178,087

An analysis of the implementation of the new standard showed that it affects the opening balance in an insignificant way.

d) Implementation of IFRS 9

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

The Company made a change to enable effective implementation of IFRS 9 with respect to:

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

The Company has developed rules for the classification of financial assets, based on which it reviewed the cash flow characteristics of its financial assets and the business models used in the Company to manage the financial assets.

The analysis showed that except for trade receivables - factoring and discounting, the Company's other financial assets give rise to cash flows that are payments of principal and interest, and are held as part of a business model whose sole objective is to collect cash flows from assets, and are therefore classified as financial assets measured at amortised cost.

Under its factoring agreements and discounting agreements, the Company sells trade receivables which, based on the business models required under IFRS 9, have been classified as the model whose objective is achieved by both collecting cash flows and selling financial assets. Accordingly, trade receivables covered by the factoring or discounting agreements have been classified as financial assets measured at fair value through other comprehensive income. Given the potential sale of the assets and the short period between initial recognition and maturity, their fair value is equal to their carrying amount.

An analysis showed that the fair value measurement of shares in unrelated entities will differ from the historical cost of acquired shares. The Company applied the option to measure those shares at fair value through other comprehensive income.

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

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

Classification of financial assets

Based on analyses carried out at the end of 2017, the Company defined business models and performed 'solely payments of principal and interest' (SPPI) tests for financial assets open as at December 31st 2017. Following these analyses, the effect of IFRS 9 on the Company's financial statements was determined. In Q3 2018, the Company determined the classification of financial assets recognised for the first time in the period. The table below presents a comparison of key changes in the classification of financial assets resulting from the implementation of IFRS 9.

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

Financial assets	Classification		Note
	IAS 39	IFRS 9	
Cash (including cash at banks, overnight deposits and term deposits)			
	financial assets held to maturity	measured at amortised cost	
Cash (including intra-group cash pool)			
	financial assets held to maturity	measured at amortised cost	
Loans advanced (intra-group)			
	loans advanced	measured at amortised cost	

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

Impairment of financial assets

In place of the current principles for recognition of credit losses based on the incurred loss, IFRS 9 introduces the concept of the expected loss resulting in the recognition of an impairment loss upon initial recognition of financial assets. The requirements regarding the impairment of financial assets apply in particular to financial assets measured at amortised cost and measured at fair value through other comprehensive income.

For the purpose of estimating expected credit losses, IFRS 9 indicates that it is justified to use both historical data concerning the repayment capacity and reliable data available as at the reporting date, which may increase the accuracy of estimating expected credit losses in future periods.

The Company has identified the following classes of financial assets for which, in accordance with IFRS 9, it has estimated the impact of the expected credit losses on the financial statements:

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

With respect to trade receivables, it is expected that historical payment data may reflect credit risk that will be incurred in future periods. Expected credit losses for this group of counterparties have been estimated using a provision matrix and percentage ratios assigned to specific aging ranges of trade receivables (e.g. receivables claimed in court, receivables from insolvent counterparties) that make it possible to estimate the value of trade receivables that are not expected to be repaid.

For financial assets included in the estimation of expected losses other than trade receivables, the Company measures the risk of default of the counterparties based on ratings assigned by credit rating agencies (e.g. to financial institutions) or ratings assigned using an internal credit rating model (e.g. for intra-group loans granted) that is appropriately converted to reflect the probability of default. In accordance with IFRS 9, the expected credit loss was calculated taking into account estimates of potential recoveries from collateral provided and the time value of money.

Following analyses of the impact of implementation of the new IFRS 9, a fair value measurement of shares held (equity investments) was performed. The measurement was carried out using the DCF method based on the assumptions of the Long-Term Growth Forecast prepared by the Company for 2017-2022. The nature of the business in which revenue is based on costs is included in the Forecast based on the expected operating costs taking into account anticipated rises in inflation.

Below is presented the impact of the measurement as at January 1st 2018

	as at Jan 1 2018	Impact of change	as at Jan 1 2018
Assets			
Non-current assets			
Shares	3,867,145	(5,563)	3,861,582
Deferred tax assets	17,957	1,057	19,014
Total non-current assets	5,770,410	(4,506)	5,765,904
Total assets	6,871,133	(4,506)	6,866,627
Equity and liabilities			
Equity			
Retained earnings	1,832,602	(4,506)	1,828,096
Total equity	4,762,256	(4,506)	4,757,750
Total equity and liabilities	6,871,133	(4,506)	6,866,627

These interim condensed separate financial statements of Grupa Azoty S.A. for the three and nine months ended September 30th 2018 have been authorised for issue by the Management Board.

Signatures of members of the Management Board

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

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

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

.....
Grzegorz Kądziałowski, PhD
*Vice President of the
Management Board*

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

.....
Artur Kopec
*Member of the
Management Board*

Person responsible for maintaining accounting records

.....

Tarnów, November 7th 2018



Management's discussion and analysis:
the Grupa Azoty Group in Q3 2018

1. General information on the Grupa Azoty Group

1.1. Organisation and structure

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

Grupa Azoty has brought together companies with different traditions and complementary business profiles, seeking to leverage their potential to deliver a common strategy. This has led to the creation of Poland's largest chemical group and a major industry player in Europe. Thanks to its carefully designed structure, the Group offers a diverse product mix, ranging from nitrogen and compound fertilizers, engineering plastics, to OXO products and melamine.

As at September 30th 2018, the Grupa Azoty Group (the "Group") comprised: Grupa Azoty S.A. (the Parent) and nine 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 ("Grupa Azoty S.A.").

Parent's subsidiaries

Grupa Azoty Zakłady Azotowe Puławy S.A.

The company's registered office is located in Puławy. Since April 4th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna ("Grupa Azoty PUŁAWY").

Grupa Azoty PUŁAWY specialises in the manufacturing of nitrogen fertilizers and is one of the largest melamine manufacturers in the world.

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna

The company's registered office is located in Kędzierzyn-Koźle. Since January 11th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna ("Grupa Azoty KĘDZIERZYN").

The company's two business pillars are nitrogen fertilizers and OXO products (OXO alcohols and plasticizers).

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna

The company's registered office is located in Police. Since June 3rd 2013, it has been trading under the name Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna ("Grupa Azoty POLICE").

Grupa Azoty Police is a major manufacturer of compound and nitrogen fertilizers, as well as titanium white.

Grupa Azoty ATT Polymers GmbH

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

It manufactures polyamide 6 (PA6).

Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów. Since February 28th 2013, it has been trading under the name Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. or Grupa Azoty PKCh Sp. z o.o.).

Grupa Azoty PKCh'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 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 ("Grupa Azoty SIARKOPOL").

Grupa Azoty SIARKOPOL is Poland's largest producer of liquid sulfur.

Grupa Azoty Folie Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

Its principal business is research and development in technical science.

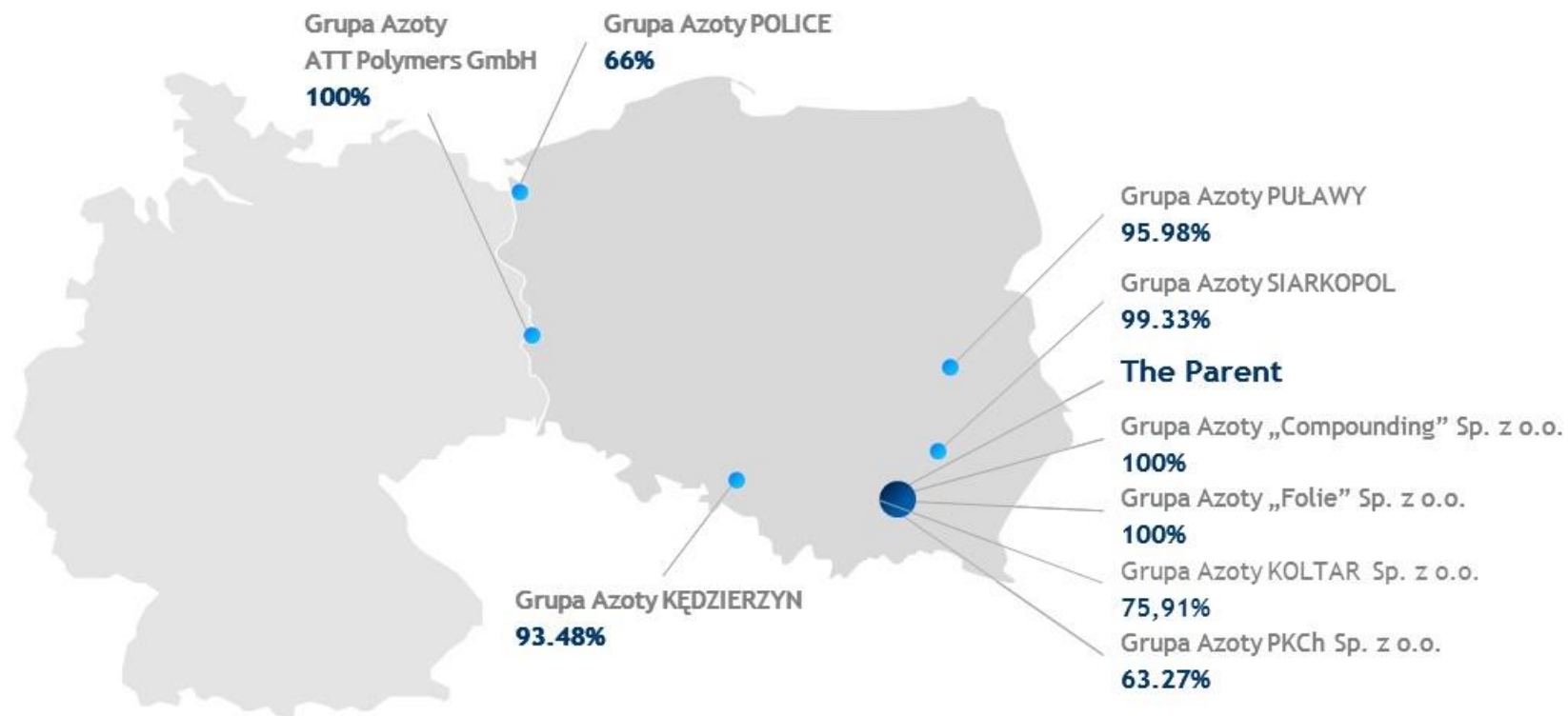
Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością

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

Parent's shareholdings in subsidiaries as at September 30th 2018

<i>(in relevant currency)</i>			
Company	Registered office/address	Share capital	% of shares held directly
Grupa Azoty ATT Polymers GmbH	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
Grupa Azoty Compounding Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 36,000,000	100.00
Grupa Azoty Folie Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów	PLN 5,500,000	100.00
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów	PLN 55,000,000	99.33
Grupa Azoty PUŁAWY	al. Tysiąclecia Państwa Polskiego 13 24-110 Puławy	PLN 191,150,000	95.98
Grupa Azoty KĘDZIERZYN	ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn- Kozłe	PLN 285,064,300	93.48
Grupa Azoty KOLTAR Sp. z o.o.	ul. Kwiatkowskiego 8 33-101 Tarnów, Poland	PLN 43,156,700	75.91
Grupa Azoty POLICE	ul. Kuźnicka 1 72-010 Police	PLN 750,000,000	66.00
Grupa Azoty PKCh Sp. z o.o.	ul. Kwiatkowskiego 7 33-101 Tarnów	PLN 85,630,550	63.27

The Parent and its subsidiaries as at September 30th 2018



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 ammonia and other nitrogen-based intermediate products.

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

Plastics

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

They are manufactured by three companies – in Tarnów, Puławy, and Guben (Germany). The Group is the leading manufacturer of polyamide 6 in Poland and the third largest producer of PA6 in the European Union.

Chemicals

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

Energy

Electricity and heat produced by the Energy segment are sold locally, to customers in the immediate vicinity of the Group's plants.

The segment's key customers are companies of the Group. Outside the Group, the segment's products are sold on the electricity and hot water markets to local customers. The Group companies operate their own electricity and energy carrier distribution networks.

Other Activities

The Other Activities segment comprises auxiliary and support services. As in the case of the Energy segment, its services are mainly rendered for the Group companies. Outside the Group, the segment mainly provides maintenance (automation, design, repair, etc.) and logistics services (road transport, rail transport, ports), and also manufactures catalysts. 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 components: nitrogen (N), phosphorus (P) or potassium (K).

Nitrogen fertilizers

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

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

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

Nitrate fertilizers

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

Nitrogen-sulfur fertilizers

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

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

Compound fertilizers (NPK, NP)

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

phosphorous (P) and potassium (K), these fertilizers contain secondary nutrients such as magnesium, sulfur or calcium, and may contain microelements such as boron or zinc.

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

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

PLASTICS

Engineering plastics

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

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

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

Caprolactam

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

CHEMICALS

OXO products

OXO alcohols

The Group makes the following OXO alcohols: 2-ethylhexanol (2-EH) and butanols (n-butanol, isobutanol). The key product in this group is 2-EH.

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

Plasticizers

The Group manufactures the DEHT/DOTP plasticizer. It is used in the chemical industry to increase the plasticity of materials, mainly PVC, and as an additive to paints and varnishes.

The Group's DEHT/DOTP is marketed under the Oxoviflex® brand. It is used in plastics processing as a non-phthalic plasticizer as well as in the manufacture of paints and varnishes. It is also widely applied for the production of floor tiles and wall cladding as well as toys for children.

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 2018, the Group companies signed electricity supply contracts under their existing framework agreements. Thanks to the joint procurement strategy for electricity supplies, they secured competitive prices and favourable terms of the contracts. Given the volatility of the electricity market and its changing legal framework, the Group's policy was to purchase electricity under forward contracts concluded for various periods and on the SPOT market, 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 high transport costs and price formulae (ARA).

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

Since 2018, the Group companies follow a strategy of purchasing coal under multi-year contracts with a guaranteed price change range. Such long-term contracts cover over 80% of the Group's needs for coal supplies.

2. Financial position of the Group

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

Exchange rates

Factors and events with bearing on the Group's financial performance in Q3 2018 included an upgrade of Poland's sovereign credit rating by S&P, continuing strong growth in GDP, falling unemployment and rising household incomes, as well as a good state of public finances.

Furthermore, the postponement of interest rate rises across Europe (including by the European Central Bank and the National Bank of Poland), versus accelerating interest rate hikes by the FED, has increased the interest-rate divergence between Europe and the US.

In Q3 2018, positive domestic fundamentals were sustaining an upward trend of the Polish zloty against the US dollar and the euro considering a limited effect of negative global factors weighing down on the Polish zloty in Q2 2018.

During Q3 2018, the Polish currency strengthened by approximately 2.1% against EUR and by about 1.8% against USD relative to June 30th 2018. The average PLN/EUR exchange rate was approximately 1.0% lower in Q3 2018 and approximately 3.5% lower than the average for H2 2017.

The slight appreciation of the zloty against the euro and the US dollar in Q3 2018 partially offset its weakening seen at the end of Q2. All in all, foreign exchange movements were insignificant and did not have a material effect on the Grupa Azoty Group's performance in the reporting period.

The Group monitors its current and planned net currency exposures and manages the resulting currency risk by applying selected hedging instruments. In the reporting period, the main tools used by the Group were natural hedging, factoring and discounting of receivables denominated in foreign currencies, and currency forwards entered into on a rolling basis to cover up to 80% of the remaining

currency exposure with time horizons of less than 6 months, and up to 50% of the remaining currency exposure with time horizons between 6 and 12 months.

In Q3 2018, the Grupa Azoty Group's hedging tools were EUR and USD forward swaps, executed in the period of depreciation of the Polish zloty to supplement forward hedges for the sale of EUR and USD, reflecting its planned net exposure in both currencies.

The Group reported a PLN (1,465) thousand loss on hedging transactions realised in Q3 2018 (YTD September 30th 2018: a loss of PLN (7) thousand). In Q3 2018, the result on revaluation of hedging instruments was a gain of PLN 7,146 thousand (YTD September 30th 2018: a loss of PLN (249) thousand).

In the third quarter of 2018, the Group's aggregate result on the settlement and revaluation of hedging instruments was a gain of PLN 5,681 thousand (YTD September 30th 2018: a loss of PLN (256) thousand).

Foreign currency derivatives and hedge accounting

As at September 30th 2018, the notional amount of the Group's open currency derivatives (forwards) totalled EUR 35.5m (which included instruments maturing in Q4 2018: October - EUR 7.3m, November - EUR 4.3m; and in H1 2019: January - EUR 0.7m, February - EUR 4.2m, March - EUR 4.5m, April - EUR 4.5m, May - EUR 6.3m, June - EUR 3.7m) and USD 6.5m (which included instruments maturing in Q4 2018: October - USD 1m, November - USD 0.8m, December - USD 1.3m; and in H1 2019: January - USD 0.6m, February - USD 0.8m, March - USD 0.7m, April - USD 0.6m, May - USD 0.4m, June - USD 0.3m). Such contracts are only entered into with reliable banks under framework agreements. All the contracts reflect actual cash flows in foreign currencies. Currency forwards and derivative contracts are executed to match the Company's currency exposure and their purpose is to limit the effect of exchange rate fluctuations on profit or loss.

The Grupa Azoty Group applies 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 hedge is a euro-denominated credit facility of EUR 127,134 thousand as at September 30th 2018, repayable from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each. As at September 30th 2018, the fair value of the credit facility was PLN 548,227 thousand. The hedging reserve included PLN (6,245) thousand on account of the effective hedge as at September 30th 2018. In Q3 2018, the Grupa Azoty Group did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

Prices of CO₂ emission allowances

Q3 2018 saw a continued increase in the prices of CO₂ emission allowances, after a two-year period of low EUA prices attributable to the European industry's higher productivity driving up emissions and simultaneous adoption of the EU ETS reform in the fourth trading period.

Thanks to its policy of rolling reduction of a deficit in CO₂ emission allowances through spot and forward transactions with a three-year time horizon, the Group did not have to purchase any allowances during the period of increased prices, which may be of speculative nature, and - after the final settlement of 2017 emissions - the upward trend is expected to at least significantly slow down. The prevailing market trends, i.e. the extent and rate of the price growth, exceeded all earlier forecasts. The fact that the European Commission now regulates the carbon market through administrative measures, including introduction of the Market Stability Reserve (MSR) as of 2019 (back-loading and redemption of surplus allowances), has made the market all the more unpredictable. Sharp price increases coupled with significant market volatility hamper optimal management of the risk related to prices of carbon dioxide emission allowances. In Q3 2018, the Grupa Azoty Group took measures to adapt to the changed situation and mitigate negative financial effects of the higher prices of CO₂ emission allowances by purchasing them during temporary price declines. Similar measures are planned to be taken in Q4 2018. However, the need to purchase some of the required allowances to balance the demand for 2018 at current market prices will increase variable production costs.

2.2. Market overview

AGRO FERTILIZERS

Economic conditions in agriculture

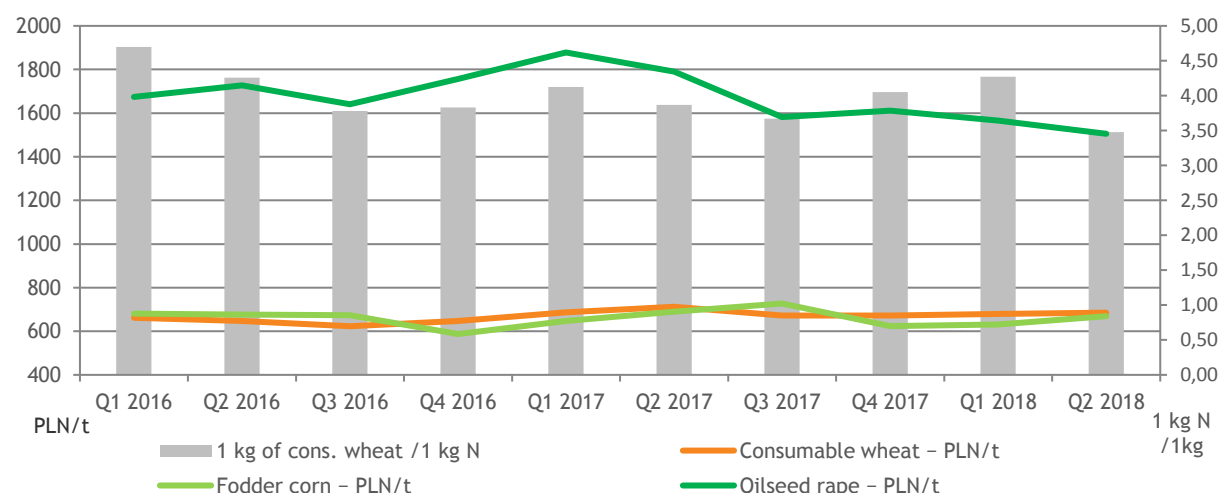
In Q3 2018, economic conditions in agriculture were better in relation to the previous quarter but deteriorated year on year despite a significantly improved reading in August 2018, when the synthetic economic index for agricultural production (SWKR) rose to 100.7pp, its six-month high.

The increase in SWKR was mainly attributable to a 0.7pp increase in the equalised potential demand index recorded in August, to 101.6pp, which in turn resulted from a 0.8pp increase in the average equalised price differential index, to 99.9pp.

Demand was on the rise, driven mainly by improved trade flows in agricultural and food products, as well as a relative fall in food prices versus wages.

According to forecasts, the near future may witness a slight improvement of economic conditions in agriculture. Retail prices of food, rising alongside improving consumer incomes, may additionally bolster the prices of agricultural products. The economic conditions should be supported by stabilising prices of means of agricultural production, although they may come under an upward pressure from growing energy prices. Advances for direct payments to farmers, made already since mid-October 2018, will also stimulate demand for means of agricultural production, including fertilizers.

Prices of wheat, maize and rapeseed



Source: Ministry of Agriculture and Rural Development.

The table below presents the average prices of wheat, maize and rapeseed in Q3 2018 relative to Q3 2017.

	Average Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	PLN/t	PLN/t	%	PLN/t	PLN/t	PLN/t
Consumable wheat	673	761	13	805	705	805
Maize	727	723	(1)↓	743	696	743
Rapeseed	1,582	1,592	1	1,615	1,558	1,615

Source: Ministry of Agriculture and Rural Development.

In Q3 2018, no significant volatility in grain prices was seen on international markets. In July and the first half of August 2018, prices of grain remained stable, having slightly risen, by more than 1% vs early August 2018, in the second half of August and until the end of September.

In Poland, July 2018 saw an increase in the farm-gate prices of most agricultural products monitored by Statistics Poland (GUS) compared with the previous month.

In September 2018, grain prices in Poland were up by about 20%-30% year on year, driven by lower yield estimates by GUS, down 16% vs 2017.

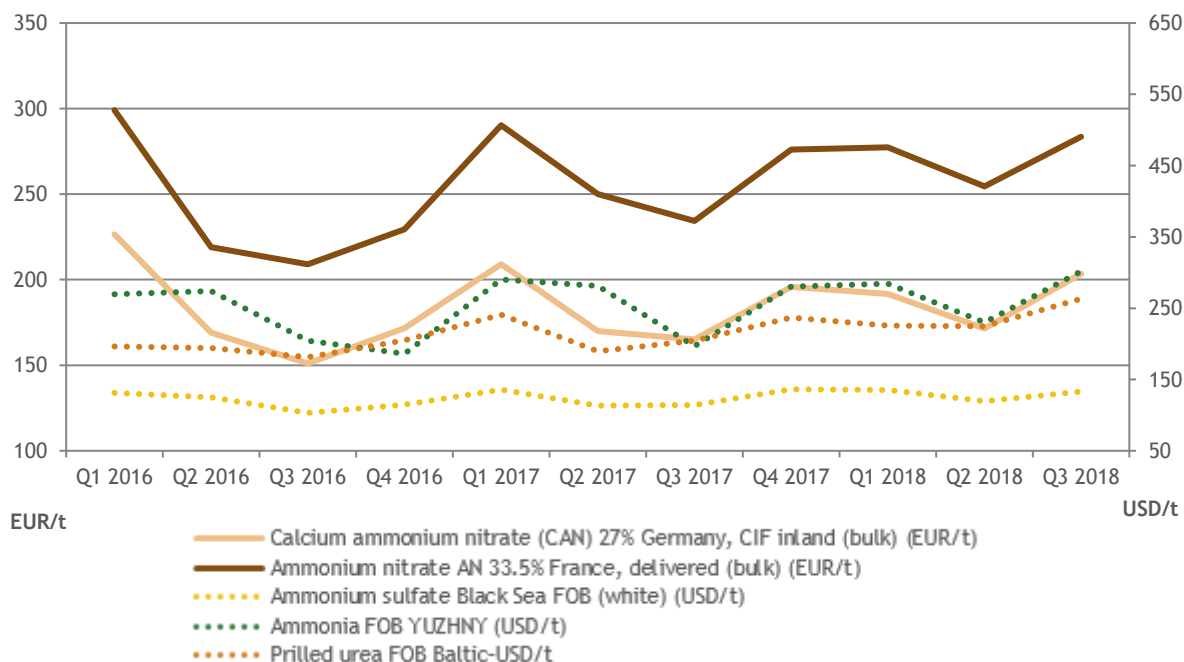
According to forecasts, due to lower yields compared with the year before, the farm-gate prices of the majority of main plant products should stay higher for a while, driven also by factors such as rising

retail prices of food (alongside improving consumer incomes) and direct payments for farmers disbursed since mid-October 2018.

Nitrogen fertilizers

In Q3 2018, demand for nitrogen fertilizers (nitrates and urea), both in Poland and in the European Union, was low and largely flat, which is typical of the season. Other contributing factors included the dwindling purchasing power of farmers, caused by this year's poorer harvest, and the pricing policies of the largest market players from Western Europe. Sharp rises in the prices of nitrogen fertilizers recorded in the period, driven by higher production costs (on growing gas prices), in the absence of any immediate pressure to make purchases in Q3 2018, prompted the agricultural sector to postpone fertilizer purchases.

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



Source: ICIS, Argus FMB, Profercy.

In Q3 2018, the prices of nitrate fertilizers rose sharply year on year due to the pricing policies followed by the largest market players. The price of AN grew 21% year on year, to an average of EUR 284/tonne, while the price of CAN went up 23%, to an average level of EUR 204/tonne.

The average prices of urea in Q3 2018 were 29% higher than in the same period last year, on a continued shortage of the product on the market. Low supplies from China, limited availability of the product from Iran and its unavailability under spot contracts in the Persian Gulf countries were the main factors behind the deficit. Demand for urea is forecast to surpass its supply in the coming months, which will further strengthen the prices and attract more imports from China.

In Q3 2018, an upward price trend continued on the ammonia market. Year on year, the prices of ammonia grew 53%, driven by a rise in gas prices (and a resulting increase in production cost) and product shortages caused by prolonged maintenance shutdowns. Price declines, if any, are not expected until the middle of the fourth quarter of this year.

The table below presents the average global prices of nitrogen fertilizers in Q3 2018 relative to Q3 2017.

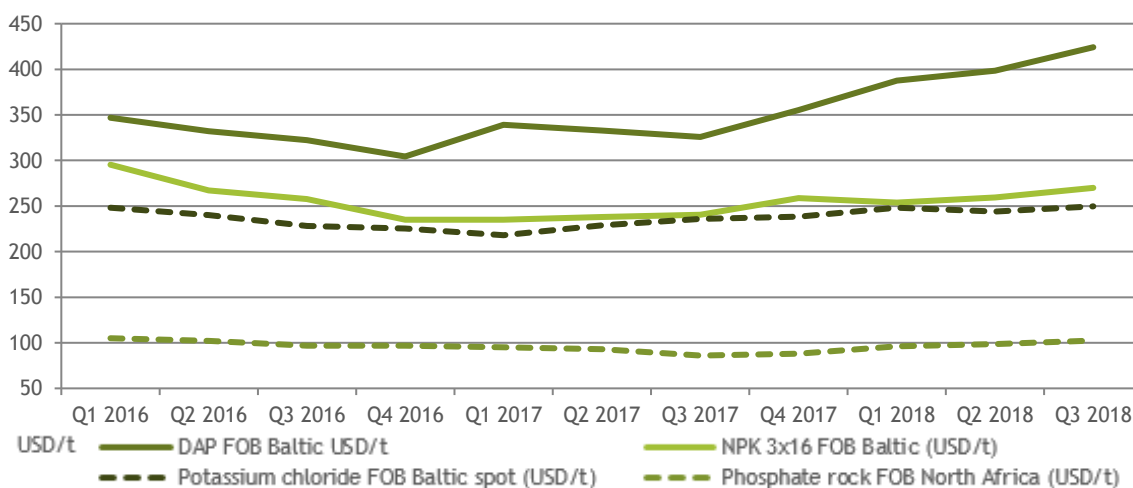
	Average Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
CAN 27% Germany CIF inland (bulk)	165	204	23	209	198	209
AN 33.5% France, delivered (bulk)	234	284	21	301	271	301
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ammonia (FOB Yuzhny)	197	302	53	338	267	338
Urea (FOB Baltic)	204	263	29	276	250	276
AS (Black Sea FOB white)	114	133	16	136	130	136

Source: ICIS, Argus FMB, Profercy.

In the last quarter of 2018, prices of agricultural produce are expected to increase following a deterioration of their balance both in Poland and the EU (due to droughts). Demand for nitrogen fertilizers in the last months of the year is estimated to be relatively low, reflecting only current needs. The main reasons include the pricing policies adopted by the largest market players and passive attitudes of the agricultural sector, which will postpone purchases of larger volumes of fertilizers in anticipation of price reductions. Another important factor is the relatively high coverage of existing demand for fertilizers in certain EU countries. In those countries, demand is not expected to pick up until the second half of Q1 2019. In Q4 2018, a steady increase in the prices of nitrogen fertilizers is forecast, being an effect of the largest players' pricing policies, prospects of a urea price growth across global markets, and the high price of natural gas (used as feedstock in their production). A negative supply-demand balance on global urea markets will support the prices of urea. Demand for urea in Brazil and India and its limited availability in China and Iran will also play a role.

Market of compound fertilizers

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



Source: WFM, FERTECON, Profercy.

In the third quarter of 2018, on international markets the average prices of compound fertilizers and raw materials used in their production increased relative to the third quarter of 2017, as shown in the table below.

	Average Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	USD/t	USD/t	%	USD/t	USD/t	USD/t
DAP (FOB Baltic)	326	424	30	435	414	435
NPK3x16 (FOB Baltic)	240	270	12	275	263	275
Potassium chloride (FOB Baltic spot)	236	250	6	257	244	257
Phosphate rock (FOB North Africa)	86	102	19	104	100	104

Source: WFM, FERTECON, Profercy.

In Q3 2018, the compound fertilizers (NPK) market in Poland saw a growth in demand, starting in August, although farmers were reported to be increasingly forced into debt and the NPK availability was limited. The lowest price of NPK (FOB Baltic) in the period was USD 263/tonne, while the highest was USD 275/tonne. Year on year, the price increased by about 12%. In the DAP market, demand remained robust throughout most of the reporting period, especially in Russia and South America. In Q3 2018, DAP prices rose 30% year on year, to USD 424/tonne (FOB Baltic). The DAP application season ended with the end of the quarter.

Owing to weather conditions across almost entire Western and Central Europe, farmers in the region began to prepare for the autumn season practically at the same time and prices at the beginning of Q4 2018 are expected to remain close to the levels recorded at the end of Q3 2018.

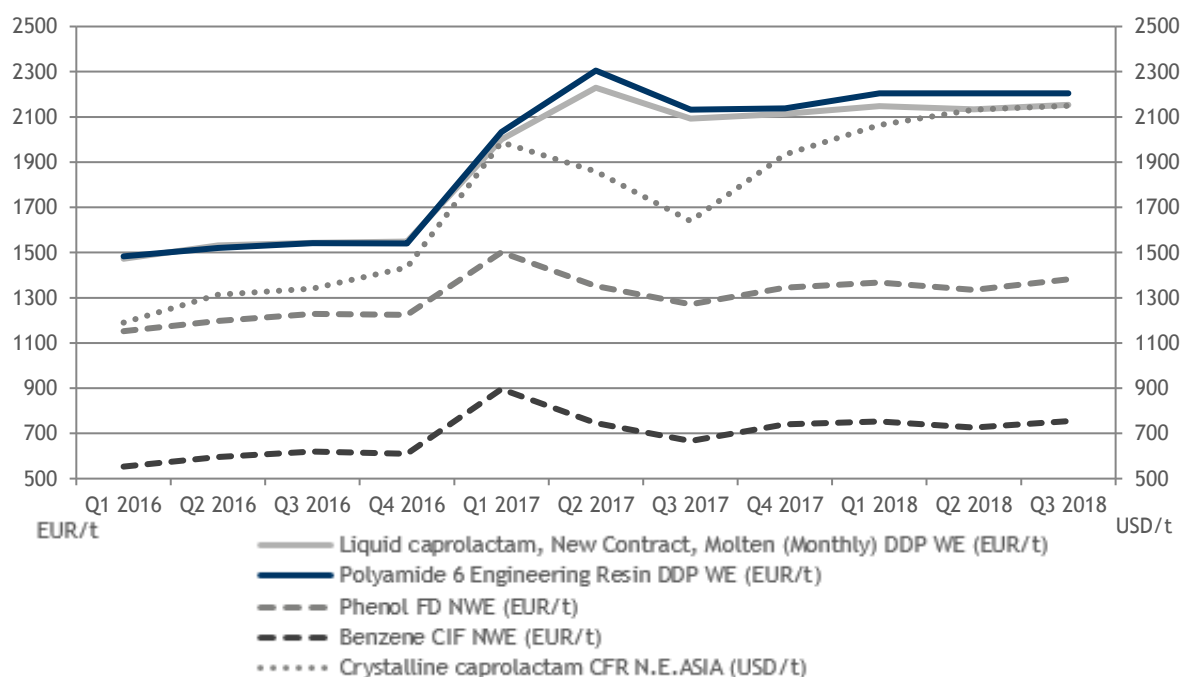
At the end of Q3 2018, contractual terms of potassium chloride supplies to China and India were agreed for the 2018/2019 season. Compared with contracts for the 2017/2018 season, the prices grew by 26% and 21%, respectively, for the supplies to China in India. In Q3 2018, the average price of potassium chloride was approximately 6% higher than in the same period of 2017. The newly launched projects to produce potassium chloride are not expected to operate at full capacity until around 2022. Given the considerable demand for potassium chloride from the Brazilian and Asian markets, its supply still remains limited, which may further drive up prices. On the European market, despite the prolonged drought and low purchases of potassium chloride, prices in the third quarter of 2018 remained stable reflecting limited supply. After the terms of contracts for potassium chloride supplies to China and India have been agreed, its prices are expected to continue growing until the end of Q4 2018, especially in Europe and both Americas.

In Q3 2018, the prices of phosphate rock continued on an upward trend driven by strong demand for phosphate fertilizers (having grown 18% year on year). An increase in phosphoric acid prices was even steeper (34%), driven by very high demand for DAP, mainly in India, which is the world's largest importer of phosphoric acid. Also the trade war being waged with China and India by the US government has been driving up the prices of phosphorus-bearing minerals. In China and India, both phosphate mines and phosphoric acid plants are being closed, which is the outcome of environmental audits, demanded by public opinion with a view to reducing the enormous environmental pollution. At the end of Q3 2018, the strong demand for DAP and MAP, continuing since the end of 2017, finally weakened. While customers oppose any further price increases, the prices of both phosphate rock and phosphoric acid may again go up slightly in Q4 2018.

PLASTICS

Polyamide 6 chain

Prices of PA6, caprolactam, benzene and phenol



Source: TECNON, ICIS.

In the third quarter of 2018, as in previous periods, the entire plastics market continued to be strongly shaped by the interplay of supply and demand, and - to a lesser extent - by oil prices. Despite expectations that the prices of polyamide 6 (and other polyamide chain products) would be closely correlated with benzene prices, their reductions and fluctuations were in fact balanced out or offset due to the prevailing market situation, generally characterised by periodically volatile demand. Actual developments also depended on situation in the local markets and their geographical location. The table below presents the half-year average prices of polyamide 6, caprolactam and raw materials used in their production relative to Q3 2017.

	Average Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Benzene (FOB, NWE)	666	754	13	729	729	794
Phenol (FD, NWE)	1,272	1,381	9	1,365	1,365	1,397
Caprolactam (Liq., DDP, WE)	2,093	2,154	3	2,146	2,146	2,166
Polyamide 6 (PA 6) (DDP, WE)	2,132	2,205	3	2,205	2,205	2,205
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Caprolactam (CFR, NE Asia)	1,639	2,149	31	2,168	2,130	2,168
	USD/bbl	USD/bbl	%	USD/bbl	USD/bbl	USD/bbl
Crude oil (BRENT)	51.94	75.95	46	78.77	73.75	78.77

Source: ICIS, Tecnon, Rzeczpospolita.

In the reporting period, the caprolactam and polyamide 6 markets were also visibly affected by reduced availability of CPL, attributable to both scheduled and unscheduled plant shutdowns,

maintenance inspections and overhauls, disruptions in the product logistics, and specific conditions applicable in the Asian market (including relationships between currencies and their exchange rates). The 46% increase in crude oil prices relative to the same period last year was not clearly reflected in a rise of benzene prices, which were only up 13%. It also failed to provide any real basis for potential adjustments in caprolactam prices, which put considerable upward pressure on polyamide 6 prices. Year on year, in Q3 2018 the prices of polyamide 6 in the European market (DDP, WE) rose 3%, to EUR 2,205/t; to compare, the prices of caprolactam in Europe (DDP, WE) also rose 3% in the period, to EUR 2,154/tonne. On the other hand, the price of caprolactam in the Asian markets (CFR, NE Asia) in Q3 2018 was up 31% year on year, to USD 2,149/tonne. To a certain extent, this was attributable to different developments in those markets and the situation which prevailed in Asia last year.

The persisting oversupply of polyamide 6 in the European market, though strongly reduced by favourable market conditions in the automotive and textile sectors, has continued to affect the attitudes of participants of this market, which is becoming more buyer oriented. In spite of a gradual and noticeable improvement in the trade balance, the oversupply of PA6 has made it impossible for producers to improve their profit margins. Therefore, the changes in CPL and PA prices have hardly reflected those of crude oil and its derivatives (benzene, phenol). Notably, in the period under review the feedstock markets were also affected by various factors which caused short-lived price changes and limited product availability.

As expected, the steadily growing demand for polyamide chain products, combined with the largely stable situation on the European commodity market, have been a solid basis for stabilising the market's key segments in the foreseeable future. As a result, demand for plastics is expected to continue growing.

This trend is bound to continue in the coming months despite a cyclical slowdown that recurs at the end of each year, entailing weakening demand, production stoppages, and reduction of stocks. Generally speaking, the relatively strong demand for PA6 continuing in Europe will mainly be driven by the automotive and construction industries, with the increasingly important role of the engineering plastics, plastic film and flexible packaging segments.

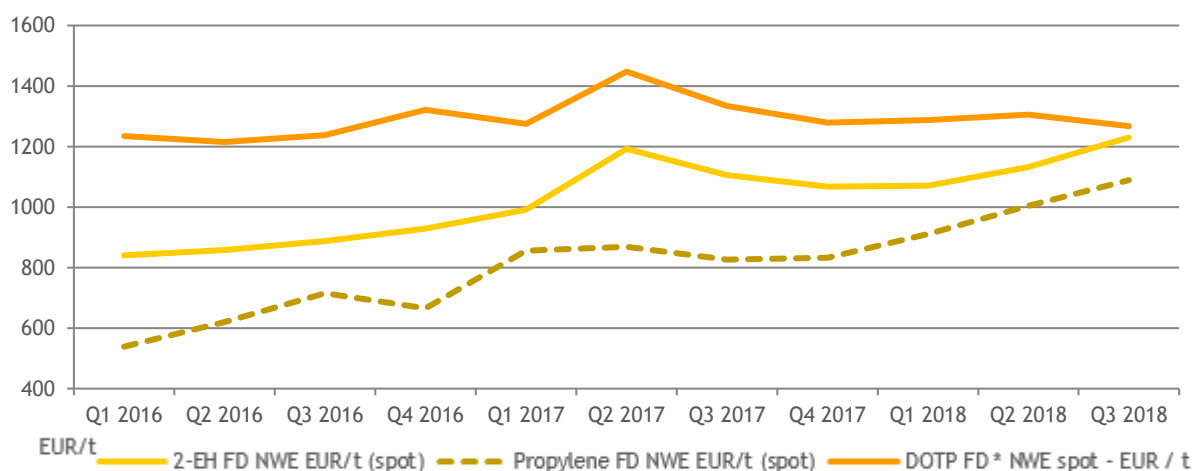
CHEMICALS

OXO product chain

The European market was largely balanced, despite both scheduled and unscheduled production stoppages at major manufacturers of OXO alcohols and plasticizers. Lower supply due to plant overhauls, high temperatures and logistic constraints related to a low water level on the river Rhine met with weaker demand in summer, when many customers closed down for a summer break. The crisis and economic slowdown in Turkey had a strong effect on demand for OXO products.

Growing prices of crude oil on global markets in the third quarter of 2018 triggered a gradual increase in propylene prices. The prices of propylene were also driven up by a significant supply-demand imbalance caused by scheduled maintenance shutdowns and emergency stoppages at some propylene producers. The average propylene prices in Q3 2018 were 32% higher than in the same period of the previous year. Grupa Azoty's purchases of propylene were made in contracted volumes, supplemented on the spot market to reduce the average price of this key raw material.

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 Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
2-EH (FD NWE spot)	1,106	1,230	11	1,218	1,218	1,239
DOTP (FD NWE spot)	1,334	1,267	-5↓	1,258	1,258	1,283
Propylene (FD NWE spot)	826	1,089	32	1,075	1,075	1,097

Source: ICIS.

In Q3 2018, the increase in propylene prices translated into higher prices of oxo alcohols, whose spot prices were up over the corresponding period of 2017. It was just the reverse for DOTP, as its spot price fell in Q3 2018 compared with the same period a year earlier. In the case of DOTP, the level of prices that could be obtained was affected by competitively priced product volumes originating from South Korea and the US.

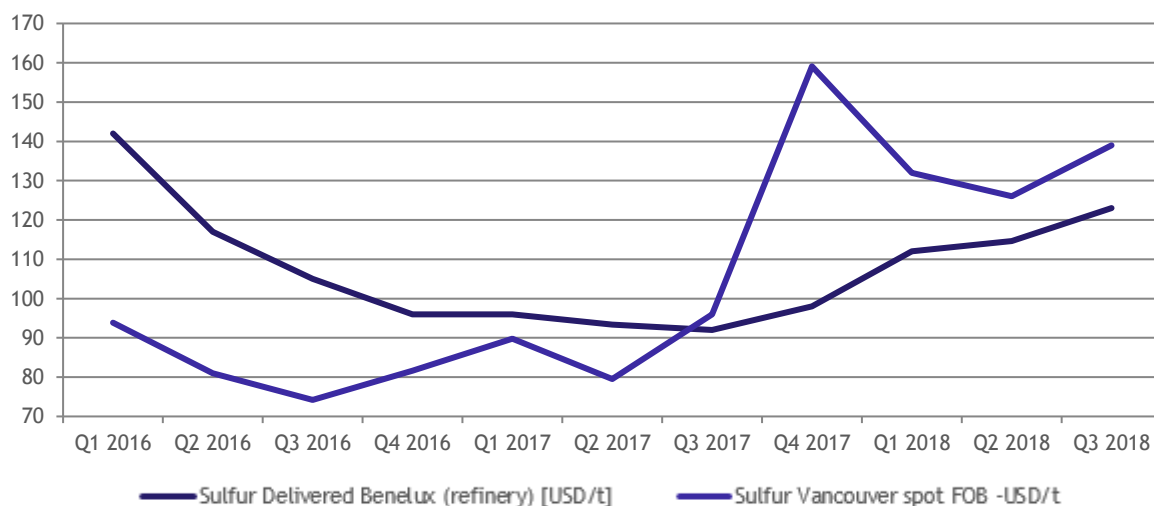
In the forthcoming months, the supply of OXO alcohols and plasticizers in Europe will be limited by scheduled maintenance shutdowns and unplanned stoppages at several regional manufacturers. Demand is forecast to be solid, but may be prone to a seasonal drop at the end of the year, as customers usually reduce stock levels before the end of an accounting period. The prices of oxo alcohols will be correlated with those of propylene, but may be affected (particularly in the spot market) by any disruptions in the supply-demand balance.

Propylene prices depend very much on prices of crude oil and naphtha. According to forecasts, Q4 2018 should see a further moderate growth in propylene prices. The price growth will be limited by the re-launch of crackers following the completion of maintenance shutdowns and gradual improvement in propylene availability on the market.

Sulfur

In the third quarter of 2018, the prices of refinery sulfur in Europe rose by approximately 30%, while the prices of prilled sulfur in North America increased about 18% year on year. The rapid rise in prilled sulfur prices was triggered by the imposition of a 10% duty on sulfur imports from the US to China, capacity cuts by producers in the Persian Gulf and Western Europe, and increased sulfur demand from fertilizer producers in Morocco and Saudi Arabia.

Prices of sulfur



Source: FERTECON.

	Average Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Sulfur (Delivered Benelux refinery)	92	123	34	127	116	127
Sulfur (Vancouver spot FOB)	96	139	44	150	131	150

Source: FERTECON.

Another factor affecting supply was the imposition of US sanctions against Iran, which caused some countries to cease to import commodities, including sulfur, from that source. In China, some sulfur processing and port warehouse facilities were closed and other had their operations downsized following environmental inspections. Despite new capacities being gradually brought onstream, a significant oversupply of sulfur is unlikely in the short term. Although the production capacities of refineries and gas utilities in Western Europe are sufficient to cover demand, the market is tight, with historical disruptions in the supply of molten sulfur suggesting that the market is and is bound to remain highly sensitive to emergency shutdowns by large producers.

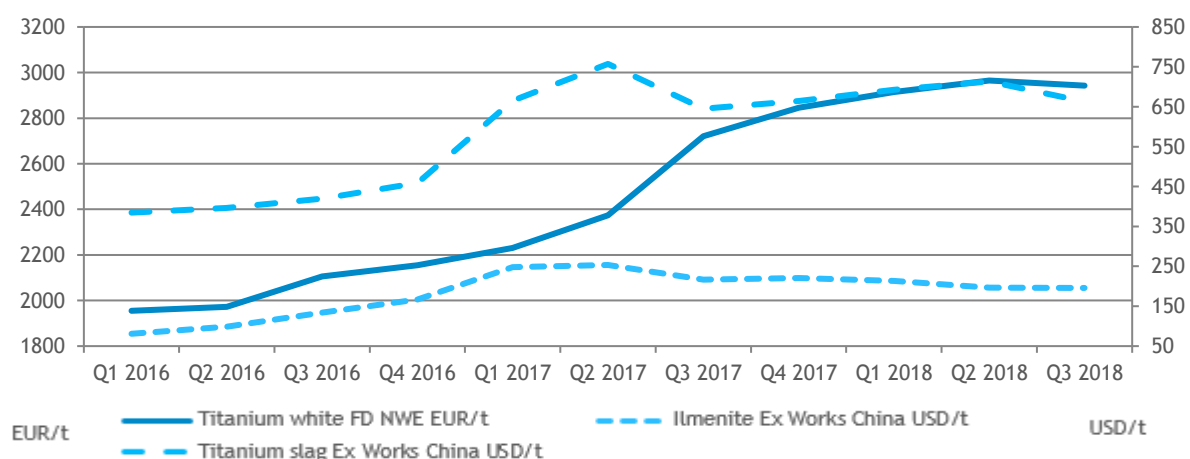
In Western Europe and elsewhere, the prices of prilled sulfur and molten sulfur are expected to rise in the last quarter of 2018.

Pigment chain

The European prices of titanium white fell in the third quarter of 2018. Pigment prices in Europe dropped 0.8% over the previous quarter, but rose 8% year on year.

A downward trend in pigment prices was seen in China, as they fell almost 7% quarter on quarter in Q3 2018. Over the last two quarters, there has been a significant increase in the volumes of titanium white brought into Europe from China, driven by favourable foreign exchange rates and subdued local demand on the Chinese market. Chinese imports to Europe are expected to grow further as a result of the trade war between the US and China. At the end of September, the US government imposed a 10% duty on goods imported from China, including titanium white. The duty may ultimately be raised to 25% as of January 1st 2019, which could cause Chinese exports destined for the US market to be rerouted to Europe. In the third quarter of 2018, demand was below expectations having declined considerably and is expected to weaken further due to the upcoming low season.

Prices of titanium white, ilmenite and titanium slag



Source: ICIS, CCM.

	Average Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Titanium white FD NWE	2,720	2,942	8	2,920	2,920	2,975
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ilmenite Ex Works China	217	196	(10)↓	180	180	227
Titanium slag ex Works China	645	663	3	655	655	677

Source: ICIS, CCM.

With the volumes of titanium white imported from China to Europe expected to remain substantial, considering the approaching low season and high stock levels of titanium white held by both customers and producers, a downtrend in the prices of titanium white is expected to continue into the fourth quarter of 2018, with steeper falls expected than in the third quarter.

The market of titanium-bearing minerals has seen supply shortages in 2018, particularly in the case of titanium slag. This is attributable to the fact that existing reserves are being depleted globally, investments in new mines are limited, and the output of the raw material is being curtailed in China following environmental inspections. Prices of titanium-bearing minerals follow the trends in titanium white prices with a time lag but, given the short supply, they are now falling at a slower rate or, in some cases, no declines have yet been recorded.

On the representative Chinese market, the average price of ilmenite with a titanium content between 40% and 46% was USD 196/tonne in the third quarter of 2018, having remained unchanged quarter on quarter. The price of titanium slag with a titanium content of 74% to 76% was USD 663/tonne, down 7% on the second quarter of 2018, due to soft demand on the local market as the prices continued to be relatively high. Year on year, the average prices of 40%-46% ilmenite fell by approximately 10%, while the average prices of 75%-76% titanium slag rose by ca 3%.

The prices of titanium-bearing minerals should remain relatively stable in the last quarter of the year. Downward pressure on their prices, led by falling titanium white prices, will be partially offset by short supply, particularly of 74%-76% titanium slag, that are experienced globally. Another factor that may affect the supply-demand balance on the market of titanium-bearing minerals could be China's potential easing of environmental inspections and bringing some capacities back online, which would slightly alleviate the supply shortages and could drive down the prices of titanium-bearing minerals globally.

Melamine

Prices of melamine



Source: ICIS, Global Bleaching Chemicals.

In the third quarter of 2018, the average European contract prices of melamine rose 8% year on year and edged up only slightly quarter on quarter. The spot prices of melamine increased 4% year on year but fell 0.7% quarter on quarter.

During the reporting period, the melamine market faced some supply constraints due to plant overhauls and repairs.

	Average Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	EUR/t	EUR/t	%	EUR/t	EUR/t	EUR/t
Melamine	1,533	1,655	8	1,655	1,655	1,655

Source: ICIS, Global Bleaching Chemicals.

Melamine demand should remain strong in the fourth quarter of 2018 (mainly in October and November), with a decline expected around the Christmas season (especially at the end of 2018). In Europe, preliminary talks concerning the contract prices of melamine for the fourth quarter of 2018 began in late September 2018. Market expectations vary, with buyers expecting triple-digit price reductions to reflect improved supply and balanced demand. The availability of cheaper melamine from Qatar and China will have a significant impact on prices.

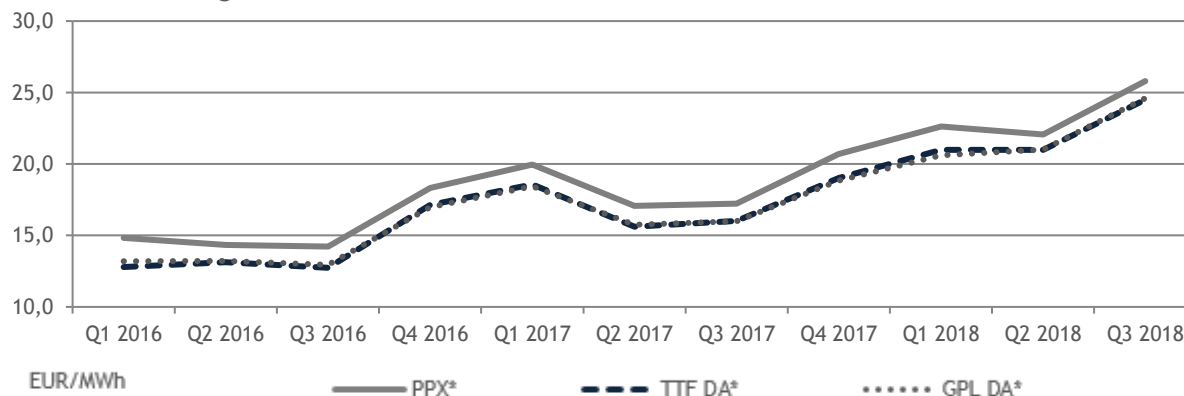
ENERGY

Natural gas

In Q3 2018, gas prices on European exchanges rose sharply, from EUR 22/MWh in early July, to almost EUR 30/MWh at the end of September. The high gas prices, attributable to the frosty end of spring and low stocks, were driven by additional negative factors, which brought into light the interdependence of the European energy system.

The prolonged period of high air temperatures in summer and the lack of precipitation leading to low water levels in rivers resulted in reduced output from nuclear power plants due to cooling problems. With lower-than-usual wind and hydro generation, demand driven by the increased use of air conditioning units made European countries increase their output of electricity generated from gas and coal. Coal prices began to climb and so did the prices of certificates due to the EU ETS reform and stronger demand, which encouraged the power sector to use gas as a cleaner substitute fuel. Electricity prices across Europe got out of hand and rose almost twofold year on year. Maintenance work on production and transmission infrastructure, first in Russia and later in Norway, as well as higher gas prices in Asia, where LNG was supplied under spot contracts, prevented a full balancing of the market. In consequence, gas prices rose to levels which reduced its consumption in the power sector and made it possible to replenish stocks ahead of the winter season.

Prices of natural gas



*Excluding transmission.

Source: PGNiG tariff, ICIS.

	Average Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	EUR/MWh	EUR/MWh	%	EUR/MWh	EUR/MWh	EUR/MWh
TTF DA *	16.0	24.5	53	27.7	27.7	22.2
GPL DA*	16.0	24.6	54	27.6	27.6	22.5
PPX*	17.2	25.8	50	28.7	28.7	23.8

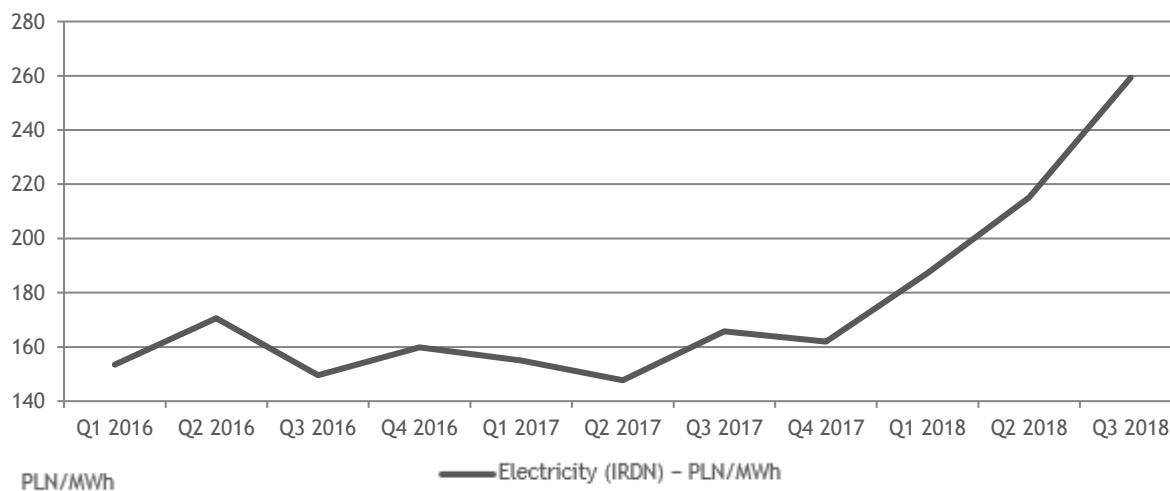
*Excluding transmission.

Source: PGNiG tariff, ICIS.

Gas prices should decline in the next quarter. The current rate of gas injection into storage coupled with the forecast warmer-than-usual weather in the fourth quarter of the year mean that gas storage facilities will be filled up to capacity at the beginning of the winter season. In addition, an increase of global LNG liquefaction capacities, with China no longer treating the development of gas-fired generation as a priority, may drive down LNG prices in the Pacific region, leading to gas oversupply on the market and increased LNG supplies under spot contracts to Europe, where - given the existing correlation between LNG and oil prices - a lot will depend on the possibility of increasing oil output to levels which would offset a decline in its supplies caused by sanctions imposed on Iran and lower oil production in Venezuela, as well as on further developments in the trade war between the US and China.

In winter, the prices of gas will depend to a larger extent on weather conditions and its consumption for municipal heating.

Electricity



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

Source: The Polish Power Exchange.

	Average Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	PLN/MWh	PLN/MWh	%	PLN/MWh	PLN/MWh	PLN/MWh
Electricity	165.71	259.27	56.5	276.24	104.78	415.28

Source: The Polish Power Exchange.

Electricity prices continued on an upward trend, having risen by over 20% quarter on quarter and by more than 56% year on year. The increase is directly related to the prices of CO₂ emission allowances, which in 2018 skyrocketed by almost 300%.

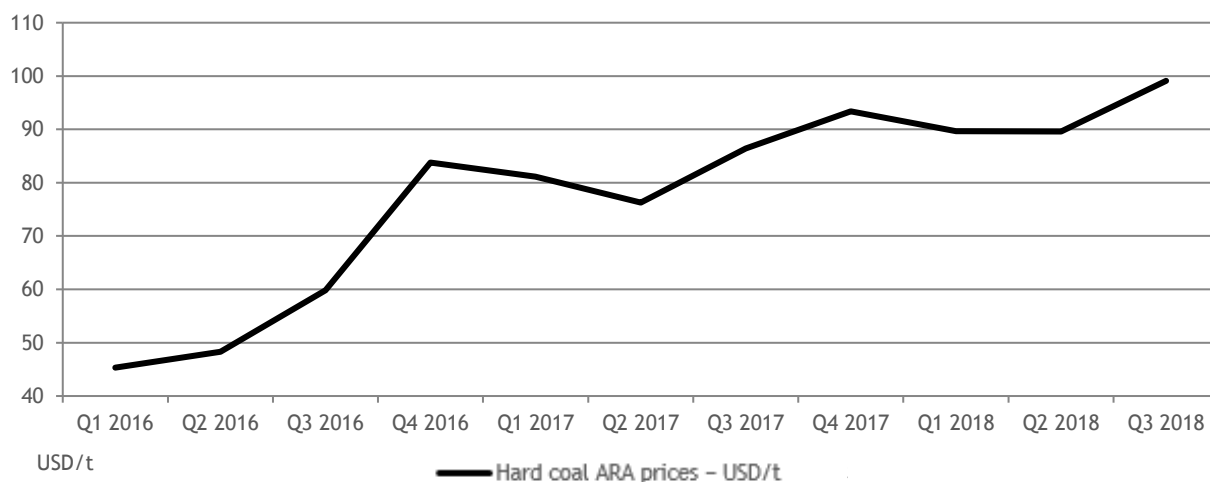
The Polish market is largely affected by climate regulations, initiatives geared towards improving Poland's energy security by addressing the need to continue upgrading its generation capacities (expenditure on new capacities), maintain the operating capacity reserve (with the effect on production costs), introduce the capacity market, and expand cross-border interconnectors.

Electricity prices will be driven by the following factors:

- Continuing high prices of CO₂ emission units;
- Continuing high prices of gas;
- Increasingly widespread use of energy efficient solutions leading to reduced electricity consumption;
- Persistently high prices of coal on global and domestic markets;
- Changes to the RES support system.

Coal

Prices of hard coal



Source: ARA prices.

	Average Q3 2017	Average Q3 2018	y/y	Sep 2018	MIN 2018	MAX 2018
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Coal	86.39	99.10	14.8	100.08	79.07	103.24

Source: ARA prices.

Year on year, coal prices increased more than 14%, having averaged USD 99/tonne. Compared with the previous quarter, the average price of coal rose by over 10%, reaching this year's high between July 10th and 20th.

The position of the global coal market, as well as that of other commodity markets, remains strong due to increased demand for coal, coming largely from the Asia Pacific region.

Prices of coal in Poland followed the global trends. Coal was no longer in oversupply on the Polish market as a result of the ongoing restructuring of the mining industry (lower coal production and closure of unprofitable mines). In 2018, Poland's consolidated coal mining sector is expected to maintain the current price levels.

Analysts are not expecting a return to low coal prices and estimate that in 2018 they will increase by approximately 6%, shifting the equilibrium price to USD 90/tonne.

2.3. Key financial and economic data

2.3.1. Consolidated financial information

In Q3 2018, the Grupa Azoty Group posted a positive EBITDA of PLN 44,113 thousand and net loss of PLN 116,820 thousand.

Year on year, EBITDA decreased by PLN 255,969 thousand and net profit fell by PLN 192,376 thousand.

Consolidated data

Item	Q3 2018	Q3 2017	change	% change
Revenue	2,324,668	2,196,069	128,599	5.9
Cost of sales	(2,105,594)	(1,738,788)	(366,806)	21.1
Gross profit	219,074	457,281	(238,207)	(52.1)
Selling and distribution expenses	(156,070)	(157,176)	1,106	(0.7)
Administrative expenses	(186,488)	(185,546)	(942)	0.5
(Loss)/profit on sales	(123,484)	114,559	(238,043)	(207.8)
Net other expenses	(2,836)	(13,882)	11,046	(79.6)
Operating profit/(loss)	(126,320)	100,677	(226,997)	(225.5)
Net finance costs	(3,283)	(689)	(2,594)	376.5
Share of profit of equity-accounted investees	2,825	4,402	(1,577)	(35.8)
Profit before tax	(126,778)	104,390	(231,168)	(221.4)
Income tax	9,958	(28,834)	38,792	(134.5)
Net profit	(116,820)	75,556	(192,376)	(254.6)
EBIT	(126,320)	100,677	(226,997)	(225.5)
Depreciation and amortisation	170,433	155,292	15,141	9.8
EBITDA	44,113	255,969	(211,856)	(82.8)

Source: Company data.

With revenue up 5.9% year on year and cost of sales higher by 21.1%, the Group reported gross profit of PLN 219,074 thousand, a decrease of PLN 238,207 thousand relative to Q3 2017.

Net of selling/distribution and administrative expenses, this translated into loss on sales of PLN 123,484 thousand.

In Q3 2018, the balance of other income and other expenses was negative at PLN 2,836 thousand, with an additional adverse impact on EBIT, which amounted to PLN (126,320) thousand.

2.3.2. Segment results

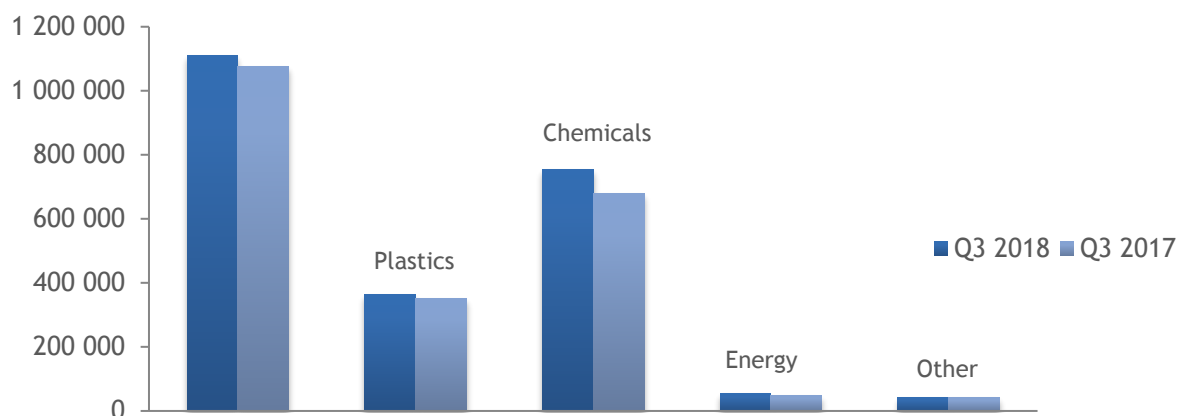
EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other
External revenue	1,109,014	363,231	755,260	54,636	42,527
Profit/(loss) on sales	(137,290)	15,872	3,027	(4,686)	(407)
EBIT	(136,936)	17,131	3,005	(5,575)	(3,945)

Source: Company data.

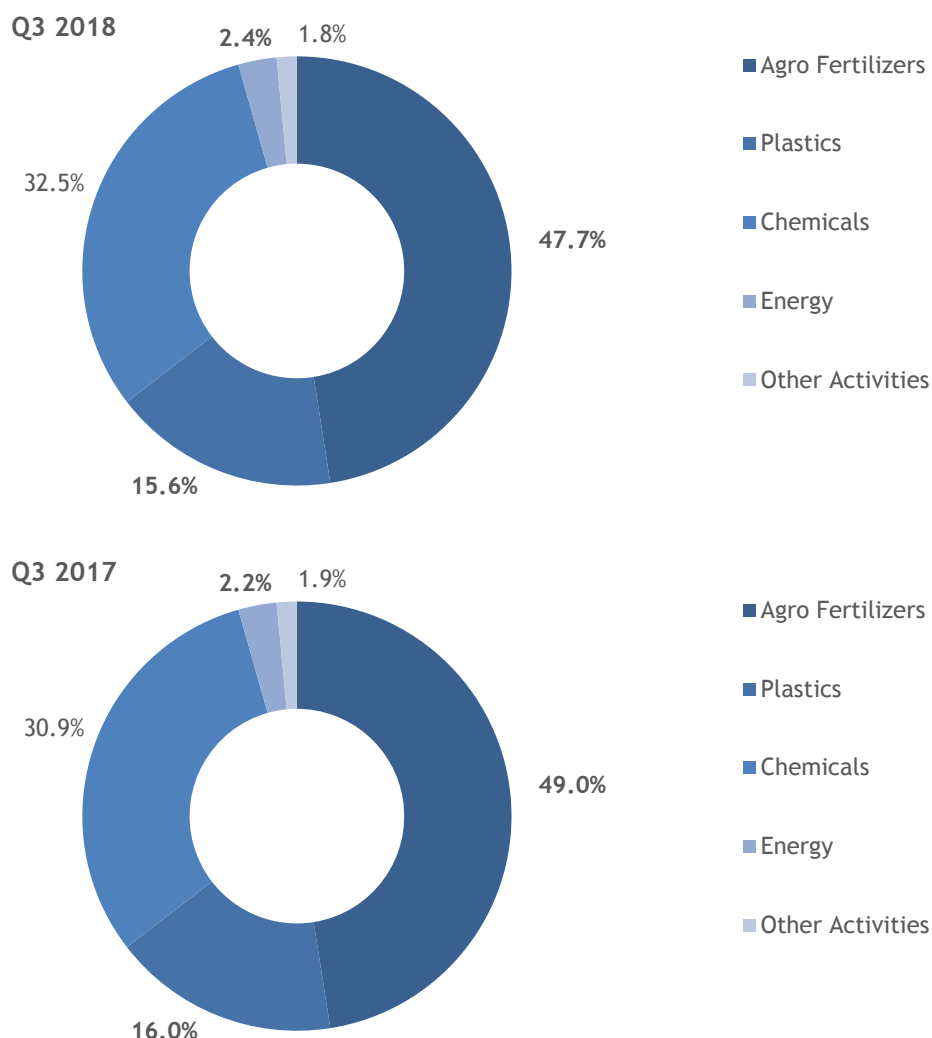
The Group's profit on sales of products in Q3 2018 was determined primarily by the market situation in the Agro Fertilizers segment. Revenue in the Agro Fertilizers segment was down 3.1% year on year. The other segments also saw an increase in revenue.

Revenue by segment



Source: Company data.

Revenue by segment



Source: Company data.

The shares of individual segments in total revenue changed slightly compared with Q3 2017: the contribution from Chemicals and Energy grew (by 1.6pp, and 0.2pp, respectively), while the shares of Agro Fertilizers, Plastics, and Other Activities were lower (by 1.3pp, 0.4pp, and 0.1pp, respectively).

Agro Fertilizers

In Q3 2018, revenue in the Agro Fertilizers segment was PLN 1,109,014 thousand, accounting for 47.7% of the Group's total revenue. Relative to Q3 2017, the segment's revenue grew 3.1%, while its share in the Group's total decreased.

The Agro Fertilizers segment also reported a loss on sales and negative EBIT.

Sales on the domestic market accounted for approximately 72.0% of the segment's revenue.

Plastics

In Q3 2018, revenue in the Plastics segment was PLN 363,231 thousand and accounted for 15.6% of the Group's total. The segment's revenue grew year on year. The segment reported a profit on sales and positive EBIT of PLN 17,131 thousand.

More than 88.1% of the segment's revenue was derived from sales on foreign markets.

Chemicals

In Q3 2018, revenue in the Chemicals segment amounted to PLN 755,260 thousand, having increased 11.5% year on year. The segment's revenue accounted for 32.5% of the Group's total revenue. The segment reported a profit on sales and positive EBIT of PLN 3,005 thousand.

Sales on foreign markets accounted for approximately 61.2% of the Chemicals segment's revenue.

Energy

In Q3 2018, revenue in the Energy segment was PLN 54,636 thousand and accounted for approximately 2.4% of the Group's total. The segment's revenue grew 11.5% year on year, but its EBIT was negative.

Other Activities

In Q3 2018, revenue in the Other Activities segment was PLN 42,527 thousand, accounting for approximately 1.8% of the Group's total. The segment's EBIT was negative.

2.3.3. Structure of operating expenses

In Q3 2018, operating expenses were PLN 2,334,451 thousand, up by PLN 278,632 thousand year on year. There was an increase in all operating expenses.

Operating expenses by nature of expense

	Q3 2018	Q3 2017	change	% change
Depreciation and amortisation	168,722	153,851	14,871	9.7
Raw materials and consumables used	1,416,896	1,228,660	188,236	15.3
Services	262,007	241,169	20,838	8.6
Salaries and wages, including overheads, and other benefits	354,312	338,907	15,405	4.5
Taxes and charges	105,948	78,484	27,464	35.0
Other expenses	26,566	14,748	11,818	80.1
Total	2,334,451	2,055,819	278,632	13.6

Source: Company data.

Other operating expenses

In Q3 2018, operating expenses other than costs of raw materials and consumables used accounted for 39.3% of total operating expenses, down from 40.2% in the corresponding period of 2017.

Structure of other operating expenses [%]

	Q3 2018	Q3 2017
Depreciation and amortisation	7.2	7.5
Services	11.2	11.7
Salaries and wages, including overheads, and other benefits	15.2	16.5

	Q3 2018	Q3 2017
Taxes and charges	4.5	3.8
Other expenses	1.1	0.7
Total	39.3	40.2

Source: Company data.

2.3.4. Structure of assets, equity and liabilities

In Q3 2018, the Group's assets rose to PLN 11,739,847 thousand, by PLN 551,347 thousand on the end of Q3 2017. As at September 30th 2018, non-current assets were PLN 8,326,936 thousand, and current assets were PLN 3,412,911 thousand.

In Q3 2018, the most significant year-on-year changes in assets included:

- a 6.8% increase in property, plant and equipment,
- an 11% increase in trade and other receivables,
- a 33.9% increase in cash and cash equivalents,
- a 21.4% decrease in intangible assets.

Structure of assets

	Q3 2018	Q3 2017*	change	% change
Non-current assets, including:	8,326,936	7,946,758	380,178	4.8
Property, plant and equipment	7,080,388	6,631,399	448,989	6.8
Perpetual usufruct of land	471,189	478,809	(7,620)	(1.6)
Intangible assets	355,902	452,969	(97,067)	(21.4)
Other receivables	181,245	133,011	48,234	36.3
Current assets, including:	3,412,911	3,241,742	171,169	5.3
Trade and other receivables	1,257,525	1,133,021	124,504	11.0
Inventories	942,135	923,705	18,430	2.0
Cash and cash equivalents	877,710	655,600	222,110	33.9
Property rights	237,458	160,813	76,645	47.7
Total assets	11,739,847	11,188,500	551,347	4.9

Source: Company data.

* Financial data includes corrections of certain prior period errors and changes in the presentation of the financial statements for 2017 introduced to improve the disclosure of information on the effect of certain transactions on the Group's assets and financial position.

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

- a 31.5% increase in current trade and other payables,
- an increase in long-term grants,
- an increase in short- and long-term provisions,
- a 52% increase in current liabilities under borrowings.

Structure of equity and liabilities

	Q3 2018	Q3 2017*	change	% change
Equity	7,334,819	7,389,750	(54,931)	(0.7)
Non-current liabilities, including:	2,348,677	2,216,315	132,362	6.0
Borrowings	1,503,837	1,485,440	18,397	1.2
Employee benefit obligations	356,972	322,771	34,201	10.6
Deferred tax liabilities	177,519	180,728	(3,209)	(1.8)
Provisions	137,772	111,888	25,884	23.1
Government grants received	131,643	75,854	55,789	73.5
Current liabilities, including:	2,056,351	1,582,435	473,916	29.9

	Q3 2018	Q3 2017*	change	% change
Trade and other payables	1,781,351	1,354,701	426,650	31.5
Borrowings	122,980	80,903	42,077	52.0
Provisions	30,298	21,161	9,137	43.2
Government grants received	35,191	37,762	(2,571)	(6.8)
Total equity and liabilities	11,739,847	11,188,500	551,347	4.9

Source: Company data.

* Financial data includes corrections of certain prior period errors and changes in the presentation of the financial statements for 2017 introduced to improve the disclosure of information on the effect of certain transactions on the Group's assets and financial position.

2.3.5. Financial ratios

Profitability ratios

	Q3 2018	Q3 2017
Gross profit margin	9.4%	20.8%
EBIT margin	(5.4)%	4.6%
EBITDA margin	1.9%	11.7%
Net profit margin	(5.0)%	3.4%
ROA	(1.0)%	0.7%
ROCE	(1.3)%	1.0%
ROE	(1.6)%	1.0%
Return on non-current assets	(1.4)%	1.0%

Source: Company data.

Ratio formulas:

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

EBIT margin = EBIT / revenue

EBITDA margin = EBITDA / net revenue

Net profit margin = net profit (loss) / revenue

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

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

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

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

Liquidity ratios

	Q3 2018	Q3 2017
Current ratio	1.7	2.0
Quick ratio	1.2	1.5
Cash ratio	0.4	0.6

Source: Company data.

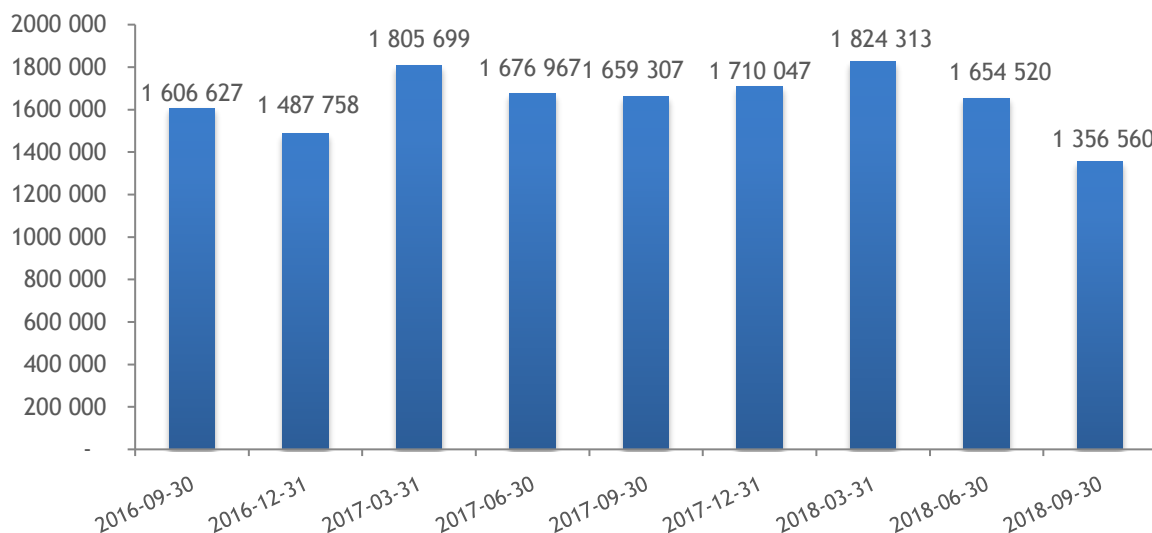
Ratio formulas:

Current ratio = current assets / current liabilities

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

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

Changes in net working capital*



Source: Company data.

* Financial data includes corrections of certain prior period errors and changes in the presentation of the financial statements for 2017 introduced to improve the disclosure of information on the effect of certain transactions on the Group's assets and financial position.

Operational efficiency ratios

	Q3 2018	Q3 2017*
Inventory turnover	40	48
Average collection period	49	46
Average payment period	76	70
Cash conversion cycle	13	24

Source: Company data.

* Financial data includes corrections of certain prior period errors and changes in the presentation of the financial statements for 2017 introduced to improve the disclosure of information on the effect of certain transactions on the Group's assets and financial position.

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	Q3 2018	Q3 2017*
Total debt ratio	37.5%	34.0%
Long-term debt ratio	20.0%	19.8%
Short-term debt ratio	17.5%	14.1%
Equity-to-debt ratio	166.5%	194.5%
Interest cover ratio	(253.3)%	1,017.5%

Source: Company data.

* Financial data includes corrections of certain prior period errors and changes in the presentation of the financial statements for 2017 introduced to improve the disclosure of information on the effect of certain transactions on the Group's assets and financial position.

Ratio formulas:

Total debt ratio = total liabilities / total assets

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

Short-term debt ratio = current liabilities / total assets

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

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

2.4. Financial liquidity

The Parent and key Group companies are fully solvent, with good credit standing. The Group is able to pay its liabilities as they fall due and to hold and generate free operating cash flows to further support payment of such liabilities in a timely manner.

The liquidity management policy operated by the Group consists in maintaining surplus cash and available credit facilities as well as limits under the intragroup financing agreement (one purpose of which is to effectively distribute funds within the Group), and in ensuring that their level is safe and adequate to the scale of the Group's business.

2.5. Borrowings

In Q3 2018, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.

At the end of the reporting period, the Group had available credit limits of approximately PLN 3,395m under corporate loans extended on the basis of long-term credit facility agreements with a bank syndicate, the EIB and the EBRD.

Grupa Azoty also has access to umbrella overdraft limits related to a physical cash pooling arrangement and a multi-purpose credit facility, which may be used by the Parent at times of increased demand for funding from the Group companies. The Group also has access to bilateral overdraft limits and multi-purpose credit lines that are available to the Group companies.

The amount of limits under overdraft and multi-purpose credit facilities available to the Group as at September 30th 2018 was PLN 490m.

In total, as at September 30th 2018 the Group had access to credit limits under the agreements referred to above amounting to approximately PLN 3,885m (December 31st 2017: PLN 1,761m).

After the reporting date, the Group increased the amount of available credit limits by an equivalent of approximately PLN 320m following the execution of a new overdraft facility agreement related to a physical cash pooling agreement; both agreements were concluded with PKO BP S.A. on November 2nd 2018.

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

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

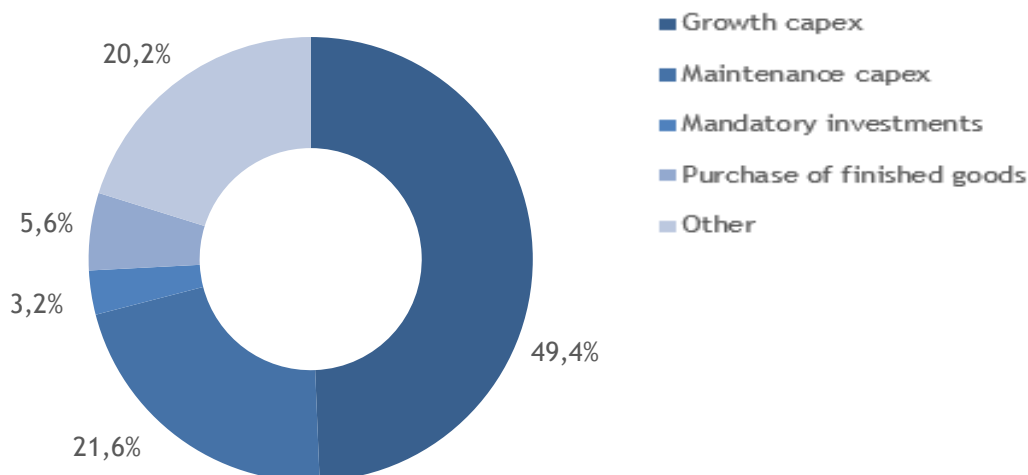
There were no other one-off items that would materially impact the Group's assets, equity and liabilities, capital, net profit/loss or cash flows.

2.7. Key investment projects

Key items of the Grupa Azoty Group's capital expenditure in Q3 2018 amounted to PLN 264,358 thousand (including amounts spent on components, major overhaul work and improvements). Structure of the key capital expenditure:

• Growth capex	PLN 130,482 thousand
• Maintenance capex	PLN 57,142 thousand
• Mandatory investments	PLN 8,487 thousand
• Purchase of finished goods	PLN 14,887 thousand
• Other (components, major overhauls, catalysts, other)	PLN 53,360 thousand

Structure of the Grupa Azoty Group's key capital expenditure in Q3 2018



Source: Company data.

The Grupa Azoty Group's key capital expenditure in Q3 2018 is specified below:

• Parent	PLN 42,954 thousand
• Grupa Azoty PUŁAWY Group	PLN 129,912 thousand
• Grupa Azoty POLICE Group	PLN 45,515 thousand
• Grupa Azoty KĘDZIERZYN Group	PLN 39,113 thousand
• Grupa Azoty KOLTAR Sp. z o.o.	PLN 2,017 thousand
• Grupa Azoty ATT Polymers GmbH	PLN 1,858 thousand
• Grupa Azoty SIARKOPOL	PLN 1,584 thousand
• Grupa Azoty PKCh Sp. z o.o.	PLN 1,405 thousand

Key investment projects implemented by the Group

Project name	Project budget	Expenditure incurred	Expenditure incurred in Q3 2018	Project purpose	Scheduled completion date
Parent					
Chemical Technology and Development Centre	74,100	39,733	11,345	Construction of R&D centre for Grupa Azoty S.A.	2018
Grupa Azoty PUŁAWY					
Upgrade of the existing and construction of new nitric acid units, and facilities for neutralisation and production of new fertilizers based on nitric acid	695,000	28,790	4,758	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	247,346	30,439	To improve the quality of fertilizers by applying modern mechanical granulation	2020
Replacement of the TG-2 turbine generator set	99,000	71,350	1,823	To increase the efficiency of electricity and heat cogeneration by replacing the TG-2 30 MWe pass-out and condensing turbine with a new 37 MWe turbine as part of the power system upgrade	2018
Upgrade of steam generator OP-215 to reduce NOx emissions	93,000	3,134	2,506	To bring the steam generator into compliance with new NOx emission standards and restore it to proper working condition	2020
Grupa Azoty POLICE					
Exhaust gas treatment unit and upgrade of the EC II CHP plant	290,885	252,785	377	To bring the operation of the CHP plant's units in line with the requirements of Directive 2010/75/EU	Project completed
Change of phosphoric acid production method (DA-HF technology)	73,700	70,886	17,121	To raise the efficiency of phosphoric acid production and improve the acid quality	2018
Grupa Azoty KĘDZIERZYN					
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	180,000	31,102	15,751	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	139,468	4,333	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.	2022

Source: Company data.

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

Exchange rates

As fundamental factors in the Polish economy remain positive, with the strong GDP growth, falling unemployment, growing household incomes and good state of public finances, while the US trade disputes with the European Union and China are showing signs of abatement, it is reasonable to expect that in the fourth quarter of 2018 the Polish currency may appreciate again in relation to the US dollar and the euro.

At the same time, global factors related to the eurozone's growth cycle being already past its turning point and a renewed wave of protectionism in the US may increase risk aversion in the short term and, as a result, strengthen the US dollar both against the euro and the zloty.

Looking at their fluctuations to date, the PLN/USD and PLN/EUR exchange rates should not pose any risk to delivery by the Group of its financial targets for H2 2018, given that the earlier corrective weakening of the Polish currency against the euro and US dollar in the second quarter of 2018 offset its previous appreciation, and that in the second half of the year the zloty may trend towards its medium-term equilibrium levels.

At the beginning of July, the zloty was at its weakest against the euro, with the EUR/PLN exchange rate going temporarily above 4.40. A monthly correction followed, bringing the rate down to 4.245 in the first ten days of August. Since then, the exchange rate has stabilised within the 4.26-4.34 range. In Q4 2018, the Grupa Azoty Group expects the sideways trend of the EUR/PLN currency pair to continue, with a gradual appreciation of the zloty in December. In October, S&P upgraded Poland's rating from BBB+ to A-, which should contribute to the Polish currency's appreciation in the medium term. Statistically, the fourth quarter is when the Polish zloty tends to strengthen. Bar any external supply shocks, the Group expects the EUR/PLN exchange rate to range between 4.25 and 4.35 with a downward trend.

The USD/PLN exchange rate is expected to continue its trend observed in Q3 2018, moving within a broad range from 3.65 to 3.85. The FED's continuing hawkish policy and another interest rate hike in the US, almost certain to take place in December 2018, may undercut the relative strength of currencies convertible into the US dollar or keep them at current levels.

Interest rates in Poland

In Q3 2018, interest rates in Poland did not change and should remain unchanged until 2019, as earlier announced by the Governor of the National Bank of Poland. Thus, the main reference rate applicable to credit facilities contracted by the Grupa Azoty 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 take on more debt to finance its investing activities, as planned. Given that the eurozone has already seen the peak of its economic growth and a rise in inflation is limited, the European Central Bank is continuing its quantitative easing and a policy of negative interest rates, which should remain at current levels at least until the end of 2018, considering that core inflation remains low following a long period of deflation. On the other hand, the FED will continue to gradually taper its accommodative monetary policy, in connection with the continued economic recovery in the US and concerns regarding increased inflationary pressures.

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

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

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.

International trade policy

On August 8th 2018, a new round of anti-dumping duties on materials imported from China was announced in the US. Materials covered by the new duties include polymers, among them PA6. The anti-dumping duty rate is 25%, effective as of August 23rd 2018.

China is probably still assessing the situation to decide whether to extend the effective period of (or lift) the anti-dumping duty on caprolactam imports from the European Union and the US. Among the companies subject to the duty was Grupa Azoty Zakłady Azotowe Puławy S.A., for which the rate was set at 4.4%.

On September 18th 2018, the Chinese Ministry of Finance announced that it would impose a 5% and 10% duty on melamine originating in the US as of September 24th 2018. This was a response to the US administration's decision limiting, among other things, the imports of fertilizers from China. The decision announced by China was slightly more accommodative than first announced on August 3rd 2018 (originally, the 5%, 10%, 20% and 25% rates were planned).

The anti-dumping duty imposed by the European Commission (under Implementing Regulation (EU) No. 2017/1171) is still in effect (until July 2nd 2022). The duty rate of EUR 415/tonne applies to melamine imported from China, with the exception of three Chinese manufacturers-exporters cooperating with the EU, for which the minimum import price of EUR 1,153/tonne was set.

The currently effective (until 2019) customs duty, imposed by the European Commission's decision of September 23rd 2014 on ammonium nitrate imported from Russia, amounts to EUR 47/tonne. A procedure to determine future anti-dumping measures is nearing completion. A relevant announcement by the European Commission in the Official Journal of the European Union is due in November 2018.

On August 13th 2018, in the Official Journal of the European Union, the European Commission announced the launch of an anti-dumping (AD) procedure concerning mixtures of urea and ammonium nitrate (CN Code 3102 80 00) imported from Russia, Trinidad and Tobago, and the US.

In addition to those described above, the following factors are expected to particularly affect the Group's performance in Q4 2018:

- Prices of key strategic feedstock: natural gas, coal, electricity, benzene and sulfur;
- Continued consolidation of the Grupa Azoty Group, including execution of the Group's strategic projects;
- Foreign exchange rates (USD and EUR);
- Situation in the agricultural sector and end-user industries.

3. Other information

3.1. Other significant events

Opening of the Logistics Centre

On July 23rd 2018, the new Guben Logistics Centre was opened at Grupa Azoty ATT Polymers GmbH, another project that will significantly contribute to further expansion of the Grupa Azoty Group's plastics business. The Guben Logistics Centre comprises a warehouse, a storage silo complex and the necessary infrastructure. The project's CAPEX was EUR 7.47m, of which EUR 1.5m was provided as public aid by the government of Brandenburg.

Phthalic plasticizers removed from the offering

On September 3rd, Grupa Azoty KĘDZIERZYN dispatched its last delivery of DEHP (bis(2-ethylhexyl) phthalate), which had been continuously manufactured and offered since 1963. As a result, the Oxoplast O® and Oxoplast Medica® phthalic plasticizers have been withdrawn from the Grupa Azoty Group's offering. They will be replaced by safer non-phthalic plasticizers, among which Oxoviflex® currently plays the key role on the market.

Events after the reporting period

Launch of the Research and Development Centre in Tarnów

On October 29th 2018, Grupa Azoty opened a new Research and Development Centre in Tarnów. The Centre will accommodate research facilities, supporting the delivery of innovative solutions. Its effective use by Grupa Azoty will allow it to build competitive advantages and boost the flow of innovation into its business.

The Research and Development Centre has 46 laboratory rooms, including the Inorganic Products laboratory, the Organic Products laboratory, and a pilot-plant hall, which consists of a single-storey section where research facilities may be installed, as well as a two-storey technical and storage section.

A unique feature of the R&D Centre is its pilot-plant hall, where the technologies developed in laboratories may be tested in real-life conditions. The technologies and processes implemented in the pilot-plant space are expected to help Grupa Azoty diversify its offering towards high-margin, fine speciality products in the near future. In accordance with the research agenda, in 2016-2023 the new R&D infrastructure will support research work into advanced materials, modern fertilizer products and pro-environmental solutions.

3.2. Significant agreements

The agreements are presented in chronological order.

In Q3 2018 and as at the date of this report for Q3 2018, none of the Group companies defaulted on significant credit facilities or other borrowings or breached any material covenants under credit facility or other loan agreements.

Material agreements

Agreements and annexes to contracts of a financial nature

Package of long-term financing agreements

On July 26th 2018, the Parent and the European Bank for Reconstruction and Development signed a new long-term credit facility agreement and an annex to the long-term credit facility agreement of May 28th 2015 (the "First EBRD Agreement").

The Parent concluded with the EBRD a new financing agreement for up to PLN 500m (the "Second EBRD Agreement"), and together with its Key Subsidiaries the Parent entered into a new guarantee agreement with the EBRD under which the Key Subsidiaries, acting as Guarantors, provided guarantees for the Parent's liabilities under the Second EBRD Agreement, with each guarantee covering up to one-third (1/3) of 120% of the amount provided under the Second EBRD Agreement, i.e. up to PLN 200m.

The Second EBRD Agreement for up to PLN 500m was concluded for a period of up to ten years, with the loan to be repaid in instalments, starting within three years from the Second EBRD Agreement date.

Furthermore, the Company and the EBRD executed an annex to the First EBRD Agreement of May 28th 2015 for up to PLN 150m in order to harmonise the material terms and conditions of the First EBRD Agreement and the Second EBRD Agreement, thus marking the end of harmonisation of the agreements for corporate financing of the Group.

In the agreements with the EBRD, the Parent agreed to incur capital expenditure on selected projects under its investment programme that are in line with the EBRD's policy. The agreements also contain an obligation to submit periodic reports and a final report on project costs and other matters.

The agreements with the EBRD impose certain restrictions on the Parent and the Key Subsidiaries including restrictions on disposal and encumbering of material assets, provision of loans and guarantees, payment of dividends and incurring financial liabilities above the agreed thresholds of the consolidated net debt to EBITDA ratio, which have been or are to be harmonised with the other long-term financing agreements.

The agreements with the EBRD are an integral part of the long-term financing package intended for the financing of Grupa Azoty's general corporate needs, including its strategy and investment programme.

Insurance agreements

Insurance of environmental risks

On July 31st 2018, the Parent, Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE and Grupa Azoty PUŁAWY concluded an environmental liability insurance agreement with the Polish Branch of Colonnade Insurance Societe Anonyme.

D&O insurance

On September 24th 2018, the Parent entered into a directors and officers (D&O) liability insurance agreement with PZU S.A. The insurance provides cover for the Group companies from September 17th 2018 to September 16th 2019. The total sum insured is PLN 200m.

Project co-financing agreements

- On August 3rd 2018, Grupa Azoty PUŁAWY, acting as a member of a consortium, signed an agreement with the National Centre for Research and Development for co-financing of the 'Green technology for production of succinic acid from renewable and waste materials' project under the Smart Growth Operational Programme. The total co-financing granted to the consortium amounts to PLN 2.1m, including PLN 1.4m for Grupa Azoty PUŁAWY.
- On September 12th 2018, Grupa Azoty PUŁAWY signed an agreement with the National Fund for Environmental Protection and Water Management for co-financing the 'Upgrade of No. 2 steam generator OP-215 to reduce NOx emissions' project. The project cost is PLN 84.1m, while the loan amounts to PLN 52.5m. The loan will be available from January 2nd 2019 to March 31st 2028. The grace period granted in respect of the loan ends on June 29th 2021. The loan is secured by a blank promissory note.
- On September 21st 2018, the Parent received a tranche of funding in the amount of PLN 3,391 thousand under an agreement signed on September 2nd 2016 with the Minister of Development, acting as the Managing Authority, to finance the 'Construction of Grupa Azoty's R&D Centre in Tarnów' project, co-financed from the European Regional Development Fund. The project is being implemented under the Smart Growth Operational Programme 2014-2020.
- In the reporting period, Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. received funding from the National Centre for Research and Development for a project to produce innovative, environment-friendly furfuryl resins. The total project cost is PLN 6,493 thousand, while the funding amounts to PLN 3,485 thousand.

Agreements concluded after the reporting date

Agreements of a financial nature

Credit facility agreement with PKO Bank Polski S.A.

On November 2nd 2018, the Parent executed a EUR 75m overdraft facility agreement with PKO BP S.A. (the "EUR OFA"), valid until September 30th 2022.

The EUR OFA is related to a EUR physical cash pooling agreement, which was simultaneously executed by the Parent and companies of its Group on November 2nd 2018. The EUR physical cash pooling is designed to optimise interest income and expenses and to enable the Group companies to use the Group's global liquidity limit by pooling the positive and negative balances in their current accounts. The Bank's claims under the EUR OFA are secured by: the Borrower's notarised declaration of voluntary submission to enforcement up to 120% of the value of the EUR OFA and a power of attorney over the Borrower's current account granted to the Bank.

The Parent is liable for the repayment of all amounts due under the EUR OFA.

The facility bears interest at an annual rate equal to the reference rate 1M WIBOR plus the Bank's margin. The terms of the EUR OFA do not differ from standard terms used in agreements of such type. The EUR OFA also imposes certain restrictions on the Parent, including restrictions on disposal or encumbering of its material assets, granting loans and guarantees, paying dividends and incurring financial liabilities, above the consolidated net debt to EBITDA ratios agreed with the lenders, which have been harmonised with the revolving credit facility agreement of April 23rd 2015, amended under the Amending Agreement of June 29th 2018 (see Current Report No. 25/2015 of April 23rd 2015 and Current Report No. 33/2018 of June 29th 2018).

3.3. Sureties for credit facilities or loans, guarantees issued

In Q3 2018, the Grupa Azoty Group did not issue any guarantees with a significant aggregate value. In Q3 2018, the Group did not sign any annexes to its guarantees with a significant aggregate value. No sureties were issued by the Group in Q3 2018.

Guarantees

Guarantees for credit facilities

Following the execution, on July 26th 2018, of a new long-term credit facility agreement between the Parent and the European Bank for Reconstruction and Development, the Parent and its Key Subsidiaries signed a new guarantee agreement with the EBRD. Under the agreement, the Key Subsidiaries provided guarantees for the Parent's liabilities under the Second EBRD Agreement, with each guarantee covering up to one-third (1/3) of 120% of the loan amount provided under the Second EBRD Agreement, i.e. up to PLN 200m.

Intragroup loans

Intragroup financing agreement

Pursuant to the intragroup financing agreement of April 23rd 2015, as amended:

- On July 30th 2018, the Parent paid Grupa Azoty KĘDZIERZYN PLN 3,729 thousand as a tranche of a loan to refinance and finance the 'Raw gas compressor (GHH)' project.
- On July 30th 2018, the Parent granted Grupa Azoty KĘDZIERZYN a loan of PLN 14,500 thousand to finance the 'Upgrade of the synthesis gas compression unit supplying the Ammonia Plant' project.
- On September 28th 2018, the Parent paid Grupa Azoty KĘDZIERZYN PLN 9,700 thousand as a tranche of a loan to finance the 'Upgrade of the synthesis gas compression unit supplying the Ammonia Plant' project.
- On September 28th 2018, the Parent granted Grupa Azoty KĘDZIERZYN a loan of PLN 7,000 thousand to finance and refinance the 'Upgrade of the partial combustion unit at the Ammonia Department of the Grupa Azoty ZAK S.A. Ammonia Plant scheduled for completion in December 2020' project.
- On October 15th 2018, the Parent granted Grupa Azoty KĘDZIERZYN a loan of PLN 4,600 thousand to finance the 'Purchase of 200 storage line tanks' project.

3.4. Shares and shareholding structure

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

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

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

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

Shareholding structure as at August 28th 2018 (issue date of the most recent report)

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

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

In the period from August 28th 2018 to the issue date of this report, the Parent was not officially notified of any changes to 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 (September 30th 2018) and as at the date of this report, none of the members of the Parent's Management and Supervisory Boards held any shares in the Parent.

3.6. Composition of the management and supervisory bodies

Parent's Management Board

In Q3 2017, 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
- Paweł Łapiński - Vice President of the Management Board,
- Grzegorz Kądziaławski - Vice President of the Management Board,
- Artur Kopeć - Member of the Management Board.

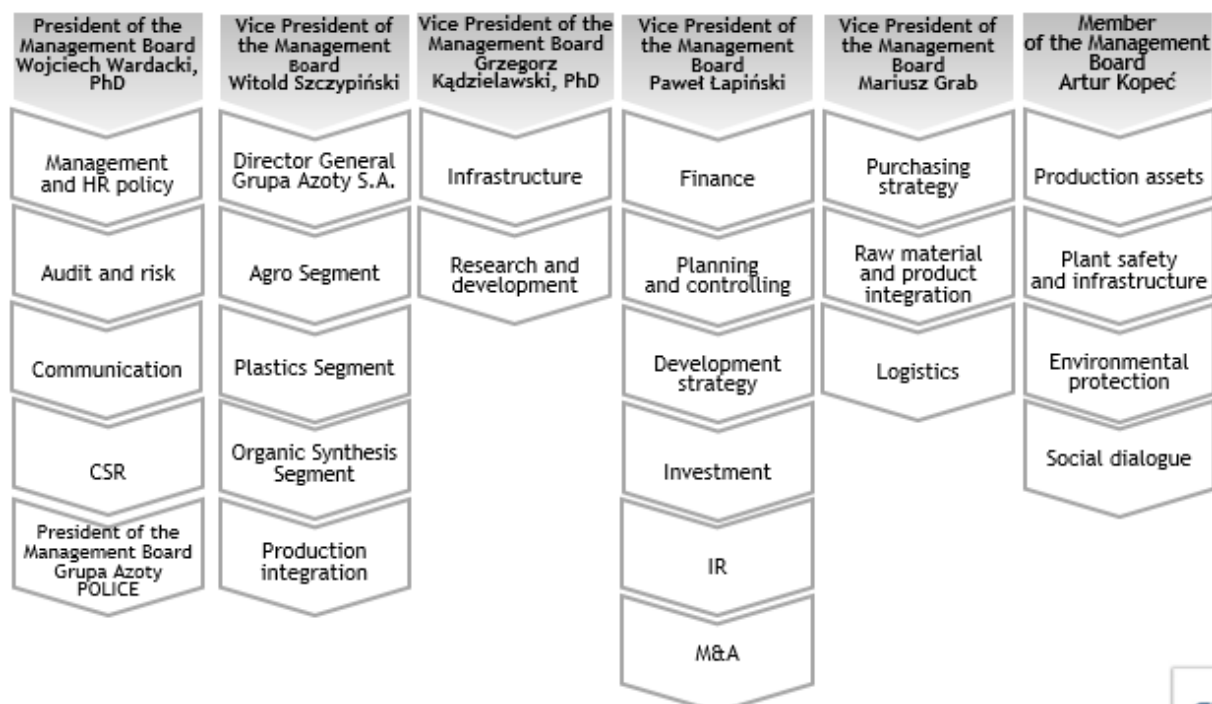
Powers and responsibilities of the Parent's Management Board and Supervisory Board members

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 Kądziaławski - Vice President of 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 a result of these changes, from December 7th 2017 to the date of this report, the composition of the Supervisory Board was as follows:

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

The Supervisory Board operates on the basis of:

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

Supervisory Board's Audit Committee

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

As at the date of this report, the Company's Audit Committee consisted of:

- Ireneusz Purgacz - Chair,
- Michał Gabryel,
- Tomasz Karusewicz.

Responsibilities of the Audit Committee

The Audit Committee operates pursuant to the Rules of Procedure for the Audit Committee, adopted by the Supervisory Board by way of a resolution of July 4th 2013. The main tasks of the Committee include:

- Monitoring of the financial reporting process;
- Monitoring of the effectiveness of the Company's internal control, internal audit and risk management systems;
- Monitoring of financial audit;
- Monitoring of the independence of the auditor and the entity qualified to audit financial statements;
- Monitoring of the audit of full-year separate and consolidated financial statements;
- Monitoring of the work and reports of the independent auditor;
- Analysing selected economic events relevant to the Company's operations;
- Monitoring of the work and reports of the independent auditor.

Other Supervisory Board's committees

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

As at the date of this Report, the Strategy and Development Committee was composed of:

- Robert Kapka - Chair,
- 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 2018 were published, the position of the Parent's Management Board concerning achievement of such forecasts is not presented.

On October 31st 2018, the Parent's Management Board published the estimated key consolidated financial data of the Grupa Azoty Group for Q3 2018.

The Management Board considered the information on the consolidated results to be material as the financial results for the third quarter of 2018 were significantly below the figures reported by the Company for the same period over the preceding three years. Furthermore, the reported financial results differed from market expectations. The deteriorated performance was mainly an effect of the higher prices of gas, other energy carriers and CO₂ emission allowances combined with lower sales volumes.

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 Q3 2018, the Parent did not issue, redeem or repay any debt or equity securities. The Company had spent the proceeds from Public Offerings by the end of 2013. The proceeds were used in line with the original issue objectives.

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

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

Consolidated interim report of the Grupa Azoty Group for Q3 2018 consists of 93 pages.

Signatures of members of the Management Board

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

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

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

.....
Grzegorz Kądziałowski, PhD
*Vice President of the
Management Board*

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

.....
Artur Kopeć
*Member of the
Management Board*

Tarnów, November 7th 2018