Interim condensed separate 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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate 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		*unaudited*	*unaudited*	*unaudited*	*unaudited*
Revenue	1	906,538	856,000	430,128	377,151
Cost of sales	2	(724,104)	(641,264)	(371,110)	(288,587)
Gross profit		**182,434**	**214,736**	**59,018**	**88,564**
Selling and distribution expenses	2	(45,608)	(48,334)	(22,233)	(21,524)
Administrative expenses	2	(77,374)	(68,893)	(39,073)	(32,026)
Other income	3	5,725	5,700	3,004	3,514
Other expenses	4	(10,742)	(6,475)	(5,797)	(3,400)
Operating profit/(loss)		**54,435**	**96,734**	**(5,081)**	**35,128**
Finance income	5	105,730	242,265	99,852	237,062
Finance costs	6	(24,883)	(19,561)	(14,570)	(10,219)
Net finance income		**80,847**	**222,704**	**85,282**	**226,843**
Profit before tax		**135,282**	**319,438**	**80,201**	**261,971**
Income tax	7	(10,024)	8,430	(636)	20,523
Net profit		**125,258**	**327,868**	**79,565**	**282,494**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial (losses) from defined benefit plans		(1,910)	(1,742)	(1,910)	(1,742)
Tax on items that will not be reclassified to profit or loss	7	363	331	363	331
		(1,547)	**(1,411)**	**(1,547)**	**(1,411)**

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of 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
		unaudited	*unaudited*	*unaudited*	*unaudited*
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)	(852)
Tax on items that are or may be reclassified to profit or loss	7	4,607	(3,938)	3,699	162
		(19,637)	**16,787**	**(15,765)**	**(690)**
Total other comprehensive income		**(21,184)**	**15,376**	**(17,312)**	**(2,101)**
Comprehensive income for the year		**104,074**	**343,244**	**62,253**	**280,393**
Earnings per share:					
Basic (PLN)		1.26	3.31	0.80	2.85
Diluted (PLN)		1.26	3.31	0.80	2.85

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of financial position

	Note	as at Jun 30 2018	as at Dec 31 2017
		unaudited	*audited*
Assets			
Non-current assets			
Property, plant and equipment	8	1,592,481	1,554,673
Perpetual usufruct of land		367	369
Intangible assets	9	46,161	46,957
Investment property		16,495	16,449
Shares	10	3,960,477	3,867,145
Other financial assets		267,037	249,978
Other receivables		22,064	16,882
Deferred tax assets		14,112	17,957
Total non-current assets		**5,919,194**	**5,770,410**
Current assets			
Inventories		208,759	212,109
Property rights		32,268	29,852
Derivative financial instruments		-	1,071
Other financial assets		60,912	70,361
Trade and other receivables	11	318,533	214,524
Cash and cash equivalents		568,714	572,711
Assets held for sale		95	95
Total current assets		**1,189,281**	**1,100,723**
Total assets		**7,108,475**	**6,871,133**

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of financial position (continued)

	Note	as at Jun 30 2018	as at Dec 31 2017
		unaudited	*audited*
Equity and liabilities			
Equity			
Share capital		495,977	495,977
Share premium		2,418,270	2,418,270
Hedging reserve		(4,230)	15,407
Retained earnings, including:		1,827,812	1,832,602
Net profit for the year		*125,258*	*354,793*
Total equity		**4,737,829**	**4,762,256**
Liabilities			
Borrowings	12	1,328,899	1,357,234
Other financial liabilities	13	22,584	25,860
Employee benefit obligations		48,297	47,459
Trade and other payables		32	32
Provisions		29,302	27,345
Government grants received	15	34,664	26,394
Total non-current liabilities		**1,463,778**	**1,484,324**
Borrowings	12	374,926	310,892
Derivative financial instruments		2,180	-
Other financial liabilities	13	55,209	24,315
Employee benefit obligations		3,144	3,038
Current tax liabilities		765	3,178
Trade and other payables	14	453,798	280,843
Provisions		1,514	1,200
Government grants received	15	15,332	1,087
Total current liabilities		**906,868**	**624,553**
Total liabilities		**2,370,646**	**2,108,877**
Total equity and liabilities		**7,108,475**	**6,871,133**

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of changes in equity

for the period ended June 30th 2018

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at January 1st 2018	**495,977**	**2,418,270**	**15,407**	**1,832,602**	**4,762,256**
Impact of IFRS 9 implementation				(4,506)	(4,506)
Balance as at January 1st 2018, adjusted				1,828,096	4,757,750
Profit or loss and other comprehensive income					
Net profit	-	-	-	125,258	125,258
Other comprehensive income	-	-	(19,637)	(1,547)	(21,184)
Total profit or loss and other comprehensive income	**-**	**-**	**(19,637)**	**123,711**	**104,074**
Transactions with owners, recognised directly in equity					
Dividends	-	-	-	(123,995)	(123,995)
Total transactions with owners	**-**	**-**	**-**	**(123,995)**	**(123,995)**
Balance as at June 30th 2018 (unaudited)	**495,977**	**2,418,270**	**(4,230)**	**1,827,812**	**4,737,829**

for the period ended June 30th 2017

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at January 1st 2017	**495,977**	**2,418,270**	**(7,105)**	**1,557,618**	**4,464,760**
Profit or loss and other comprehensive income					
Net profit	-	-	-	327,868	327,868
Other comprehensive income	-	-	16,787	(1,411)	15,376
Total profit or loss and other comprehensive income	**-**	**-**	**16,787**	**326,457**	**343,244**
Transactions with owners, recognised directly in equity					
Dividends	-	-	-	(78,364)	(78,364)
Total transactions with owners	**-**	**-**	**-**	**(78,364)**	**(78,364)**
Balance as at June 30th 2017 (unaudited)	**495,977**	**2,418,270**	**9,682**	**1,805,711**	**4,729,640**

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of cash flows

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017
	unaudited	*unaudited*
Cash flows from operating activities		
Profit before tax	**135,282**	**319,438**
Adjustments for:	*(23,551)*	*(177,541)*
Depreciation and amortisation	54,031	47,802
(Reversal of)/impairment losses on assets	190	(1,242)
Loss on investing activities	473	1,063
Interest, foreign exchange gains or losses	7,087	9,362
Dividends	(88,661)	(231,516)
Fair value loss/(gain) on financial assets at fair value	3,329	(3,010)
	111,731	***141,897***
Increase in trade and other receivables	(90,063)	(24,980)
Increase in inventories and property rights	934	(2,695)
Decrease in trade and other payables	(7,064)	(25,745)
(Decrease)/Increase in provisions, prepayments and grants	(14,127)	1,273
Other adjustments	(3,500)	(6,572)
Cash generated from operating activities	***(2,089)***	***83,178***
Income tax paid	(2,565)	(6,005)
Net cash from operating activities	**(4,654)**	**77,173**

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

(all amounts in PLN '000 unless indicated otherwise)

Interim condensed separate statement of cash flows (continued)

	for the period Jan 1– Jun 30 2018	for the period Jan 1– Jun 30 2017
	unaudited	*unaudited*
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	391	253
Acquisition of property, plant and equipment, intangible assets and investment property	(84,499)	(138,731)
Dividend received	81,822	162,762
Acquisition of other financial assets	(28,395)	(23,786)
Interest received	6,879	4,199
Loans advanced	(44,447)	(77,918)
Repayments of loans advanced	37,128	23,924
Other disbursements	(848)	(1,316)
Net cash from investing activities	**(31,969)**	**(50,613)**
Cash flows from financing activities		
Proceeds from borrowings	18,797	115,673
Payment of borrowings	-	(27,405)
Interest paid	(25,485)	(13,185)
Payment of finance lease liabilities	(228)	(335)
Other proceeds/(disbursements)	35,365	(32,615)
Net cash from financing activities	**28,449**	**42,133**
Total net cash flows	**(8,174)**	**68,693**
Cash and cash equivalents at beginning of period	**572,711**	**326,031**
Effect of exchange rate fluctuations on cash held	4,177	-
Cash and cash equivalents at end of period	**568,714**	**394,724**

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

Supplementary information to the interim condensed separate financial statements

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

1.1. Statement of compliance and general basis of preparation

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

These interim condensed separate financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These interim condensed separate financial statements of the Company cover the 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 separate statement of profit or loss and other comprehensive income as well as notes to the interim condensed separate 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.

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

The Company has been established for an indefinite term.

Grupa Azoty's business includes in particular:

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

These interim condensed separate financial statements of the Company for the six months ended June 30th 2018 have been authorised for issue by the Management Board.

The Company has also prepared interim condensed consolidated financial statements for the six months ended June 30th 2018, which were authorised for issue by the Management Board on August 27th 2018.

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

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

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

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

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

a) Changes in International Financial Reporting Standards

The accounting policies applied to prepare these interim condensed separate financial statements are consistent with the policies applied to draw up the Company's full-year separate financial statements for the year ended December 31st 2017, except for the application of new or amended standards and interpretations effective for annual periods beginning on or after January 1st 2018.
The amendments to the IFRSs presented below have been applied in these financial statements as of their effective dates, however, they had no material effect on the disclosed financial information or they did not apply to the executed transactions:

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that the date of 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.
At the date of authorisation of these interim condensed separate financial statements for issue, the Company's Management Board had not completed its assessment of the impact of the new standards and interpretations on the accounting policies applied by the Company with respect to the Company's operations or financial results.

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

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

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) – pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version (not endorsed by the EU by the date of authorisation of these financial statements for issue) – effective for annual periods beginning on or after January 1st 2016;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) – work leading to endorsement of the amendments was deferred by the EU for an indefinite period – effective date was deferred by the IASB for an indefinite period;
- IFRS 16 *Leases* (issued on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019;
- IFRS 17 *Insurance Contracts* (issued on May 18th 2017) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2021;
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on June 7th 2017) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2019;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued on October 12th 2017) – effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued on October 12th 2017) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2019;
- *Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2015–2017 Cycle* (issued on December 12th 2017) – not endorsed by the EU by the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on February 7th 2018) – not endorsed by the EU as at the date of authorisation of these financial statements – effective for annual periods beginning on or after January 1st 2019;
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2020.

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

c) Implementation of IFRS 15

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

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

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

The identified impact of changes following from the application of IFRS 15 by the Company concerns contracts executed by the Company with customers for the sale of products, including contracts with delivery terms based on Incoterms CIF, CIP, CFR, CPT]. Previously, the entire revenue was recognised at the moment control over goods was passed to the customer.
Under IFRS 15, a transport (or transport and insurance) service provided under the above Incoterms after control over goods is passed will be subject to separation as a separately identifiable performance obligation to which a part of the transaction price will be allocated and revenue will be recognised separately when the service is provided (i.e. later than before).

(all amounts in PLN '000 unless indicated otherwise)

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

	Before implementing IFRS 15	Impact of change	After implementing IFRS 15
Revenue, including:	907,178	(640)	906,538
Revenue from sale of products and services	889,041	(640)	888,401
Gross profit	**183,074**	**(640)**	**182,434**
Selling and distribution expenses	(46,248)	640	(45,608)
Net profit	**125,258**	**-**	**125,258**

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
Equity and liabilities			
Equity	1,827,172	640	1,827,812
Retained earnings	**4,737,189**	**640**	**4,737,829**
Total equity	1,827,172	640	1,827,812
Liabilities			
Trade and other payables	454,438	(640)	453,798
Total current liabilities	**907,508**	**(640)**	**906,868**
Total liabilities	**2,371,286**	**(640)**	**2,370,646**
Total equity and liabilities	**7,109,115**	**(640)**	**7,108,475**

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	**134,642**	**640**	**135,282**
Decrease in trade and other payables	(6,424)	(640)	(7,064)
Net cash from operating activities	**(4,654)**	**-**	**(4,654)**

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

d) Implementation of IFRS 9

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

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

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

The Company has developed rules for the classification of financial assets, based on which it reviewed the cash flow characteristics of its financial assets and the business models used in the Company to manage the financial assets.
The analysis showed that except for trade receivables – factoring and discounting, the Company's other financial assets give rise to cash flows that are payments of principal and interest, and are held as part of a business model whose sole objective is to collect cash flows from assets, and are therefore classified as financial assets measured at amortised cost.
Under its factoring agreements and discounting agreements, the Company sells trade receivables which, based on the business models required under IFRS 9, have been classified as the model whose objective is achieved by both collecting cash flows and selling financial assets. Accordingly, trade receivables covered by the factoring or discounting agreements have been classified as financial assets measured at fair value through other comprehensive income. Given the potential sale of the assets and the short period between initial recognition and maturity, their fair value is equal to their carrying amount.

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

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

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

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

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

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

(all amounts in PLN '000 unless indicated otherwise)

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

Impairment of financial assets
In place of the current principles for recognition of credit losses based on the incurred loss, IFRS 9 introduces the concept of the expected loss resulting in the recognition of an impairment loss upon initial recognition of financial assets. The requirements regarding the impairment of financial assets apply in particular to financial assets measured at amortised cost and measured at fair value through other comprehensive income.
For the purpose of estimating expected credit losses, IFRS 9 indicates that it is justified to use both historical data concerning the repayment capacity and reliable data available as at the reporting date, which may increase the accuracy of estimating expected credit losses in future periods.
The Company has identified the following classes of financial assets for which, in accordance with IFRS 9, it has estimated the impact of the expected credit losses on the financial statements:
- trade receivables,
- loans advanced,
- deposits with banks,
- cash, including cash available under cash pooling arrangements.

With respect to trade receivables, it is expected that historical payment data may reflect credit risk that will be incurred in future periods. Expected credit losses for this group of counterparties have been estimated using a provision matrix and percentage ratios assigned to specific aging ranges of trade receivables (e.g. receivables claimed in court, receivables from insolvent counterparties) that make it possible to estimate the value of trade receivables that are not expected to be repaid.
For financial assets included in the estimation of expected losses other than trade receivables, the Company measures the risk of default of the counterparties based on ratings assigned by credit rating agencies (e.g. to financial institutions) or ratings assigned using an internal credit rating model (e.g. for intra-group loans granted) that is appropriately converted to reflect the probability of default. In accordance with IFRS 9, the expected credit loss was calculated taking into account estimates of potential recoveries from collateral provided and the time value of money.
Following analyses of the impact of implementation of the new IFRS 9, a fair value measurement of shares held (equity investments) was performed. The measurement was carried out using the DCF method based on the assumptions of the Long-Term Growth Forecast prepared by the Company for 2017-2022. The nature of the business in which revenue is based on costs is included in the Forecast based on the expected operating costs taking into account 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			
Property, plant and equipment	1,554,673		1,554,673
Perpetual usufruct of land	369		369
Intangible assets	46,957		46,957

(all amounts in PLN '000 unless indicated otherwise)

Investment property	16,449		16,449
Shares	3,867,145	(5,563)	3,861,582
Other financial assets	249,978		249,978
Other receivables	16,882		16,882
Deferred tax assets	17,957	1,057	19,014
Total non-current assets	**5,770,410**	**(4,506)**	**5,765,904**
Current assets			
Inventories	212,109		212,109
Property rights	29,852		29,852
Derivative financial instruments	1,071		1,071
Other financial assets	70,361		70,361
Trade and other receivables	214,524		214,524
Cash and cash equivalents	572,711		572,711
Assets held for sale	95		95
Total current assets	**1,100,723**		**1,100,723**
Total assets	**6,871,133**	**(4,506)**	**6,866,627**

	as at Jan 1 2018	Impact of change	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
Retained earnings	1,832,602	(4,506)	1,828,096
Total equity	**4,762,256**	**(4,506)**	**4,757,750**
Liabilities			
Borrowings	1,357,234		1,357,234
Other financial liabilities	25,860		25,860
Employee benefit obligations	47,459		47,459
Trade and other payables	32		32
Provisions	27,345		27,345
Government grants received	26,394		26,394
Total non-current liabilities	**1,484,324**		**1,484,324**
Borrowings	310,892		310,892
Derivative financial instruments	-		-
Other financial liabilities	24,315		24,315
Employee benefit obligations	3,038		3,038
Current tax liabilities	3,178		3,178
Trade and other payables	280,843		280,843
Provisions	1,200		1,200
Government grants received	1,087		1,087
Total current liabilities	**624,553**		**624,553**
Total liabilities	**2,108,877**		**2,108,877**
Total equity and liabilities	**6,871,133**	**(4,506)**	**6,866,627**

(all amounts in PLN '000 unless indicated otherwise)

2. Selected notes and supplementary information

2.1. Notes

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
	unaudited	*unaudited*	*unaudited*	*unaudited*
Revenue from sale of products and services	888,401	847,896	420,555	372,199
Revenue from sale of merchandise and materials	17,083	6,791	8,960	4,200
Revenue from sale of property rights	1,054	1,313	613	752
	906,538	**856,000**	**430,128**	**377,151**

	Fertilizers	Plastics	Energy	Other Activities	Total
	unaudited	*unaudited*	*unaudited*	*unaudited*	*unaudited*
Main product lines					
Revenue from sale of products and services	299,458	565,208	9,669	14,066	**888,401**
Revenue from sale of merchandise and materials	20	2,307	10,782	3,974	**17,083**
Revenue from sale of property rights	60	-	993	1	**1,054**
Total	**299,538**	**567,515**	**21,444**	**18,041**	**906,538**
Geographical regions					
Poland	202,135	94,067	21,444	17,897	**335,543**
Germany	28,018	224,391	-	8	**252,417**
Other EU countries	31,374	224,284	-	21	**255,679**
Asia	-	3,398	-	119	**3,517**
South America	8,886	4,078	-	-	**12,964**
Other countries	29,125	17,297	-	(4)	**46,418**
Total	**299,538**	**567,515**	**21,444**	**18,041**	**906,538**

(all amounts in PLN '000 unless indicated otherwise)

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
	unaudited	*unaudited*	*unaudited*	*unaudited*
Depreciation and amortisation	53,430	47,218	27,217	23,368
Raw materials and consumables used	518,476	466,598	245,446	212,984
Services	112,052	112,821	61,141	56,099
Taxes and charges	24,268	22,083	12,432	10,602
Remuneration	78,333	70,393	37,420	33,386
Social security and other employee benefits	20,065	20,401	9,562	9,812
Other expenses	12,445	10,831	6,636	2,874
Costs by nature of expense	**819,069**	**750,345**	**399,854**	**349,125**
Change in inventories of finished goods (+/-)	12,932	11,646	24,537	(2,266)
Work performed by the entity and capitalised (-)	(732)	(9,889)	(410)	(8,791)
Selling and distribution expenses (-)	(45,608)	(48,334)	(22,233)	(21,524)
Administrative expenses (-)	(77,374)	(68,893)	(39,073)	(32,026)
Cost of merchandise and materials sold	15,817	6,389	8,435	4,069
Cost of sales	**724,104**	**641,264**	**371,110**	**288,587**
including excise duty	1,988	2,598	889	1,204

The increase in materials and energy used is related to the launch of Polyamide Plant II at the end of 2017 and the resultant increase in the consumption of caprolactam to produce polyamides. The increase in materials and energy used was also driven by higher prices of coal and gas in the first half of 2018.
The increase in merchandise and materials sold results from a service transaction executed in 2018 and providing for the purchase and resale of caprolactam to a subsidiary, as well as from a contract concluded by the Company on the OTC market for the gas year 2017/2018. The contract serves to balance current demand for gas not only by purchasing missing quantities on the exchange, but also by selling daily surpluses under the contract.

(all amounts in PLN '000 unless indicated otherwise)

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
	unaudited	*unaudited*	*unaudited*	*unaudited*
Reversed impairment losses on:				
Property, plant and equipment	-	1,223	-	1,223
Other receivables	3	10	1	7
	3	**1,233**	**1**	**1,230**
Other income:				
Income from lease of investment property	3,431	3,658	1,659	1,844
Received compensation	1,001	318	927	118
Government grants received	588	272	312	200
Other	702	219	105	122
	5,722	**4,467**	**3,003**	**2,284**
	5,725	**5,700**	**3,004**	**3,514**

Note 4Other 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
	unaudited	*unaudited*	*unaudited*	*unaudited*
Loss on disposal of assets:				
Loss on disposal of property, plant and equipment	472	691	291	195
	472	**691**	**291**	**195**
Recognised impairment losses on:				
Property, plant and equipment	190	353	186	209
Other receivables	8	3	3	-
	198	**356**	**189**	**209**
Other expenses:				
Investment property maintenance costs	2,161	2,341	1,070	1,214
Fines and compensations	51	4	32	2
Plant outages	278	255	140	125
Disaster recovery costs	5,387	1,699	3,853	835
Recognised provisions	1,957	917	106	754
Other	238	212	116	66
	10,072	**5,428**	**5,317**	**2,996**
	10,742	**6,475**	**5,797**	**3,400**

Recognised provisions include the cost of revaluation of provisions for environmental protection.

(all amounts in PLN '000 unless indicated otherwise)

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
	unaudited	*unaudited*	*unaudited*	*unaudited*
Interest income:				
Interest on bank deposits	1,188	4	451	2
Interest on cash pooling	2,550	1,337	1,342	651
Interest on non-borrowings	4,329	4,199	2,166	2,184
Interest on trade receivables	99	163	62	95
Other interest income	3	-	(1)	-
	8,169	**5,703**	**4,020**	**2,932**
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	-	3,560	-	-
	-	**3,560**	**-**	**-**
Other finance income:				
Foreign exchange gains	7,245	-	6,326	1,926
Dividends received	88,661	231,516	88,661	231,516
Other finance income	1,655	1,417	845	688
	97,561	**232,933**	**95,832**	**234,130**
	105,730	**242,265**	**99,852**	**237,062**

Foreign exchange gains of PLN 7,245 thousand (H1 2017: PLN (2,495) thousand loss) comprised:

- net realised foreign exchange gains of PLN 359 thousand (H1 2017: net realised foreign exchange losses of PLN (3,479) thousand),
- net foreign exchange gains on realised transactions in currency derivatives of PLN 812 thousand (H1 2017: net foreign exchange gains of PLN 2,741 thousand),
- net foreign exchange gains on measurement of receivables and liabilities denominated in foreign currencies as at the reporting date of PLN 2,148 thousand (H1 2017: net foreign exchange losses of PLN (305) thousand),
- net foreign exchange gains on measurement of other items as at the reporting date of PLN 3,926 thousand (H1 2017: net foreign exchange losses of PLN (1,452) thousand).

In H1 2017, gains on measurement of financial assets at fair value through profit or loss include net gain on the difference in measurement of open currency derivatives (currency forwards with maturities of up to one year) at the beginning and at the end of the reporting period.

(all amounts in PLN '000 unless indicated otherwise)

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
	unaudited	*unaudited*	*unaudited*	*unaudited*
Interest expense:				
Interest on bank borrowings and overdraft facilities	15,486	11,094	7,791	4,478
Interest on cash pooling	1,912	1,640	989	890
Interest on non-borrowings	-	536	-	270
Interest on finance lease liabilities	12	19	6	9
Factoring interest	15	107	9	52
Interest on receivables discounting	508	384	234	112
Interest on trade payables	3	10	2	5
Interest on public charges	14	15	14	15
Other interest expense	897	884	897	884
	18,847	**14,689**	**9,942**	**6,715**
Loss on measurement of financial assets and liabilities:				
Loss on measurement of financial assets at fair value through profit or loss	3,546	-	3,040	2,100
	3,546	**-**	**3,040**	**2,100**
Other finance costs:				
Foreign exchange losses	-	2,495	-	-
Other finance costs	2,490	2,377	1,588	1,404
	2,490	**4,872**	**1,588**	**1,404**
	24,883	**19,561**	**14,570**	**10,219**

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

(all amounts in PLN '000 unless indicated otherwise)

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
	unaudited	*unaudited*	*unaudited*	*unaudited*
Current income tax:				
Current income tax expense	1,249	10,041	1,249	9,211
Adjustments to current income tax for previous years	(1,097)	-	-	-
	152	**10,041**	**1,249**	**9,211**
Deferred income tax:				
Deferred income tax associated with origination and reversal of temporary differences	9,872	(18,471)	(613)	(29,734)
	9,872	**(18,471)**	**(613)**	**(29,734)**
Income tax disclosed in the statement of profit or loss	**10,024**	**(8,430)**	**636**	**(20,523)**

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
	unaudited	*unaudited*	*unaudited*	*unaudited*
Profit before tax	**135,282**	**319,438**	**80,201**	**261,971**
Tax calculated at the applicable tax rate	25,704	60,693	15,239	49,774
Effect of tax-exempt income (+/-)	(15,437)	(43,826)	(15,640)	(43,784)
Effect of non tax-deductible expenses (+/-)	3,173	7,375	2,061	6,144
Tax effect of inclusion of property, plant and equipment into operations in Special Economic Zone	725	-	241	-
Recognition of state aid deductible in future periods (+/-)	(2,505)	(32,655)	(1,253)	(32,655)
Other (+/-)	(1,636)	(17)	(12)	(2)
Income tax disclosed in the statement of profit or loss	**10,024**	**(8,430)**	**636**	**(20,523)**
Effective tax rate	**7.4%**	**(2.6%)**	**0.8%**	**(7.8%)**

(all amounts in PLN '000 unless indicated otherwise)

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
	unaudited	*unaudited*	*unaudited*	*unaudited*
Tax on items that will not be reclassified to profit or loss (+/-)	**(363)**	**(331)**	**(363)**	**(331)**
Remeasurement of net defined benefit obligation/asset	(363)	(331)	(363)	(331)
Tax on items that are or may be reclassified to profit or loss (+/-)	**(4,607)**	**3,938**	**(3,699)**	**(162)**
Measurement of hedging instruments through hedge accounting	(4,607)	3,938	(3,699)	(162)
Income tax disclosed in other comprehensive income	**(4,970)**	**3,607**	**(4,062)**	**(493)**

(all amounts in PLN '000 unless indicated otherwise)

Note 7.4 Deferred tax assets and liabilities

	Assets (-)		Liabilities (+)	
	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017)
	unaudited	*audited*	*unaudited*	*audited*
Property, plant and equipment	(9,575)	(9,632)	52,022	57,817
Investment property	-	-	2,233	2,307
Intangible assets	(1,357)	(1,357)	7,343	7,200
Financial assets	-	-	105	105
Inventories and property rights	(1,872)	(1,132)	6,131	4,829
Shares	(1,057)			
Trade and other receivables	(79)	(231)	54	39
Trade and other payables	(4,598)	(7,656)	350	446
Employee benefits	(14,212)	(16,735)	-	-
Provisions	(6,696)	(5,423)	615	383
Borrowings	(92)	(94)	-	-
Measurement of hedging instruments through hedge accounting	(992)	-	-	3,614
State aid deductible in future periods	(34,853)	(36,158)	-	
Tax losses	(4,011)	(15,642)	-	-
Other	(3,651)	(639)	80	2
Deferred tax assets (-)/liabilities (+)	**(83,045)**	**(94,699)**	**68,933**	**76,742**
Offset	**68,933**	**76,742**	**(68,933)**	**(76,742)**
Deferred tax assets (-)/liabilities (+) recognised in the statement of financial position	**(14,112)**	**(17,957)**	**-**	**-**

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

(all amounts in PLN '000 unless indicated otherwise)

Note 8 Property, plant and equipment

Carrying amount

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
Land	572	572
Buildings and structures	406,971	396,696
Plant and equipment	977,791	975,169
Vehicles	3,316	3,583
Other property, plant and equipment	20,620	16,879
	1,409,270	**1,392,899**
Property, plant and equipment under construction	183,211	161,774
	1,592,481	**1,554,673**

As at June 30th 2018, an analysis of indications of impairment for cash generating units Fertilizers and Plastics was carried out.
As a result of the analysis, indications of potential impairment in the Fertilizer business, resulting mainly from a significant change in gas prices, were identified. The analysis indicated the necessity of impairment testing. Main assumptions adopted for impairment testing:

- the business will continue for an indefinite period,
- the production capacities of fertilizer units will be used in full,
- the projection period covers the second half of 2018 and the years 2019-2026, together with the determination of the residual value after the projection period,
- discount rate of 7.23%,
- long-term growth rate of 2.5%.

The test revealed that the recoverable amount of the non-current assets held and used by the Company exceeded their carrying amount.
In order to determine the impact of key factors on the test results, a sensitivity analysis was carried out under the following assumptions:

- change of the discount rate (WACC) +/- 0.5 p.p;
- change in EBIT +/- 5%.

Estimated changes following from change of main assumptions do not affect the carrying amount of the assets of the Fertilizers cash generating unit.

(all amounts in PLN '000 unless indicated otherwise)

Net property, plant and equipment, by type

	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount as at December 1st 2017	**572**	**396,696**	**975,169**	**3,583**	**16,879**	**161,774**	**1,554,673**
Increase, including:	***-***	***21,136***	***41,221***	***81***	***5,710***	***88,693***	***156,841***
Increase due to acquisition, manufacturing, commissioning	-	21,132	40,899	9	5,710	88,621	156,371
Finance lease contracts	-	-	-	72	-	72	144
Reversal of impairment losses	-	4	322	-	-	-	326
Decrease, including:(-)	***-***	***(10,861)***	***(38,599)***	***(348)***	***(1,969)***	***(67,256)***	***(119,033)***
Depreciation and amortisation	-	(10,808)	(38,087)	(333)	(1,969)	-	(51,197)
Liquidation	-	(4)	(311)	-	-	-	(315)
Commissioning	-	-	-	(15)	-	(67,256)	(67,271)
Recognition of impairment loss	-	(49)	(141)	-	-	-	(190)
Other decrease	-	-	(60)	-	-	-	(60)
Net carrying amount as at June 30th 2018 (unaudited)	**572**	**406,971**	**977,791**	**3,316**	**20,620**	**183,211**	**1,592,481**

(all amounts in PLN '000 unless indicated otherwise)

Note 9 Intangible assets

Carrying amount

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
Patents and licences	33,872	33,003
Software	5,468	5,733
Development costs	293	3,085
Other intangible assets	2,072	1,941
	41,705	**43,762**
Intangible assets under construction	4,456	3,195
	46,161	**46,957**

Note 10 Shares

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
Shares in subsidiaries	3,953,906	3,855,011
Shares in other entities	6,571	12,134
	3,960,477	**3,867,145**
including		
Long-term	3,960,477	3,867,145
	3,960,477	**3,867,145**

The decrease in the value of shares in other entities results from the fair value measurement of Tarnowskie Wodociągi, the result of which was recognised in retained earnings. The valuation was carried out as at January 1st 2018 and is related to the entry into force of the new IFRS 9.

Changes in subordinates

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
At beginning of period	**3,867,145**	**3,859,066**
Increase, including:	*98,895*	*27,298*
Acquisition	98,895	27,298
Decrease, including:(-)	-	***(19,219)***
Recognition of impairment loss	-	(19,219)
At end of period	**3,966,040**	**3,867,145**

Increases due to acquisition follow from the acquisition of shares in PDH Polska S.A. for PLN 94,000 thousand and in Grupa Azoty Compounding Sp. z o.o. for PLN 4,895 thousand.

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.

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.

(all amounts in PLN '000 unless indicated otherwise)

Note 10 Trade and other receivables

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
Trade receivables – related parties	90,654	77,446
Trade receivables – other entities	112,082	81,306
Receivables from state budget, except for income tax	93,036	47,673
Prepayments for deliveries of property, plant and equipment – related parties	480	75
Prepayments for deliveries of property, plant and equipment – other entities	21,584	16,807
Prepayments for deliveries of materials, goods and services – other entities	2,037	3,020
Prepaid expenses – related parties	-	257
Prepaid expenses – other entities	10,461	2,728
Other receivables – related parties	6,995	126
Other receivables – other entities	3,268	1,968
	340,597	**231,406**
including		
Long-term	22,064	16,882
Short-term	318,533	214,524
	340,597	**231,406**

Increase in ‘trade receivables – other entities’ is attributable to the seasonal nature of sales (mainly of fertilizers).
The increase in receivables from the state budget relates to VAT settlements with the Tax Office, amounting to PLN 77,119 thousand.

Note11 Borrowings

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
Bank borrowings	1,418,631	1,394,229
Non-bank borrowings	285,194	273,897
	1,703,825	**1,668,126**
including		
Long-term	1,328,899	1,357,234
Short-term	374,926	310,892
	1,703,825	**1,668,126**

In the first half of 2018, the Company signed with the EIB a new EUR 145m long-term credit facility agreement, with a utilisation period of two years and maturing in ten years from the end of the utilisation period. In addition, in the first half of the year the Company executed an amending agreement to the long-term credit facility agreement with a bank syndicate, under which it extended the term of the PLN 1.5bn revolving credit facility from 2020 to 2025 and established a PLN 1.5bn term facility, with the maximum utilisation period of three years and repayment in instalments beginning six months after the end of the utilisation period and ending in 2025.

In the first half of 2018, the increase in current liabilities resulted from the extension by the Company of the financing period under the revolving syndicated loan, with a simultaneous increase of the amount to be utilised by PLN 7.5m, as well as from the change in the PLN equivalent of loans in EUR and a change in the balance of liabilities under a cash pooling arrangement in which the Company acts as an agent.

(all amounts in PLN '000 unless indicated otherwise)

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	1,144,500	1,144,500	295,710	21,722	64,366	762,702
EUR	variable	1,104	4,816	-	-	-	4,816
EUR	fixed	127,134	554,509	79,216	79,215	237,647	158,431
			1,703,825	**374,926**	**100,937**	**302,013**	**925,949**

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	1,133,726	1,133,726	273,123	21,953	780,994	57,656
EUR	variable	1,104	4,591	-	-	4,591	-
EUR	fixed	127,134	529,809	37,769	75,656	227,052	189,332
			1,668,126	**310,892**	**97,609**	**1,012,637**	**246,988**

The extension of the maturities of a significant portion of PLN-denominated loans from 2-5 years to more than 5 years resulted from the aforementioned amending agreement concerning the credit facility granted by a bank syndicate, including the extension of the maturity of the revolving credit facility from 2020 to 2025.

Note 12 Other financial liabilities

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
Finance lease liabilities	1,386	1,541
Liabilities under receivables discounting	50,945	20,388
Other financial liabilities	25,462	28,246
	77,793	**50,175**
including		
Long-term	22,584	25,860
Short-term	55,209	24,315
	77,793	**50,175**

Other short-term financial liabilities include primarily liabilities under discounting of receivables from the related entity Grupa Azoty ATT Polymers GmbH (factoring) with mBank, which grew as a result of an increase in receivables sold as at June 30th 2018 compared with December 31st 2017.

(all amounts in PLN '000 unless indicated otherwise)

Note 13 Trade and other payables

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
Trade payables - related parties	37,485	23,666
Trade payables - other entities	99,689	117,568
Liabilities to state budget, except for income tax	17,408	20,014
Salaries payable	7,452	7,584
Liabilities under purchases of property, plant and equipment, intangible assets, investment properties - related parties	20,643	13,915
Liabilities under purchases of property, plant and equipment, intangible assets, investment properties - other entities	23,785	18,609
Prepayments for deliveries - other entities	1,029	3,768
Other liabilities - related parties	70,500	-
Other liabilities - other entities	133,224	7,473
Accrued expenses	41,892	68,276
Deferred income	723	2
	453,830	**280,875**
including		
Long-term	32	32
Short-term	453,798	280,843
	453,830	**280,875**

The item ‘Other liabilities - related parties’ includes a liability under the purchase of shares in PDH Polska S.A.
The item ‘Other liabilities - other entities’ includes mainly dividend payable to shareholders.

Note 14 Grants

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
Government grants	35,896	27,481
Other grants	14,100	-
	49,996	**27,481**
including		
Long-term	34,664	26,394
Short-term	15,332	1,087
	49,996	**27,481**

In the first half of 2018, CO_2 emission allowances were received free of charge and tranches of the grant awarded for the construction of the Research and Development Centre were disbursed, which significantly increased the balance of grants received.

(all amounts in PLN '000 unless indicated otherwise)

Note 15 Financial instruments

Categories of financial instruments

Financial assets

	as at Jun 30 2018
	unaudited
At fair value through profit or loss	-
At amortised cost	1,021,314
At fair value through other comprehensive income	94,919
	1,116,233
Recognised in the statement of financial position as:	
Derivative financial instruments	-
Shares	6,571
Trade and other receivables	212,999
Cash and cash equivalents	568,714
Other financial assets	327,949
	1,116,233

	as at Dec 31 2017
	audited
At fair value through profit or loss	1,071
Loans and receivables	481,184
Cash and cash equivalents	572,711
Financial assets available for sale	107
	1,055,073
Recognised in the statement of financial position as:	
Shares	107
Trade and other receivables	160,845
Cash and cash equivalents	572,711
Derivative financial instruments	1,071
Other financial assets	320,339
	1,055,073

Financial liabilities

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
At fair value through profit or loss	2,180	-
At amortised cost	2,050,262	1,907,008
	2,052,442	**1,907,008**
Recognised in the statement of financial position as:		
Long-term borrowings	1,328,899	1,357,234
Short-term borrowings	374,926	310,892
Derivative financial instruments	2,180	-
Trade and other payables**	268,644	188,707
Other non-current financial liabilities	22,584	25,860

Other current financial liabilities	55,209	24,315
	2,052,442	**1,907,008**

*"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).

(all amounts in PLN '000 unless indicated otherwise)

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk principally in connection with its trade receivables, advanced loans, 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
	unaudited
Assets measured at fair value through profit or loss	-
Assets measured at amortised cost	1,021,314
Assets measured at fair value through other comprehensive income	88,348
	1,109,662

	as at Dec 31 2017
	audited
At fair value through profit or loss	1,071
Loans and receivables	481,184
Cash and cash equivalents	572,711
	1,054,966

The Company’s trade receivables from third parties are in the first place insured under a global trade credit insurance policy, which limits the Company’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 Company’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 Company.
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 Company 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 Company’s internal financial staff (individually for each customer) and, if a receivable is insured, also by the insurance companies’ credit analysts.

(all amounts in PLN '000 unless indicated otherwise)

Impairment losses on receivables

	for the period from Jan 1 to Jun 30 2018	for the period from Jan 1 to Jun 30 2017
At the beginning of the period	**2,831**	**2,714**
Recognised	417	219
Reversed	(221)	(114)
Used	(11)	(27)
At end of period	**3,016**	**2,792**
including		
Short-term	3,016	2,792
	3,016	**2,792**

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. The 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),
- FX derivatives and emission allowance derivatives. The carrying amount of these instruments is equal to their fair values.
- Financial assets available for sale. The carrying amounts of these instruments are equal to their fair values.

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

Hierarchy level (unaudited)	**Level 2**	**Level 3**
Financial assets at fair value, including:		
shares measured at fair value through other comprehensive income	-	6,571
trade receivables to be sold	-	88,348
	-	**94,919**
Financial liabilities at fair value, including:		
currency futures and forward contracts	2,180	-
	2,180	**-**

(all amounts in PLN '000 unless indicated otherwise)

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	-	107
trade and other receivables	-	78,075
currency futures and forward contracts	1,071	-
	1,071	**78,182**

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 banks with which the transactions have been made. The valuations are verified by discounting the expected cash flows from the contracts at market interest rates effective as at the reporting date.

Derivative financial instruments and hedge accounting

Foreign currency derivatives
As at June 30th 2018, the notional amount of Grupa Azoty's open currency derivatives (forwards) totalled EUR 25m (which included instruments maturing in H2 2018: July – EUR 4.0m, August – EUR 3.0m, September – EUR 3.0m, October – EUR 3.5m, November – EUR 1.5m; and in H1 2019: February – EUR 2.5m, March – EUR 2.5, April – EUR 2.5, May – EUR 2.5), as well as USD 0.5m maturing in July 2018. As at December 31st 2017, the notional amount of Grupa Azoty S.A.'s open currency derivatives (forwards) was EUR 9m.
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 Company applies cash flow hedge accounting. The hedged items are highly probable future proceeds from sale transactions denominated in the euro, which will be recognised in profit or loss in the period from December 2018 to June 2025. The risk being hedged against is the currency risk. The hedge is a euro-denominated credit facility of EUR 127,134 thousand as at 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 credit facility was PLN 559,804 thousand. The hedging reserve included PLN (5,223) thousand on account of the effective hedge as at June 30th 2018. In H1 2018, the Company did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

(all amounts in PLN '000 unless indicated otherwise)

Note 16 Contingent liabilities, contingent assets and guarantees

Contingent liabilities and guarantees/sureties

	as at Jun 30 2018	as at Dec 31 2017
	unaudited	*audited*
Sureties	7,851	7,508

In H1 2017, the Company granted a surety of up to EUR 1,800 thousand for the benefit of the Investment Bank of Brandenburg (ILB) as security for a subsidy granted to Grupa Azoty ATT Polymers GmbH (the Company's related party) as partial financing of the investment project to construct a logistics centre, for the period until October 23rd 2023.

Note 17 Related-party transactions

Trade transactions with related parties
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	366,634	94,068	171,067	38,999
Related parties of Grupa Azoty KĘDZIERZYN	-	-	30	-
Related parties of Grupa Azoty PKCh Sp. z o.o.	1,605	802	39,829	17,730
Related parties of Grupa Azoty POLICE	50	23	9	70,500
Related parties of Grupa Azoty PUŁAWY	12,940	3,236	2,470	1,485
	381,229	**98,129**	**213,405**	**128,714**

	Revenue	Purchases
In the six months ended June 30th 2017 (unaudited)		
Related parties of Grupa Azoty	162,184	110,457
Related parties of Grupa Azoty KĘDZIERZYN	-	87
Related parties of Grupa Azoty PKCh Sp. z o.o.	1,621	35,081
Related parties of Grupa Azoty POLICE	49	25
Related parties of Grupa Azoty PUŁAWY	13,618	3,057
	177,472	**148,707**

	Receivables	Liabilities
As at December 31st 2017 (audited)		
Related parties of Grupa Azoty	75,591	28,992
Related parties of Grupa Azoty PKCh Sp. z o.o.	455	8,347
Related parties of Grupa Azoty POLICE	11	25
Related parties of Grupa Azoty PUŁAWY	1,847	217
	77,904	**37,581**

(all amounts in PLN '000 unless indicated otherwise)

Other transactions

	Other income	Other expenses	Finance income	Finance costs
In the six months ended June 30th 2018 (unaudited)				
Related parties of Grupa Azoty	322	138	92,065	2,838
Related parties of Grupa Azoty KĘDZIERZYN	-	-	13	-
Related parties of Grupa Azoty PKCh Sp. z o.o.	746	2,486	-	287
Related parties of Grupa Azoty POLICE	-	-	1	627
Related parties of Grupa Azoty PUŁAWY	-	-	535	114
	1,068	**2,624**	**92,614**	**3,866**

	Other income	Other expenses	Finance income	Finance costs
In the six months ended June 30th 2017 (unaudited)				
Related parties of Grupa Azoty	490	19	237,856	2,853
Related parties of Grupa Azoty PKCh Sp. z o.o.	690	1,065	-	250
Related parties of Grupa Azoty POLICE	-	-	-	426
Related parties of Grupa Azoty PUŁAWY	-	-	103	96
	1,180	**1,084**	**237,959**	**3,625**

Loans granted to related parties
In H1 2018, the Company granted loans for a total amount of PLN 44,447 thousand, including PLN 4,447 thousand to Grupa Azoty KĘDZIERZYN and PLN 40,000 thousand to Grupa Azoty POLICE (2017: PLN 77,918 thousand granted to Grupa Azoty KĘDZIERZYN).

In H1 2018 the Company received timely repayments of loans previously granted, in the amount of PLN 35,128 thousand, including PLN 12,000 thousand from Grupa Azoty POLICE and PLN 23,128 thousand from Grupa Azoty KĘDZIERZYN (2017: PLN 57,411 thousand, including PLN 24,000 thousand from Grupa Azoty POLICE and PLN 33,411 thousand from Grupa Azoty KĘDZIERZYN).

Cash pooling
As at June 30th 2018, the Company presented cash provided to other Group companies participating in the cash pooling service as cash equivalents of PLN 151,748 thousand, whereas cash received by the Company from other Group companies is presented as short-term borrowings of PLN 285,194 thousand as at June 30th 2018.

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

Note 18 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:

- increasing the capacity of the technical-grade nitric acid unit – as at June 30th 2018, the total amount of the Company's commitments under the contracts was PLN 35,741 thousand (December 31st 2017: PLN 36,142 thousand),
- construction and procurement for the Chemical Technology and Development Centre project – as at June 30th 2018, the total amount of the Company's commitments under the contracts was PLN 21,525 thousand (December 31st 2017: PLN 37,432 thousand),
- utilisation of purge gases from the ammonia synthesis unit – as at June 30th 2018, the total amount of the Company's commitments under the contracts was PLN 6,668 thousand (December 31st 2017: PLN 16,473 thousand.

Moreover, under the agreement on acquisition of Grupa Azoty SIARKOPOL S.A. (including annexes thereto), the Company undertook to carry out by 2019 investment projects in the company worth no less than PLN 30m (annex of September 11th 2015).

The total amount of commitments under contracts was PLN 121,638 thousand (December 31st 2017: PLN 176,130 thousand).

Note 19 Events after the reporting period

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.

The interim condensed separate financial statements for the six months ended June 30th 2018 contains 2 pages.40

Signatures of members of the Management Board

………………………………	………………………………
Wojciech Wardacki, PhD	Witold Szczypiński
President of the Management Board	*Vice President of the Management Board*
	Director General
………………………………	………………………………
Mariusz Grab	Grzegorz Kądzielawski, PhD
Vice President of the Management Board	*Vice President of the Management Board*
………………………………	………………………………
Paweł Łapiński	Artur Kopeć
Vice President of the Management Board	*Member of the Management Board*

Person responsible for maintaining accounting records

………………………………

Tarnów, August 27th 2018