



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

Contents

Interim condensed consolidated statement of profit or loss and other comprehensive income	
3	
Interim condensed consolidated statement of financial position	5
Interim condensed consolidated statement of changes in equity	7
Interim condensed consolidated statement of cash flows	9
1. Description of the Group	11
1.1. The Group's organisational structure	11
1.2. Changes in the Group's structure	13
2. Significant events in the reporting period	16
3. Basis of preparation of the interim condensed consolidated financial statements	17
3.1. Statement of compliance and general basis of preparation	17
3.2. Changes in applied accounting policies	18
4. Selected notes and supplementary information	29
4.1. Notes	29
Business segment reporting	29
Note 1 Revenue from contracts with customers	35
Note 2 Operating expenses	37
Note 3 Other income	38
Note 4 Other expenses	39
Note 5 Finance income	40
Note 6 Finance costs	41
Note 7 Income tax	42
Note 7.1 Income tax disclosed in the statement of profit or loss	42
Note 7.2 Effective tax rate	43
Note 7.3 Income tax disclosed in other comprehensive income	44
Note 7.4 Deferred tax assets and liabilities	45
Note 8 Earnings per share	46
Note 9 Property, plant and equipment	46
Note 10 Intangible assets	48
Note 11 Cash and cash equivalents	48
Note 12 Borrowings	49
Note 13 Employee benefit obligations	50
Note 14 Provisions	50
Note 15 Other material changes in the statement of financial position	50
Note 16 Financial instruments	51
Note 17 Contingent liabilities, contingent assets and guarantees	55
Note 18 Related-party transactions	55
Note 19 Capital commitments	57
Note 20 Accounting estimates and assumptions	57
4.2. Events after the reporting period that could affect financial results in the future ...	58
4.3. Dividend	58
4.4. Seasonality of operations	59

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

	Note	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
Profit/loss		<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue	1	4,877,029	4,869,691	2,379,927	2,182,297
Cost of sales	2	(3,969,147)	(3,704,601)	(2,046,519)	(1,692,290)
Gross profit		907,882	1,165,090	333,408	490,007
Selling and distribution expenses	2	(310,160)	(338,005)	(161,650)	(162,357)
Administrative expenses	2	(382,405)	(344,088)	(197,470)	(171,643)
Other income	3	24,330	26,748	12,941	13,876
Other expenses	4	(43,192)	(67,683)	(29,204)	(46,651)
Operating profit/(loss)		196,455	442,062	(41,975)	123,232
Finance income	5	48,163	31,454	42,050	17,505
Finance costs	6	(84,145)	(38,751)	(72,227)	(25,606)
Net finance costs		(35,982)	(7,297)	(30,177)	(8,101)
Share of profit of equity-accounted investees		7,191	8,605	3,296	5,031
Profit before tax		167,664	443,370	(68,856)	120,162
Income tax	7	(43,191)	(65,699)	5,351	2,249
Net profit/(loss)		124,473	377,671	(63,505)	122,411
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial losses from defined benefit plans		(13,016)	(7,785)	(13,016)	(7,785)
Other income		-	6	-	6
Tax on items that will not be reclassified to profit or loss		2,472	1,479	2,472	1,479
		(10,544)	(6,300)	(10,544)	(6,300)

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

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

	Note	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 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 change in fair-value measurement		(24,244)	20,725	(19,464)	(867)
Exchange differences on translating foreign operations		2,728	1,690	2,593	2,185
Tax on items that are or may be reclassified to profit or loss		4,607	(3,938)	3,699	177
		(16,909)	18,477	(13,172)	1,495
Total other comprehensive income		(27,453)	12,177	(23,716)	(4,805)
Comprehensive income for the year		97,020	389,848	(87,221)	117,606
Net profit attributable to:					
Owners of the Parent		123,638	335,502	(48,293)	104,450
Non-controlling interests		835	42,169	(15,212)	17,961
Comprehensive income for the year attributable to:					
Owners of the Parent		99,431	344,672	(69,146)	98,446
Non-controlling interests		(2,411)	45,176	(18,075)	19,160
Earnings per share:	8				
Basic (PLN)		1.25	3.38	(0.49)	1.05
Diluted (PLN)		1.25	3.38	(0.49)	1.05

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

Interim condensed consolidated statement of financial position

	Note	as at Jun 30 2018 <i>unaudited</i>	as at Dec 31 2017 <i>audited</i>
Assets			
Non-current assets			
Property, plant and equipment	9	6,925,761	6,779,748
Perpetual usufruct of land		471,692	476,616
Intangible assets	10	375,203	395,755
Goodwill		32,468	32,468
Investment property		45,696	49,649
Shares		8,595	14,690
Equity-accounted investees		82,670	111,059
Other financial assets		2,408	2,226
Other receivables		139,516	137,850
Deferred tax assets	7.4	60,831	69,583
Other assets		349	337
Total non-current assets		8,145,189	8,069,981
Current assets			
Inventories		1,048,788	1,003,214
Property rights		230,338	188,887
Derivative financial instruments		-	2,284
Other financial assets		9,611	253,684
Current tax assets		13,832	24,248
Trade and other receivables		1,391,937	1,088,424
Cash and cash equivalents	11	1,088,796	1,085,885
Other assets		13,986	10,882
Assets held for sale		10,970	10,555
Total current assets		3,808,258	3,668,063
Total assets		11,953,447	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)

	Note	as at Jun 30 2018 <i>unaudited</i>	as at Dec 31 2017 <i>audited</i>
Equity and liabilities			
Equity			
Share capital		495,977	495,977
Share premium		2,418,270	2,418,270
Hedging reserve		(4,230)	15,407
Exchange differences on translating foreign operations		3,985	(233)
Retained earnings, including:		3,897,343	3,926,338
<i>Net profit for the year</i>		123,638	456,663
Equity attributable to owners of the Parent		6,811,345	6,855,759
Non-controlling interests		627,704	587,648
Total equity		7,439,049	7,443,407
Liabilities			
Borrowings	12	1,529,586	1,564,879
Other financial liabilities		33,744	39,592
Employee benefit obligations	13	357,233	336,781
Trade and other payables		5,511	4,456
Provisions	14	134,107	122,740
Government grants received		123,392	90,585
Deferred tax liabilities	7.4	177,087	177,588
Total non-current liabilities		2,360,660	2,336,621
Borrowings	12	115,470	70,209
Derivative financial instruments		5,110	-
Other financial liabilities		62,568	31,484
Employee benefit obligations	13	43,118	42,316
Current tax liabilities		2,316	8,916
Trade and other payables		1,826,932	1,769,199
Provisions	14	26,582	29,805
Government grants received		71,642	6,087
Total current liabilities		2,153,738	1,958,016
Total liabilities		4,514,398	4,294,637
Total equity and liabilities		11,953,447	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 June 30th 2018

	Share capital	Share premium	Hedging reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2018	495,977	2,418,270	15,407	(233)	3,926,338	6,855,759	587,648	7,443,407
Effect of IFRS 9 and IFRS 15 implementation	-	-	-	-	(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	-	-	-	-	123,638	123,638	835	124,473
Other comprehensive income	-	-	(19,637)	4,218	(8,788)	(24,207)	(3,246)	(27,453)
Total profit or loss and other comprehensive income	-	-	(19,637)	4,218	114,850	99,431	(2,411)	97,020
<i>Transactions with owners, recognised directly in equity</i>								
Dividends	-	-	-	-	(123,995)	(123,995)	(20,369)	(144,364)
Total contributions by and distributions to owners	-	-	-	-	(123,995)	(123,995)	(20,369)	(144,364)
Changes in the Group's structure	-	-	-	-	(12,243)	(12,243)	2,145	(10,098)
Total transactions with owners	-	-	-	-	(136,238)	(136,238)	(18,224)	(154,462)
Loss of control over a subsidiary	-	-	-	-	-	-	60,889	60,889
Other	-	-	-	-	(218)	(218)	212	(6)
Balance as at June 30th 2018 (unaudited)	495,977	2,418,270	(4,230)	3,985	3,897,343	6,811,345	627,704	7,439,049

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

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

	Share capital	Share premium	Hedging reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2017	495,977	2,418,270	(7,105)	2,319	3,553,237	6,462,698	576,774	7,039,472
<i>Profit or loss and other comprehensive income</i>								
Net profit	-	-	-	-	335,502	335,502	42,169	377,671
Other comprehensive income	-	-	16,787	(2,431)	(5,186)	9,170	3,007	12,177
Total profit or loss and other comprehensive income	-	-	16,787	(2,431)	330,316	344,672	45,176	389,848
<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)
Acquisition of non-controlling interests without change of control	-	-	-	-	-	-	252	252
Total transactions with owners	-	-	-	-	(78,364)	(78,364)	(21,697)	(100,061)
Other	-	-	-	-	(103)	(103)	-	(103)
Balance as at June 30th 2017 (unaudited)	495,977	2,418,270	9,682	(112)	3,805,086	6,728,903	600,253	7,329,156

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

Interim condensed consolidated statement of cash flows

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from operating activities		
Profit before tax	167,664	443,370
<i>Adjustments for:</i>	<i>398,439</i>	<i>297,512</i>
Depreciation and amortisation	332,485	272,104
(Reversal)/recognition of impairment losses on assets	7,065	21,215
(Profit)/loss from investing activities	54,392	7,352
(Profit)/loss from disposal of financial assets	(109)	(25)
Share of (profit)/loss of equity-accounted investees	(7,191)	(8,605)
Interest, foreign exchange gains or losses	4,704	16,832
Dividends	(296)	(668)
Net change in fair value of financial assets at fair value through profit or loss	7,389	(10,693)
	566,103	740,882
Increase in trade and other receivables	(101,215)	(385,658)
Increase in inventories and property rights	(84,765)	(41,100)
Decrease in trade and other payables	(149,958)	(153,502)
Increase in provisions, prepayments and grants	51,303	10,991
Other adjustments	(377)	(99)
Cash generated from operating activities	281,091	171,514
Income tax paid	(25,616)	(25,901)
Net cash from operating activities	255,475	145,613

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– Jun 30 2018	for the period Jan 1– Jun 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	833	4,737
Acquisition of property, plant and equipment, intangible assets and investment property	(448,610)	(522,972)
Dividend received	-	11,918
Acquisition of financial assets	(38,178)	(415,100)
Proceeds from sale of financial assets	234,350	711,000
Interest received	9,702	6,402
Government grants received	3,807	250
Loans advanced	-	(1,225)
Other disbursements	(1,528)	(11,744)
Net cash from investing activities	(239,624)	(216,734)
Cash flows from financing activities		
Dividends paid	(3,431)	(6,321)
Proceeds from borrowings	134,070	227,978
Payment of borrowings	(131,548)	(65,768)
Acquisition of non-controlling interests	(15,757)	(965)
Interest paid	(37,042)	(21,343)
Payment of finance lease liabilities	(5,391)	(6,137)
Other proceeds/(disbursements)	36,739	(31,525)
Net cash from financing activities	(22,360)	95,919
Total net cash flows	(6,509)	24,798
Cash and cash equivalents at beginning of period	1,085,885	641,895
Effect of exchange rate fluctuations on cash held	9,420	(5,975)
Cash and cash equivalents at end of period, including:	1,088,796	660,718
Restricted cash	2,424	1,115

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 June 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 affiliates 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 its new name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).

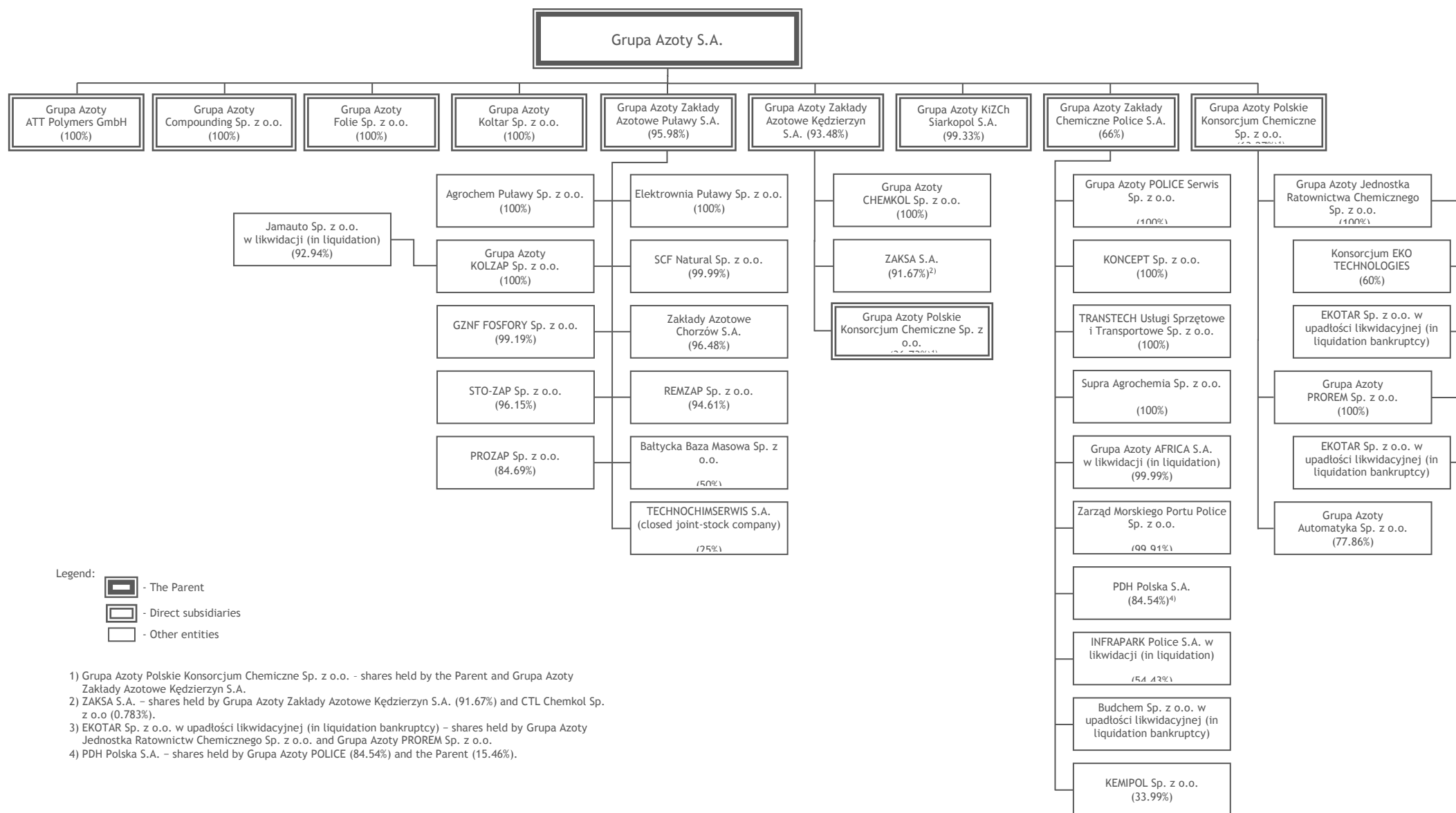
The Group's business includes in particular:

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

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

The interim condensed consolidated financial statements were authorised for issue by the Parent's Management Board on August 27th 2018.

Structure of the Group as at June 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.

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

Under an agreement signed on December 6th 2017 with CTL Logistics Sp. z o.o., on January 1st 2018 Grupa Azoty KOLTAR Sp. z o.o. expanded its business to include a new location in Police, where it provides forwarding, shunting, and repair services.

Moreover, pursuant to resolutions of their respective General Meetings of December 6th 2017, on January 1st 2018 CTL KOLZAP Sp. z o.o. and CTL CHEMKOL Sp. z o.o. made a representation to the effect that all the shares in those companies held by CTL Logistics Sp. z o.o. had been repurchased by them and cancelled.

On March 29th 2018, a Merger Plan for those companies was published on their websites. In accordance with the Plan, the merger will be effected under Art. 492.1.1 of the Commercial Companies Code (merger through acquisition) by transferring all assets of the acquirees (CHEMKOL Sp. z o.o. and KOLZAP Sp. z o.o.) to the acquirer (Grupa Azoty KOLTAR Sp. z o.o.). The merger will be accompanied by an increase in the share capital of Grupa Azoty KOLTAR Sp. z o.o. through the issue of new shares that will be allotted to the shareholders of the acquirees, based on the share exchange ratio specified in the Merger Plan.

Since March 29th 2018, the Merger Plan has been continuously available to the public, free of charge, on the websites of all the merging companies, together with the Annex agreed on May 18th 2018 by the Management Boards of the merging companies.

Additionally, on April 9th 2018 the shareholders of the merging companies were given the first notice of the intended merger.

On June 12th 2018, the Extraordinary General Meeting of Grupa Azoty CHEMKOL Sp. z o.o. passed a resolution to merge Grupa Azoty KOLTAR Sp. z o.o., Grupa Azoty CHEMKOL Sp. z o.o., and Grupa Azoty KOLZAP Sp. z o.o.

On June 14th 2018, the Annual General Meeting of Grupa Azoty KOLZAP Sp. z o.o. passed a resolution to merge Grupa Azoty KOLTAR Sp. z o.o., Grupa Azoty CHEMKOL Sp. z o.o., and Grupa Azoty KOLZAP Sp. z o.o.

On June 28th 2018, the Extraordinary General Meeting of Grupa Azoty KOLTAR Sp. z o.o. passed a resolution to merge Grupa Azoty KOLTAR Sp. z o.o., Grupa Azoty CHEMKOL Sp. z o.o., and Grupa Azoty KOLZAP Sp. z o.o. and to increase the company's share capital by PLN 11,443,300; under the resolution, Grupa Azoty KĘDZIERZYN and Grupa Azoty PUŁAWY will acquire 68,750 and 45,683 shares, respectively, in exchange for cash contributions. The cash contributions for the new shares should be made by October 31st 2018 at the latest.

Share capital increase at Zakłady Azotowe Chorzów S.A.

On January 3rd 2018, a PLN 36,000 thousand share capital increase at Zakłady Azotowe Chorzów S.A. was registered in the National Court Register. As a result, Grupa Azoty PUŁAWY's equity interest in that company rose to 96.48%.

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

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

Change in the name of CTL CHEMKOL Sp. z o.o.

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

Merger of Agrochem Puławy Sp. z o.o. and Agrochem Sp. z o.o.

On February 28th 2018, the Extraordinary General Meetings of Agrochem Puławy Sp. z o.o. and Agrochem Sp. z o.o. passed resolutions to merge the companies.

The merger was to be effected in accordance with Art. 491 of the Commercial Companies Code, through acquisition of Agrochem Sp. z o.o. by Agrochem Puławy Sp. z o.o. pursuant to Art. 492.1.1 of the Commercial Companies Code, i.e. by way of transfer of all assets of the acquiree to the acquirer,

with a simultaneous increase in the acquirer's share capital through the issue of new shares; these merger shares are to be allotted to shareholders of the acquiree.

The merger took effect on the day of registering the merger (the increase in the acquirer's share capital) by the court having jurisdiction over Agrochem Puławy Sp. z o.o. The resolution of the Extraordinary General Meeting of Agrochem Puławy Sp. z o.o. was entered in the National Court Register on April 18th 2018, and the merger was effected on that day.

The share capital of Agrochem Puławy Sp. z o.o. was increased from PLN 50,000 thousand to PLN 68,639 thousand and is divided into 686,391 equal and indivisible shares with a par value of PLN 100 per share.

Change in the name of CTL KOLZAP Sp. z o.o.

On February 28th 2018, the Extraordinary General Meeting of CTL KOLZAP Sp. z o.o. passed a resolution to change the name of CTL KOLZAP Sp. z o.o. to Grupa Azoty KOLZAP Sp. z o.o. On May 15th 2018, the change was entered in the National Court Register.

Agreement concerning African Investment Group S.A.

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

On March 17th 2018, the company announced that due to non-payment by DGG Eco Sp. z o.o. of the first tranche of reimbursement of the purchase price for shares in African Investment Group S.A. and failure to provide a bank guarantee securing reimbursement of the balance, the conditional agreement concluded between Grupa Azoty Police and DGG Eco Sp. z o.o. had not been consummated by the declared additional deadline.

On May 24th 2018, Grupa Azoty POLICE announced that considering:

- DGG Eco sp. z o.o.'s failure to comply with the original terms of consummating the Termination Agreement made on December 20th 2017, and
- the submission of a declaration of insolvency by African Investment Group S.A. in connection with not having sufficient funds to meet its liabilities,

on May 24th 2018, Grupa Azoty POLICE signed an annex to the Termination Agreement, amending the terms of consummation as follows:

- DGG Eco Sp. z o.o. undertakes to reimburse the purchase price of the shares in African Investment Group S.A., in the amount of USD 28,850 thousand, in instalments payable over five years, with the first instalment payable by December 31st 2018 and the last one by December 31st 2023;
- African Investment Group S.A. shares will be transferred back to DGG Eco sp. z o.o. after the latter submits a representation on submission to enforcement within the meaning of Art. 777 of the Polish Code of Civil Procedure with respect to the aforementioned undertaking to reimburse the purchase price of AFRIG S.A shares;
- the Company's trade receivables from African Investment Group S.A. will be cancelled as of the day of transferring the shares to DGG Eco Sp. z o.o.;
- DGG Eco sp. z o.o.'s obligation to provide a bank guarantee securing that company's liabilities will be waived, while the security transfer of title to the documentation of appraisal of phosphate rock deposits and claims against AVES FZE onto Grupa Azoty Police will remain in force.

On May 30th 2018, the shares in African Investment Group S.A. held by Grupa Azoty POLICE and Grupa Azoty Police Serwis Sp. z o.o. were transferred back to DGG Eco Sp. z o.o. As of that date, the two companies are not shareholders in African Investment Group S.A. or, indirectly, in Afrig Trade SARL. On August 14th 2018, Grupa Azoty POLICE received USD 3m from DGG Eco Sp. z o.o. as partial repayment of the amount due to Grupa Azoty POLICE for the returned shares in AFRIG S.A. in accordance with the terms of an annex to the Termination Agreement of December 20th 2017 on termination of the Share Purchase Agreement of August 28th 2013.

Petition to open bankruptcy proceedings with respect to African Investment Group S.A.

Having declared insolvency on March 29th 2018, African Investment Group S.A., a Grupa Azoty POLICE subsidiary with a share capital of CFA 340m (PLN 2,169 thousand, translated at the mid exchange rate

for March 28th 2018), filed a petition for bankruptcy with the Commercial Court of Dakar on March 29th 2018.

Share capital increase at PDH Polska S.A.

On April 9th 2018, a share capital increase at PDH Polska S.A. was registered in the National Court Register. Following the registration, the share capital of PDH Polska S.A. amounts to PLN 304,000 thousand, including paid-up share capital of PLN 211,000 thousand.

The remaining amount of the share capital will be paid by shareholders of PDH Polska by September 1st 2018.

Share capital increase at Grupa Azoty SIARKOPOL

On June 6th 2018, the Annual General Meeting of Grupa Azoty SIARKOPOL adopted a resolution to increase the share capital by not less than PLN 3,828,560 and not more than PLN 3,854,350, through the issue of new Series B registered shares with a par value of PLN 10 per share (the "New Shares"). The New Shares will be acquired in exchange for a cash contribution paid before the registration of the capital increase, and their issue price will be PLN 53.38 per share. The New Shares carry the right to dividend as of January 1st 2018, on an equal basis with other Company shares, i.e. for the entire year 2018.

The record date for the pre-emptive rights to the New Shares is June 6th 2018.

Events after 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 the 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 is effected by way of an issue of 300,000 new, equal and indivisible shares with a par value of PLN 100 per share.

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

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

On August 7th 2018, a decision was made to commence preparations to 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 on the basis of a merger plan to be agreed upon by the Management Boards of both companies and in accordance with resolutions of the General Meetings of both companies, adopted in accordance with the provisions of the Commercial Companies Code.

2. Significant events in the reporting period

Consequences of loss of control over the subsidiary African Investment Group S.A.

Grupa Azoty POLICE lodged a claim against DGG Eco Sp. z o.o. for reimbursement of the tranches of the purchase price of a 55% interest in African Investment Group S.A. ("AFRIG S.A."). The price tranches were not due to AFRIG S.A. as it failed to produce phosphate rock from its deposits in quantities provided for in the contract. The claim was settled on December 20th 2017, when the parties signed a termination agreement (confirmed by court settlement) providing for withdrawal from and reversal of the legal effect of the agreement of August 28th 2013 on the purchase of the majority interest in AFRIG S.A. The consequences of the agreement (settlement) taking legal effect, based on mutual return of performances under the purchase agreement being terminated, were made conditional upon the return of the first part of the price and establishment of security for repayment of the balance by February 28th 2018. As DGG Eco Sp. z o.o. failed to meet these conditions, the settlement had not been consummated by the originally set date.

As a result of further negotiations, an annex to the agreement was signed on May 22nd and 23rd 2018, modifying the terms of its consummation and return of performances. In accordance with the annex, on May 30th 2018 Grupa Azoty POLICE confirmed that shares in AFRIG S.A. had been transferred back to DGG Eco Sp. z o.o.

The key terms and conditions of the termination agreement between Grupa Azoty POLICE and DGG Eco Sp. z o.o. are as follows:

- DGG Eco Sp. z o.o. pays back the amounts paid by Grupa Azoty POLICE towards the purchase price of the shares, i.e. the entire amount of USD 28,850 thousand, in instalments payable over five years, with the first instalment payable by December 31st 2018 and the last one by December 31st 2023;
- Grupa Azoty POLICE cancels its trade receivables from AFRIG S.A. in the total amount of EUR 11,090 thousand and USD 1,258 thousand (in aggregate, equivalent to PLN 51,942 thousand);
- Grupa Azoty POLICE, as a co-borrower, takes over the obligation to repay the loan granted by BGŻ BNP Paribas S.A. to finance the operations of AFRIG S.A., used in the amount of EUR 20,079 thousand (PLN 86,734 thousand);
- AFRIG S.A. continues to be liable towards Grupa Azoty POLICE for the repayment of the used portion of the loan and its service.

In order to secure the performance of the settlement, DGG Eco Sp. z o.o. submitted a declaration of voluntary submission to enforcement under Art. 777 of Code of Civil Procedure regarding the obligation to return the above amount. Nevertheless, in the opinion of Grupa Azoty POLICE, in particular due to the fact that AFRIG S.A. (whose future operations, according to DGG Eco Sp. z o.o., are to serve as the source of financing to satisfy the Company's claims) has declared its insolvency (and filed a petition to open bankruptcy proceedings on March 29th 2018) and that the tax enforcement proceedings have been instituted against it, as well as the fact that DGG Eco Sp. z o.o. failed to fulfil the original obligation to secure the return of the price of the shares in AFRIG S.A. with a bank guarantee, the fair value of the amount due from DGG Eco Sp. z o.o. for the return of the shares in AFRIG S.A. was initially recognised at USD 3,000 thousand (PLN 11,160 thousand). The estimate was substantiated by the actual inflow of the funds after the reporting date.

Grupa Azoty POLICE may present a recourse claim against AFRIG S.A. within regard to the obligation to repay the equivalent of the loan used by the subsidiary (EUR 20,079 thousand plus service costs). In view of the insolvency of AFRIG S.A., the amount to be repaid was recognised at zero fair value on initial recognition in the consolidated statement of financial position.

Cancellation of trade receivables from AFRIG S.A., with the debtor's consent, which in the previous years were income due but not paid to Grupa Azoty POLICE, reduced the income tax expense by PLN 8,211 thousand.

Following the loss of control over AFRIG S.A., a subsidiary of Grupa Azoty Zakłady Chemiczne Police S.A., as of May 30th 2018 AFRIG S.A.'s net assets of PLN 137,250 thousand, adjusted for cancelled receivables of Grupa Azoty POLICE (PLN 51,942 thousand), together with the reduced income tax expense following the cancellation of receivables which in the previous years were taxable income (PLN 9,869 thousand), adjusted for loan liabilities assumed by Grupa Azoty POLICE (PLN 86,734 thousand) and negative non-controlling interests (PLN 88,647 thousand), were excluded from the Group's consolidated statement of financial position, with the effect recognised in the consolidated profit/(loss) for current period. In addition, the settlement of the effect of deconsolidation includes the fair value of receivables from DGG Eco for the return of AFRIG shares (PLN 11,160 thousand).

The total effect of consequences of the loss of control over the subsidiary AFRIG S.A. on the consolidated net financial result is presented below.

Item	Amount
Finance costs	
Consequences of loss of control over a subsidiary	(52,205)
Profit/(Loss) before tax	(52,205)
Income tax	8,211
Net profit/(loss)	(43,994)
Net profit/(loss) attributable to owners of the parent	(29,036)
Net profit/(loss) attributable to non-controlling interests	(14,958)

Impairment loss recognised by Zakłady Azotowe Chorzów S.A., subsidiary of Grupa Azoty PUŁAWY

On August 8th 2018, the Management Board of Zakłady Azotowe Chorzów S.A. passed a resolution to recognise a PLN 6,771 thousand impairment loss on the fat processing unit. In accordance with IAS 36, the Management Board identified indications that the recoverable amount of this unit may have decreased below its carrying amount as at June 30th 2018. The fat processing unit continues to operate below its full processing capacity. The limitation of the company's ability to generate cash inflows from the sale of stearine and other oleochemicals results from lower than planned prices and sales volumes in the first half of 2018 and lower prices and sales volumes expected in the coming quarters.

Having considered these indications, the Management Board of Zakłady Azotowe Chorzów S.A. tested property, plant and equipment and intangible assets for impairment. The test confirmed the validity of the decision to recognise another impairment loss on the fat processing unit. The first impairment loss, of PLN (18.4m), was recognised in the financial statements for 2015. The second impairment loss, of PLN (10.0m), was recognised in the Company's financial statements for 2016. The third impairment loss, of PLN (14.7m), was recognised in the Company's financial statements as at June 30th 2017. Thus, the impairment losses on the fat processing unit will total PLN 49.9m.

The effect on consolidated EBIT of the Group, amounting to PLN (6,771 thousand), was recognised in the Group's consolidated financial statements for the first half of 2018.

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

3.1. Statement of compliance and general basis of preparation

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

The interim condensed consolidated statement of profit or loss and other comprehensive income as well as notes to the interim condensed consolidated statement of profit or loss and other comprehensive income for the three months ended June 30th 2018 as well as the comparative data for the three months ended June 30th 2017 have not been reviewed or audited by an auditor.

Interim condensed consolidated financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31st 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.

3.2. Changes in applied accounting policies

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 the 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, a date of 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 a 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.

Those 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; and 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 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 sets forth the impact of amendments to IFRS 15 on the Group's statement of profit or loss for the period January 1st - June 30th 2018.

	Before implementing IFRS 15	Impact of change	After implementing IFRS 15
Revenue	4,886,709	(9,680)	4,877,029
Cost of sales	(3,970,076)	929	(3,969,147)
Gross profit	916,633	(8,751)	907,882
Selling and distribution expenses	(315,524)	5,364	(310,160)
Profit before tax	176,978	(3,387)	173,591
Income tax	(42,234)	701	(41,533)
Net profit	134,744	(2,686)	132,058

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

	Before implementing IFRS 15	Impact of change	After implementing IFRS 15
Assets			
Non-current assets			
Deferred tax assets	59,533	241	59,774
Total non-current assets	8,149,454	241	8,149,695
Current assets			
Inventories	1,048,925	(137)	1,048,788
Trade and other receivables	1,383,970	(3,265)	1,380,705
Total current assets	3,800,428	(3,402)	3,797,026
Total assets	11,949,882	(3,161)	11,946,721
Equity and liabilities			
Equity			
Retained earnings	3,897,323	(2,296)	3,895,027
Equity attributable to owners of the Parent	6,811,323	(2,296)	6,809,029
Total equity	7,436,276	(2,296)	7,433,980
Liabilities			
Deferred tax liabilities	177,490	(403)	177,087
Total non-current liabilities	2,361,063	(403)	2,360,660
Trade and other payables	1,827,395	(462)	1,826,933
Total current liabilities	2,152,543	(462)	2,152,081
Total liabilities	4,513,606	(865)	4,512,741
Total equity and liabilities	11,949,882	(3,161)	11,946,721

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

	Before implementing IFRS 15	Impact of change	After implementing IFRS 15
Cash flows from operating activities			
Profit before tax	176,978	(3,387)	173,591
Increase in trade and other receivables	(121,029)	3,482	(117,547)
Increase in inventories and property rights	(84,676)	(89)	(84,765)
Decrease in trade and other payables	(147,911)	(2,047)	(149,958)
Increase in provisions, prepayments and grants	49,262	2,041	51,303
Net cash from operating activities	255,475	-	255,475

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 expected inflation rises.

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	14,158	(5,563)	8,595
Deferred tax assets	59,774	1,057	60,831
Total non-current assets	8,149,695	(4,506)	8,145,189
Total assets	11,957,953	(4,506)	11,953,447
Equity and liabilities			
Equity			
Retained earnings	3,901,889	(4,506)	3,897,343
Total equity	7,445,213	(4,506)	7,440,707
Total equity and liabilities	11,957,953	(4,506)	11,953,447

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

The Group's changes in the accounting policies are compliant with the transitional provisions of IFRS 9, i.e. the Group applies the standard retrospectively to all financial instruments unexpired as at January 1st 2018, without adjusting the comparative data. In accordance with the transitional provisions of IFRS 9, any differences between the previous carrying amounts and carrying amounts at

the beginning of the annual reporting period were recognised by the Group in the opening balance of retained earnings (in equity).

Classification of financial assets

Based on analyses carried out at the end of 2017, the Group defined business models and performed 'solely payments of principal and interest' (SPPI) tests for financial assets open as at December 31st 2017. Following these analyses, the Parent determined the effect of IFRS 9 on the Group's financial statements. In H1 2018, the Group determined the classification of financial assets recognised for the first time in the period. The table below presents a comparison of key changes in the classification of financial assets resulting from the implementation of IFRS 9.

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

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

Impairment of financial assets

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
Exchange differences on translating foreign operations	(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 estimate affects both the current period and the future periods.

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

4. Selected notes and supplementary information

4.1. 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;
- The Energy segment includes the production of energy carriers (electricity, heat, water, process and instrument air, nitrogen) for the purposes of chemical units and, to a lesser extent, for resale (mainly of electricity) to external customers. As part of its operations, the segment also purchases and distributes natural gas for process needs;
- Other Activities segment comprises the remaining activities, including laboratory services, catalyst production (iron-chromium catalyst, copper catalysts, [HYPERLINK "http://grupazoty.com/pl/oferta/chemikalia/2/4"](http://grupazoty.com/pl/oferta/chemikalia/2/4) 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 six months ended June 30th 2018 (unaudited)

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

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

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

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

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Continuing operations						
External revenue	2,586,042	743,063	1,350,901	117,499	72,186	4,869,691
Intersegment revenue	1,061,955	149,433	478,037	1,266,892	395,099	3,351,416
Total revenue	3,647,997	892,496	1,828,938	1,384,391	467,285	8,221,107
Operating expenses, including: (-)	(3,374,958)	(796,041)	(1,691,781)	(1,392,973)	(482,357)	(7,738,110)
<i>selling and distribution expenses (-)</i>	(227,465)	(29,146)	(80,087)	(116)	(1,191)	(338,005)
<i>administrative expenses (-)</i>	(154,693)	(54,430)	(86,880)	(8,872)	(39,213)	(344,088)
Other income	6,826	1,544	678	2,139	15,561	26,748
Other expenses (-)	(7,542)	(744)	(18,985)	(15,613)	(24,799)	(67,683)
Segment's EBIT*	272,323	97,255	118,850	(22,056)	(24,310)	442,062
Finance income	-	-	-	-	-	31,454
Finance costs (-)	-	-	-	-	-	(38,751)
Share of profit of equity-accounted investees	-	-	-	-	-	8,605
Profit before tax	-	-	-	-	-	443,370
Income tax	-	-	-	-	-	(65,699)
Net profit	-	-	-	-	-	377,671
EBIT*	272,323	97,255	118,850	(22,056)	(24,310)	442,062
Depreciation and amortisation	93,370	23,866	51,544	44,642	40,917	254,339
Unallocated depreciation and amortisation	-	-	-	-	-	17,765
EBITDA**	365,693	121,121	170,394	22,586	16,607	714,166

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

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

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

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

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

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

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

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
<i>Continuing operations</i>						
External revenue	1,102,663	332,173	664,276	55,390	27,795	2,182,297
Intersegment revenue	536,227	70,780	239,832	593,716	222,900	1,663,455
Total revenue	1,638,890	402,953	904,108	649,106	250,695	3,845,752
Operating expenses, including: (-)	(1,571,666)	(359,600)	(848,047)	(657,638)	(252,794)	(3,689,745)
<i>selling and distribution expenses (-)</i>	(108,823)	(13,127)	(39,308)	(72)	(1,027)	(162,357)
<i>administrative expenses (-)</i>	(74,186)	(26,605)	(46,117)	(4,882)	(19,853)	(171,643)
Other income	5,963	624	282	1,235	5,772	13,876
Other expenses (-)	(6,863)	(378)	(18,777)	(5,672)	(14,961)	(46,651)
Segment's EBIT*	66,324	43,599	37,566	(12,969)	(11,288)	123,232
Finance income	-	-	-	-	-	17,505
Finance costs (-)	-	-	-	-	-	(25,606)
Share of profit of equity-accounted investees	-	-	-	-	-	5,031
Profit before tax	-	-	-	-	-	120,162
Income tax	-	-	-	-	-	2,249
Net profit	-	-	-	-	-	122,411
EBIT*	66,324	43,599	37,566	(12,969)	(11,288)	123,232
Depreciation and amortisation	46,969	11,850	26,016	24,609	19,694	129,138
Unallocated depreciation and amortisation	-	-	-	-	-	8,803
EBITDA**	113,392	55,449	63,582	11,640	8,406	261,173

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

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

Geographical areas

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

Revenue

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Poland	2,560,325	2,593,863	1,216,380	1,104,097
Germany	429,313	579,229	222,038	278,848
Other EU countries	1,410,275	1,195,134	696,797	571,583
Asia	103,751	221,494	42,839	67,105
South America	86,114	68,796	79,654	56,108
Other countries	287,251	211,175	122,219	104,556
Total	4,877,029	4,869,691	2,379,927	2,182,297

No single trading partner accounted for more than 10% of revenue in H1 2018 or H1 2017.

Note 1 Revenue from contracts with customers

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue from sale of products and services	4,727,053	4,750,300	2,303,903	2,124,391
Revenue from construction contracts	-	19,545	-	6,813
Revenue from sale of merchandise and materials	142,293	97,551	72,335	49,662
Revenue from sale of property rights	7,683	-	3,689	-
Revenue from sale of licences	-	2,295	-	1,431
	4,877,029	4,869,691	2,379,927	2,182,297

for the period Jan 1 - Jun 30 2018

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

Note 2 Operating expenses

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Depreciation and amortisation	331,358	270,763	167,488	137,530
Raw materials and consumables used	2,906,061	2,767,155	1,423,597	1,259,268
Services	445,179	480,920	234,063	218,608
Taxes and charges	169,444	159,524	82,574	69,170
Remuneration	572,974	529,125	294,716	267,169
Social security and other employee benefits	151,050	143,789	77,090	72,499
Other expenses	56,634	83,644	33,151	38,463
Costs by nature of expense	4,632,700	4,434,920	2,312,679	2,062,707
Change in inventories of finished goods (+/-)	(39,311)	(60,314)	59,895	(33,796)
Work performed by the entity and capitalised (-)	(56,953)	(75,148)	(31,580)	(47,503)
Selling and distribution expenses (-)	(310,160)	(338,005)	(161,650)	(162,357)
Administrative expenses (-)	(382,405)	(344,088)	(197,470)	(171,643)
Cost of merchandise and materials sold	125,276	87,236	64,645	44,882
Cost of sales	3,969,147	3,704,601	2,046,519	1,692,290
including excise duty	10,501	13,080	4,901	6,355

Note 3 Other income

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Gains on disposal of assets:				
Gain on disposal of property, plant and equipment	762	-	190	-
Gain on disposal of intangible assets	500	-	500	-
	1,262	-	690	-
Reversed impairment losses on:				
Investment property	11	-	-	-
Other receivables	568	296	128	150
Other	74	15	68	1
	653	311	196	151
Other income:				
Income from lease of investment property	9,573	8,688	4,871	4,369
Received compensation	3,948	2,315	1,638	1,286
Provisions reversed	3,038	8,649	2,636	4,502
Government grants received	5,645	3,635	3,330	2,124
Other (aggregated items), including:	211	3,150	(420)	1,444
stock-taking surplus	-	74	-	74
restoration of property, plant and equipment for use	1	-	-	-
provision of welfare services	-	8	-	8
court fees refunded	210	148	72	106
other	-	2,920	(492)	1,256
	22,415	26,437	12,055	13,725
	24,330	26,748	12,941	13,876

Under 'Gain on disposal of intangible assets', of PLN 500 thousand, a used impairment loss on unsuccessful development work was recognised.

Note 4 Other expenses

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Loss on disposal of assets:				
Loss on disposal of property, plant and equipment	-	9,224	-	6,520
Loss on disposal of intangible assets	-	7	-	7
	-	9,231	-	6,527
Recognised impairment losses on:				
Property, plant and equipment	7,058	24,916	6,676	15,139
Intangible assets	776	-	439	-
Other receivables	366	1,012	366	962
Other	106	-	106	-
	8,306	25,928	7,587	16,101
Other expenses:				
Investment property maintenance costs	4,974	5,271	2,179	2,480
Fines and compensations	3,126	6,807	538	6,746
Plant outages	1,501	1,428	755	703
Disaster recovery costs	4,342	2,045	3,041	1,133
Recognised provisions	12,929	10,838	9,226	10,403
Other (aggregated items), including:	8,014	6,135	5,878	2,558
cost of provision of welfare services	67	86	32	45
current asset decommissioning costs	78	220	22	77
court fees paid	199	176	159	72
donations	4,739	2,864	4,139	1,273
other	2,931	2,789	1,526	1,091
	34,886	32,524	21,617	24,023
	43,192	67,683	29,204	46,651

Provisions, comprising mainly the costs of revaluation of the provisions for environmental protections, in particular for land and site restoration, represent the largest item of other expenses.

The largest item of impairment losses on property, plant and equipment is a PLN 6.8m impairment loss on the fat processing unit of Zakłady Azotowe Chorzów S.A., recognised due to limited production capacity utilisation.

Note 5 Finance income

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Interest income:				
Interest on bank deposits	5,661	6,022	2,858	2,911
Interest on cash pooling	699	414	323	53
Interest on non-bank borrowings	6	20	1	10
Interest on trade receivables	716	4,145	339	3,590
Other interest income	48	29	15	12
	7,130	10,630	3,536	6,576
Profit from sale of financial investments:				
Profits from sale of financial investments	-	69	-	-
	-	69	-	-
Gains on measurement of financial assets and liabilities:				
Gains on measurement of financial assets at fair value through profit or loss	168	7,220	-	-
Gains on measurement of financial liabilities at fair value through profit or loss	-	12,618	-	-
Increase in fair value transferred from equity as part of hedge accounting	-	25	-	25
	168	19,863	-	25
Other finance income:				
Foreign exchange gains	35,586	-	34,592	9,336
Dividends received	296	668	296	668
Discounting of liabilities	41	56	41	56
Other finance income	4,942	168	3,585	844
	40,865	892	38,514	10,904
	48,163	31,454	42,050	17,505

Note 6 Finance costs

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Interest expense:				
Interest on bank borrowings and overdraft facilities	16,634	13,071	8,325	5,693
Interest on cash pooling	27	300	(190)	300
Interest on non-bank borrowings	2,565	52	1,275	(1,115)
Interest on finance lease liabilities	738	853	406	388
Factoring interest	15	107	9	52
Interest on receivables discounting	508	384	234	112
Interest on trade payables	26	344	8	302
Interest on public charges	191	316	110	262
Other interest expense	3,037	2,853	2,978	2,756
	23,741	18,280	13,155	8,750
Loss on sale of financial investments:				
Loss on sale of financial investments	51,993	-	51,993	-
	51,993	-	51,993	-
Loss on measurement of financial assets and liabilities:				
Loss on measurement of financial assets at fair value through profit or loss	7,507	-	6,175	4,571
Loss on measurement of derivatives hedging fair value	-	-	-	3,394
	7,507	-	6,175	7,965
Other finance costs:				
Foreign exchange losses	-	12,497	-	-
Unwind of discount on provisions and loans	722	477	722	462
Other finance costs	182	7,497	182	8,429
	904	20,471	904	8,891
	84,145	38,751	72,227	25,606

Loss on sale of financial investments includes mainly the consequences of loss of control over the subsidiary African Investment Group S.A.

Loss on measurement of financial assets and liabilities includes primarily net loss on the measurement of unrealised hedging transactions.

Note 7 Income tax

Note 7.1 Income tax disclosed in the statement of profit or loss

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Current income tax:				
Current income tax expense	27,437	70,969	(13,811)	25,004
Adjustments to current income tax for previous years	(2,229)	(1,502)	(2,229)	(1,502)
	25,208	69,467	(16,040)	23,502
Deferred income tax:				
Deferred income tax associated with origination and reversal of temporary differences	17,983	(3,768)	10,689	(25,751)
	17,983	(3,768)	10,689	(25,751)
Income tax disclosed in the statement of profit or loss	43,191	65,699	(5,351)	(2,249)

Note 7.2 Effective tax rate

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Profit before tax	167,664	443,414	(68,856)	120,206
Tax calculated at the applicable tax rate	31,856	84,249	(13,083)	23,015
Effect of tax rates in foreign jurisdictions	(138)	(312)	(69)	(156)
Effect of tax-exempt income (+/-)	(3,494)	(216)	(3,494)	(216)
Effect of non-tax-deductible expenses (+/-)	9,573	16,320	2,061	8,160
Tax effect of inclusion of property, plant and equipment into operations in Special Economic Zone (+/-)	725	-	241	-
Tax effect of tax losses deducted in the period (+/-)	158	252	158	126
Recognition of state aid deductible in future periods (+/-)	(3,545)	(34,922)	(1,905)	(29,089)
Other (+/-)	8,056	328	10,740	(4,089)
Income tax disclosed in the statement of profit or loss	43,191	65,699	(5,351)	(2,249)
Effective tax rate	25.8%	14.8%	7.8%	(1.9%)

Note 7.3 Income tax disclosed in other comprehensive income

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Tax on items that will not be reclassified to profit or loss (+/-)				
	(2,472)	(1,479)	(2,472)	(1,479)
Remeasurement of net defined benefit obligation/asset	(2,472)	(1,480)	(2,472)	(1,480)
Other income	-	1	-	1
Tax on items that are or may be reclassified to profit or loss (+/-)				
	(4,607)	3,938	(3,699)	(177)
Measurement of hedging instruments through hedge accounting	(4,607)	3,938	(3,699)	(177)
Income tax disclosed in other comprehensive income	(7,079)	2,459	(6,171)	(1,656)

Note 7.4 Deferred tax assets and liabilities

	Assets (-)		Liabilities (+)	
	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017)
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>audited</i>
Property, plant and equipment	(89,271)	(89,651)	312,162	309,541
Perpetual usufruct of land	(91)	(55)	81,450	85,400
Investment property	(1,447)	(1,373)	8,441	8,122
Intangible assets	(2,681)	(7,779)	61,136	67,209
Financial assets	(7,873)	(629)	14,250	14,451
Inventories and property rights	(11,456)	(11,871)	18,750	14,398
Trade and other receivables	(562)	(6,031)	2,589	1,359
Trade and other payables	(52,994)	(54,877)	1,244	1,557
Other assets	(1,124)	(63)	217	182
Employee benefits	(83,751)	(82,531)	25	19
Provisions	(40,246)	(35,136)	4,193	383
Borrowings	(109)	(105)	-	-
Other financial liabilities	(391)	(286)	396	292
Measurement of hedging instruments through hedge accounting	(992)	-	-	3,614
State aid deductible in future periods	(86,387)	(92,180)	-	-
Tax losses	(5,613)	(17,606)	-	-
Other	(3,286)	(976)	(323)	2,627
Deferred tax assets (-)/liabilities (+)	(388,274)	(401,149)	504,530	509,154
Offset	327,443	331,566	(327,443)	(331,566)
Deferred tax assets (-)/liabilities (+) recognised in the statement of financial position	(60,831)	(69,583)	177,087	177,588

The decrease in deferred tax asset is a consequence of utilisation of tax losses in the first half of 2018.

Note 8 Earnings per share

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

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Net profit	123,638	335,531	(48,293)	104,617
Number of shares at beginning of period	99,195,484	99,195,484	99,195,484	99,195,484
Number of shares at end of period	99,195,484	99,195,484	99,195,484	99,195,484
Weighted average number of shares in the period	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per share:				
Basic (PLN)	1.25	3.38	(0.49)	1.05
Diluted (PLN)	1.25	3.38	(0.49)	1.05

Diluted earnings per share

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

Note 9 Property, plant and equipment

Carrying amount

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Land	24,192	24,193
Mineral deposits	15,666	16,477
Buildings and structures	2,330,119	2,287,758
Plant and equipment	3,410,574	3,421,048
Vehicles	128,647	118,242
Other property, plant and equipment	106,540	104,922
	6,015,738	5,972,640
Property, plant and equipment under construction	910,023	807,108
	6,925,761	6,779,748

Property, plant and equipment by type

	Land	Mineral deposits	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
As at June 30th 2018								
Gross carrying amount	27,210	48,198	3,501,639	6,340,531	301,575	278,583	991,954	11,489,690
Accumulated depreciation (-)	-	-	(1,110,533)	(2,805,487)	(128,009)	(170,132)	-	(4,214,161)
Impairment (-)	(3,018)	(32,532)	(60,987)	(124,470)	(44,919)	(1,911)	(81,931)	(349,768)
Net carrying amount as at June 30th 2018 (unaudited)	24,192	15,666	2,330,119	3,410,574	128,647	106,540	910,023	6,925,761
As at December 31st 2017								
Gross carrying amount	27,211	60,916	3,365,858	6,020,502	269,831	257,894	889,729	10,891,941
Accumulated depreciation (-)	-	(11,907)	(1,020,200)	(2,478,334)	(106,684)	(151,650)	-	(3,768,775)
Impairment (-)	(3,018)	(32,532)	(57,900)	(121,120)	(44,905)	(1,322)	(82,621)	(343,418)
Net carrying amount as at December 31st 2017 (audited)	24,193	16,477	2,287,758	3,421,048	118,242	104,922	807,108	6,779,748

In the six months ended June 30th 2018, the Group purchased property, plant and equipment with a total value of PLN 710,467 thousand (the six months ended on June 30th 2017: PLN 1,215,285 thousand). In the six months ended June 30th 2018, the Group sold property, plant and equipment with a total net value of PLN 547 thousand (the six months ended June 30th 2017: PLN 2,778 thousand). For more information on the loss on sale and liquidation of property, plant and equipment, see Note 4.

At some of the Group companies, property, plant and equipment was reviewed for indications of impairment and impairment losses recognised in previous years were assessed to see if they were still justified. Having identified indications of impairment, such as adverse changes in the prices of key products and raw materials of the Group, impairment tests were performed.

The tests carried out at the Parent, Grupa Azoty PUŁAWY, GZNF Fosfory Sp. z o.o. and Agrochem Puławy Sp. z o.o. showed an excess of the recoverable amounts of non-current assets held and used over their carrying amount, with changes in key assumptions not affecting the carrying amount of the assets. Zakłady Azotowe Chorzów S.A. identified indications that the recoverable amount of the fat processing unit as at the end of June 30th 2018 may have decreased. The indications included:

- the fat processing unit's continued operation below full processing capacity;
- low prices of stearin, the unit's main product,
- high price of the key production input - animal fat, and its high share in the cost of stearin production,
- strong competition from Asian producers who use palm oil in the production process.

Based on the above indications, as at June 30th 2018 property, plant and equipment and intangible assets of the fat processing unit were tested for impairment and the unit's recoverable amount was measured.

Key assumptions:

- the business will continue for an indefinite period,
- the stearin unit will operate at full capacity from 2021,
- projection period - 15 years,
- discount rate (real) - 6.61%,
- long-term growth rate - 0.0%.

The results of the test showed impairment and the need to recognise an impairment loss on the assets assigned to the unit, in the amount of PLN 6.8m (including an impairment loss of PLN 6.5m on property, plant and equipment).

The table below presents the estimated changes in the impairment loss on the assets as at June 30th 2018 due to change in key assumptions.

Metric	Change	Effect on impairment loss (PLN '000)	
		Increase	Decrease
Change in EBITDA	+5%	-	1,404
	-5%	1,404	-
WACC	+0.5 pp	2,125	-
	-0.5 pp	-	2,473

Note 10 Intangible assets

Carrying amount

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Trade marks	88,788	88,788
Corporate logo	63,000	84,000
Customer portfolio	37,961	50,222
Patents and licences	91,762	93,862
Software	32,432	36,319
Development costs	1,882	4,766
Other intangible assets	7,758	7,419
	323,583	365,376
Intangible assets under construction	51,620	30,379
	375,203	395,755

In addition to the above intangible assets, the Group discloses goodwill of PLN 32,468 thousand (as at December 31st 2017: PLN 32,468 thousand).

Note 11 Cash and cash equivalents

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Cash in hand	632	547
Bank balances in PLN	280,356	187,720
Bank balances in foreign currencies (translated to PLN)	262,920	301,339
Bank deposits – up to 3 months	521,293	588,223
Other bank deposits	23,256	7,849

Other	339	207
	1,088,796	1,085,885
Cash and cash equivalents in the statement of financial position	1,088,796	1,085,885
Cash and cash equivalents in the statement of cash flows	1,088,796	1,085,885
Restricted cash	2,424	1,115

Restricted cash comprises mainly funds deposited in an interest-bearing bank account to secure open letters of credit and funds blocked in a bank account.

Note 12 Borrowings

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Bank borrowings	1,521,605	1,476,873
Non-bank borrowings	123,451	158,215
	1,645,056	1,635,088
including		
Long-term	1,529,586	1,564,879
Short-term	115,470	70,209
	1,645,056	1,635,088

Maturities and currencies of borrowings

as at June 30th 2018 (unaudited)

Currency	Reference rate	Amount as at the reporting date		Up to 1 year	1-2 years	2-5 years	Over 5 years
		in foreign currency	in PLN				
PLN	variable / fixed	983,564	983,564	34,335	45,831	131,071	772,327
EUR	variable / fixed	151,222	661,492	81,135	82,552	240,979	256,826
			1,645,056	115,470	128,383	372,050	1,029,153

as at December 31st 2017 (audited)

Currency	Reference rate	Amount as at the reporting date		Up to 1 year	1-2 years	2-5 years	Over 5 years
		in foreign currency	in PLN				
PLN	variable / fixed	1,004,334	1,004,334	31,599	45,967	853,105	73,663
EUR	variable / fixed	151,253	630,753	38,609	162,089	238,473	191,582
XOF	variable	158	1	1	-	-	-
			1,635,088	70,209	208,056	1,091,578	265,245

The Group's financing is based on variable and fixed interest rates. Depending on the currency, the variable rates are based on WIBOR or EURIBOR.

As at June 30th 2018, the Group had access to credit limits of approximately PLN 3,407m (December 31st 2017: PLN 1,188m).

Note 13 Employee benefit obligations

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Pension benefit obligations	147,319	136,968
Jubilee benefit obligations	208,759	200,861
Pensioner Social Fund benefit obligations	22,024	18,399
Other obligations	22,249	22,869
	400,351	379,097
including		
Long-term	357,233	336,781
Short-term	43,118	42,316
	400,351	379,097

Key actuarial assumptions relating to the provisions for jubilee benefit obligations and pension benefit obligations:

- discount rate 3.0% (December 31st 2017: 3.4%),
- future minimum pay growth 6.0% (December 31st 2017: 3.0%),
- future average pay growth 3.0% (December 31st 2017: 3.0%).

Note 14 Provisions

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Provision for litigation	5,513	5,164
Provision for environmental protection, including site restoration	123,847	114,353
Provision for demolition of mercury electrolysis facilities	9,293	8,713
Other provisions	22,036	24,315
	160,689	152,545
including		
Long-term	134,107	122,740
Short-term	26,582	29,805
	160,689	152,545

Items classified as other provisions include provisions for future liabilities under anticipated fines and compensations due for damage to property, as well as provisions for costs related to removal and disposal of waste.

Note 15 Other material changes in the statement of financial position

The PLN 41,451 thousand increase in property rights was attributable to the increase in CO₂ emission rights granted.

The PLN 244,073 thousand decrease in other financial assets was related to the termination of term deposits on maturity.

The PLN 305,179 thousand increase in receivables, including in particular trade receivables, was attributable to longer periods of collection of payments for fertilizers sold off-season.

The PLN 31,084 thousand increase in other current financial liabilities was related to higher receivables sold as at June 30th 2018 compared with December 31st 2017 (this item includes liabilities on discounting of receivables of Grupa Azoty ATT Polymers GmbH from mBank, due to, inter alia, the currency surplus in the Company's account).

Note 16 Financial instruments

Categories of financial instruments

Financial assets

	as at Jun 30 2018
	<i>unaudited</i>
At fair value through profit or loss	-
At amortised cost	1,994,581
At fair value through other comprehensive income	94,919
	2,089,500
Recognised in the statement of financial position as:	
Derivative financial instruments	-
Shares	6,782
Trade and other receivables*	979,792
Cash and cash equivalents	1,088,796
Other financial assets	14,130
	2,089,500
	as at Dec 31 2017
At fair value through profit or loss	2,284
Loans and receivables	1,210,115
Cash and cash equivalents	1,085,885
Financial assets available for sale	307
Other financial assets	
	2,298,591
Recognised in the statement of financial position as:	
Shares	307
Trade and other receivables*	954,205
Cash and cash equivalents	1,085,885
Derivative financial instruments	2,284
Other financial assets	255,910
	2,298,591

Financial liabilities

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
At fair value through profit or loss	5,110	-
At amortised cost	3,054,396	2,908,157
	3,059,506	2,908,157
Recognised in the statement of financial position as:		
Long-term borrowings	1,529,586	1,564,879
Short-term borrowings	115,470	70,209
Derivative financial instruments	5,110	-
Trade and other payables**	1,313,028	1,201,993
Other non-current financial liabilities	33,744	39,592
Other current financial liabilities	62,568	31,484
	3,059,506	2,908,157

*Trade and other receivables in the statement of financial position represents this asset item less non-financial receivables not classified as financial instruments (including: receivables under advance payments; taxes, subsidies, customs duties and social security receivable; prepaid expenses).

**Trade and other payables in the statement of financial position represents this item of liabilities less non-financial liabilities not classified as financial instruments (including: liabilities under advance payments received; taxes, subsidies, customs duties and social security payable; liabilities to shareholders; accrued expenses and deferred revenue).

Credit risk

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

The following table presents Grupa Azoty's maximum exposure to credit risk:

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Assets measured at fair value through profit or loss	-	2,284
Assets measured at amortised cost	1,994,581	2,218,125
Assets measured at fair value through other comprehensive income	88,455	78,182
	2,083,036	2,298,591

Trade receivables

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

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Agro Fertilizers	313,457	160,511
Plastics	235,861	284,502
Chemicals	346,739	317,393
Energy	22,385	22,223
Other Activities	38,524	23,772
	956,966	808,401

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

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

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

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

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

Fair value of financial instruments

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

- Cash and cash equivalents, short-term bank deposits and short-term bank borrowings. Carrying amounts of these instruments approximate their fair values because of their short maturities.
- Trade and other receivables, trade payables. Carrying amounts of these instruments approximate their fair values due to their short-term nature.
- Long-term variable-rate borrowings. Carrying amounts of these instruments approximate their fair values due to the variable nature of their interest rates.
- Long-term fixed-rate borrowings. Carrying amount of these instruments is PLN 554,108 thousand, and their fair value is approximately PLN 559,804 thousand (Level 2 in the fair value hierarchy).
- Foreign currency derivatives. The carrying amounts of these instruments are equal to their fair values.

The table below presents Grupa Azoty's financial instruments, carried at fair value, by levels in the fair value hierarchy, as at June 30th 2018:

Hierarchy level (unaudited)

Financial assets at fair value, including:

measured at fair value through other comprehensive income

Financial liabilities at fair value, including:

Level 2	Level 3
-	6,767
-	6,767

currency futures and forward contracts	5,110	-
	5,110	-

The table below presents Grupa Azoty's financial instruments, carried at fair value, by levels in the fair value hierarchy, as at December 31st 2017:

Hierarchy level (audited)	Level 2	Level 3
Financial assets at fair value, including:		
shares classified as available for sale	-	303
currency futures and forward contracts	2,283	-
	2,283	303

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

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

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

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

The fair value of foreign currency contracts presented in Level 2 is determined on the basis of a valuation carried out by brokers or banks with which the relevant contracts have been concluded. The valuations are verified by discounting the expected cash flows from the contracts at market interest rates effective as at the reporting date.

Derivative financial instruments and hedge accounting

Foreign currency derivatives

As at June 30th 2018, the notional amount of the Group's open currency derivatives (forwards) totalled EUR 48.9m (which included instruments maturing in H2 2018: July - EUR 11.2m, August - EUR 6.8m, September - EUR 7m, October - EUR 6.7m, November - EUR 4m; and in H1 2019: January - EUR 0.5m, February - EUR 3m, March - EUR 3m, April - EUR 3m, May - EUR 3.2m, and June - EUR 0.5m); as well as USD 4.4m (maturing in H2 2018: July - USD 1.7m, August - USD 0.6m, September - USD 0.8m, November - USD 0.4m and December - USD 0.9m).

As at December 31st 2017, the notional amount of the Group's open currency derivatives (forwards) was EUR 18.8m. The Group did not hold any unrealised currency derivatives (forwards) denominated in USD.

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.

Hedge accounting

The 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 June 30th 2018, repayable from December 2018 to June 2025 in 14 equal half-year instalments of EUR 9,081 thousand each. As at June 30th 2018, the fair value of the facility was PLN 559,804 thousand and the hedging reserve as at June 30th 2018 included: PLN (5,223) thousand on account of the effective hedge. In H1 2018, the Group did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

Note 17 Contingent liabilities, contingent assets and guarantees

Contingent assets

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Contingent receivables	20,338	28,377

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

Contingent liabilities and guarantees/sureties

	as at Jun 30 2018	as at Dec 31 2017
	<i>unaudited</i>	<i>audited</i>
Guarantees	64	64
Other contingent liabilities	30,151	29,177
	30,215	29,241

There were no major changes in contingent assets and liabilities relative to disclosures made in the full-year consolidated financial statements.

Note 18 Related-party transactions

Trade transactions with associates

Trade transactions

	Revenue	Receivables	Purchases	Liabilities
In the six months ended June 30th 2018 and as at that date (unaudited)				
Related parties of Grupa Azoty POLICE	3,976	14,003	4,524	1,193
Related parties of Grupa Azoty PUŁAWY	112	132	8,976	1,360
	4,088	14,135	13,500	2,553

	Revenue	Purchases
In the six months ended June 30th 2017 (unaudited)		
Related parties of Grupa Azoty KĘDZIERZYN	748	8,775
Related parties of Grupa Azoty POLICE	4,870	6,165
Related parties of Grupa Azoty PUŁAWY	1,809	17,323
	7,427	32,263

Trade transactions with associates and jointly-controlled entities

Trade transactions

	Receivables	Liabilities
as at December 31st 2017 (audited)		
Related parties of Grupa Azoty KĘDZIERZYN	2,249	789
Related parties of Grupa Azoty POLICE	721	2,046
Related parties of Grupa Azoty PUŁAWY	735	1,603
	3,705	4,438

Other transactions

	Other income	Other expenses	Finance income	Finance costs
In the six months ended June 30th 2018 (unaudited)				
Related parties of Grupa Azoty POLICE	-	-	-	7
Related parties of Grupa Azoty PUŁAWY	25	-	100	-
	25	-	100	7
In the six months ended June 30th 2017 (unaudited)				
Related parties of Grupa Azoty KĘDZIERZYN	1,129	6	-	-
Related parties of Grupa Azoty POLICE	-	-	38	-
Related parties of Grupa Azoty PUŁAWY	171	-	6	-
	1,300	6	44	-

Loans granted to related parties

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

- On January 31st 2018, the Parent disbursed to Grupa Azoty KĘDZIERZYN a loan to finance the 'Upgrade of the Biological Wastewater Treatment Plant at the Wastewater Treatment and Sewage System Division of the Infrastructure Unit' project in an amount of PLN 4,447 thousand;
- On May 30th 2018, the Parent disbursed PLN 40,000 thousand to Grupa Azoty POLICE as the last tranche of the loan to cover the share capital of the subsidiary PDH Polska S.A. (the total amount of the loan is PLN 60,000 thousand);
- 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. The repayment date of the loan is March 31st 2025;
- 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 (GGH)' project, on the basis of Annex 1 signed on July 16th 2018 to the request for a loan dated June 12th 2017, approved on June 22nd 2017. Annex 1 increases the loan amount from PLN 7,732 thousand to PLN 11,461 thousand and changes the loan repayment schedule so that it starts from September 30th 2019 and ends on March 31st 2025.

Transactions with owners

As at June 30th 2018, the Parent had a loan facility of PLN 150,110 thousand contracted with the EBRD (December 31st 2017: PLN 150,174 thousand).

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

In the six months ended June 30th 2018, the Group did not execute any related-party transactions on non-arm's length terms.

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

Note 19 Capital commitments

In the period ended June 30th 2018, the Group signed contracts for new investment projects and for continuation of ongoing projects. The projects involve mainly the provision of chemical, construction, mechanical and electrical services, design services, and project supervision.

The largest capital commitments are as follows:

	as at Jun 30 2018	as at Dec 31 2017
Upgrade of steam generator	83,500	-
Construction of nitric acid unit	82,542	80,248
PDH propylene plant	62,211	80,570
Upgrade of synthesis gas compression unit	43,965	-
Expansion of production capacity of technical-grade nitric acid unit	35,741	36,142
Upgrade of phosphoric acid unit including computerisation	25,342	33,794
Construction and procurement of equipment for Chemical Technology and Development Centre	21,525	37,432
Speciality esters unit	15,774	31,716
Raw gas compressor (GHH)	10,671	13,308

The total amount of commitments under the contracts was PLN 531,878 thousand (December 31st 2017: PLN 524,338 thousand).

Note 20 Accounting estimates and assumptions

Changes in impairment losses on property, plant and equipment

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At the beginning of the period	343,418	280,368	343,427	288,230
Effect of acquisition of companies	43	-	-	-
Recognised	7,050	24,216	6,668	14,392
Reversed (-)	(383)	(1,741)	(26)	(1,741)
Used (-)	(360)	(2,129)	(301)	(167)
At end of period	349,768	300,714	349,768	300,714

Changes in inventory write-downs

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At the beginning of the period	44,472	43,028	47,182	42,233
Effect of acquisition of companies	7	-	-	-
Recognised	16,844	13,844	10,941	11,352
Reversed (-)	(3,310)	(1,841)	(2,932)	(535)
Used (-)	(7,845)	(5,440)	(5,023)	(3,459)
At end of period	50,168	49,591	50,168	49,591

Changes in impairment losses on receivables

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017	for the period Apr 1– Jun 30 2018	for the period Apr 1– Jun 30 2017
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
At the beginning of the period	98,045	80,505	96,326	79,924
Recognised	14,208	5,839	12,081	1,367
Reversed (-)	(9,981)	(2,333)	(8,386)	1,988
Used (-)	(6,645)	(403)	(4,394)	329
At end of period	95,627	83,608	95,627	83,608

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

Package of long-term financing agreements

On July 26th 2018, the Company 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 ("First EBRD Agreement").

The Company concluded with the EBRD a new financing agreement for up to PLN 500m ("Second EBRD Agreement"), and the Company's Key Subsidiaries entered into a new guarantee agreement with the EBRD under which the Key Subsidiaries, acting as Guarantors, provided guarantees for the Company'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. The credit facility is 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.

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.

4.3. 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 dividend when due.

4.4. Seasonality of operations

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

Mineral fertilizers

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

- As part of all-year supplies to the distribution network, and
- By placing part 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 the Group's other products, seasonality does not have a material effect on the Group's results as they represent a small proportion of total output.

The interim condensed consolidated financial statements for the six months ended June 30th 2018 contain 61 pages.60

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 Kądziaławski, 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, August 27th 2018