Consolidated interim report for Q3 2014

Grupa Azoty Group

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Financial highlights

Consolidated financial information

	PLN '000		EUR '000	
	for the period Jan 1 - Sep 30 2014	for the period Jan 1 - Sep 30 2013	for the period Jan 1 - Sep 30 2014	for the period Jan 1 - Sep 30 2013
Revenue	7,342,068	7,473,136	1,756,350	1,769,585
Operating profit	286,609	779,615	68,562	184,607
Profit before tax	282,523	817,625	67,584	193,608
Net profit	243,632	770,731	58,281	182,504
Total comprehensive income	236,957	735,824	56,684	174,238
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per ordinary share (PLN)	2.15	7.30	0.51	1.73
Net cash provided by operating activities	704,637	847,345	168,561	200,645
Net cash provided by/(used in) investing activities	(448,777)	(253,071)	(107,355)	(59,925)
Net cash used in financing activities	(392,493)	(184,308)	(93,891)	(43,643)
Net increase/(decrease) in cash and cash equivalents	(136,633)	409,966	(32,685)	97,077
Cash at the beginning of the period	713,024	243,440	170,568	57,645
Cash at the end of the period	581,171	652,614	139,026	154,534
	as at Sep 30 2014	as at Dec 31 2013	as at Sep 30 2014	as at Dec 31 2013
Non-current assets	6,659,742	6,635,580	1,594,957	1,600,014
Current assets	3,097,704	3,325,950	741,876	801,975
Non-current liabilities	1,305,003	1,412,617	312,538	340,619
Current liabilities	1,978,615	2,278,262	473,863	549,349
Equity	6,473,828	6,270,651	1,550,432	1,512,020
Share capital	495,977	495,977	118,783	119,593
Non-controlling interests	727,825	709,194	174,308	171,005

Separate financial information

	PLN '000		EUR '000	
	for the period Jan 1 - Sep 30 2014	for the period Jan 1 - Sep 30 2013	for the period Jan 1 - Sep 30 2014	for the period Jan 1 - Sep 30 2013
Revenue	1,377,237	1,415,273	329,459	335,127
Operating profit	(10,367)	363	(2,480)	86
Profit before tax	231,900	113,452	55,474	26,865
Net profit	237,578	115,647	56,833	27,384
Total comprehensive income	236,386	78,291	56,548	18,539
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per ordinary share (PLN)	2.40	1.17	0.57	0.28
Net cash provided by operating activities	23,947	66,498	5,729	15,746
Net cash provided by/(used in) investing activities	205,603	(320,886)	49,184	(75,984)
Net cash used in financing activities	(223,269)	196,356	(53,410)	46,496
Net increase/(decrease) in cash and cash equivalents	6,281	(58,032)	1,503	(13,742)
Cash at the beginning of the period	6,349	66,992	1,519	15,863
Cash at the end of the period	12,630	8,960	3,021	2,122
	as at Sep 30 2014	as at Dec 31 2013	as at Sep 30 2014	as at Dec 31 2013
Non-current assets	4,862,536	4,883,941	1,164,540	1,177,648
Current assets	484,401	491,865	116,010	118,602
Non-current liabilities	488,565	617,167	117,008	148,815
Current liabilities	657,944	774,758	157,573	186,815
Equity	4,200,428	3,983,881	1,005,970	960,619
Share capital	495,977	495,977	118,783	119,593

The selected items of the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows have been translated into the euro using the applicable method specified below:

- individual items of assets and equity and liabilities in the statement of financial position have been translated using the exchange rate effective for the last day of the reporting period:
  the exchange rate as at December 31st 2013 was EUR 1 = PLN 4.1472 (table No. 251/A/NBP/2013),
  the exchange rate as at September 30th 2014 was EUR 1 = PLN 4.1755 (table No. 189/A/NBP/2014),
- items of the statement of profit or loss and other comprehensive income and statement of cash flows have been translated using the arithmetic averages of the EUR/PLN rates quoted by the National Bank of Poland as effective for the last day of each month in the reporting period:
  in Jan 1st–Sep 30th 2013, the average exchange rate was EUR 1 = PLN 4.2231,
  in Jan 1st–Sep 30th 2014, the average exchange rate was EUR 1 = PLN 4,1803.

The translation was made using the exchange rates specified above by dividing amounts expressed in thousands of the złoty by the exchange rate.

Interim condensed consolidated financial statements
for the three and nine months
ended September 30th 2014
prepared in accordance with
IAS 34 'Interim Financial Reporting'
as endorsed by the European Union

STATEMENT OF THE MANAGEMENT BOARD

The Management Board of Grupa Azoty S.A. presents the interim condensed consolidated financial statements for the three and nine months ended September 30th 2014, comprising:

- Condensed consolidated statement of profit or loss and other comprehensive income for the period July 1st – September 30th 2014 and January 1st – September 30th 2014,
- Condensed consolidated statement of financial position as at September 30th 2014,
- Condensed consolidated statement of changes in equity for the period January 1st – September 30th 2014,
- Condensed consolidated statement of cash flows for the period January 1st – September 30th 2014,
- Supplementary information to the interim condensed consolidated financial statements.

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as endorsed by the European Union, and give a fair and clear view of the financial position and performance of the Grupa Azoty Group.

Signatures of the Members of the Management Board

……
Paweł Jarczewski
President of the Management Board

……
Andrzej Skolmowski
Vice-President of the Management Board

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

……
Marek Kapłucha
Vice-President of the Management Board

……
Marian Rybak
Vice-President of the Management Board

……
Krzysztof Jałosiński
Vice-President of the Management Board

……
Artur Kopeć
Member of the Management Board

Person entrusted with maintaining accounting records

……
Ewa Gładysz
Head of the Corporate Finance Department

Tarnów, November 12th 2014

Condensed consolidated statement of profit or loss and other comprehensive income

	for the period Jul 1- Sep 30 2014	for the period Jan 1 - Sep 30 2014	for the period Jul 1- Sep 30 2013	for the period Jan 1 - Sep 30 2013
	unaudited	*unaudited*	*unaudited*	*unaudited*
Continuing operations				
Revenue	2,268,922	7,342,068	2,226,090	7,473,136
Cost of sales	(1,940,839)	(6,105,923)	(1,958,978)	(6,330,634)
Gross profit/(loss)	**328,083**	**1,236,145**	**267,112**	**1,142,502**
Selling and distribution expenses	(147,379)	(422,339)	(109,351)	(315,852)
Administrative expenses	(169,584)	(522,955)	(159,981)	(489,293)
Other income, including:	6,887	32,228	23,833	513,482
gain from a bargain purchase	-	-	-	446,116
Other expenses	(16,825)	(36,470)	(30,150)	(71,224)
Operating profit/(loss)	**1,182**	**286,609**	**(8,537)**	**779,615**
Finance income	9,221	35,789	1,169	65,734
Finance costs	(16,773)	(49,670)	(7,417)	(35,991)
Net finance income/(costs)	**(7,552)**	**(13,881)**	**(6,248)**	**29,743**
Share of profit/loss of equity-accounted associates	4,705	9,795	2,819	8,267
Profit/(loss) before tax	**(1,665)**	**282,523**	**(11,966)**	**817,625**
Tax expense	10,799	(38,338)	12,319	(46,500)
Net profit/(loss) from continuing operations	**9,134**	**244,185**	**353**	**771,125**
Discontinued operations				
Net profit/(loss) from discontinued operations	(188)	(553)	(140)	(394)
Net profit/(loss)	**8,946**	**243,632**	**213**	**770,731**
Other comprehensive income				
Items that will never be reclassified to profit or loss				
Revaluation of obligations/assets from defined benefit plans	5,762	(6,520)	-	275
Other income	(5,802)	(5,802)	302	302
Tax on items that will never be reclassified to profit or loss	9	2,222	(103)	(203)
	(31)	**(10,100)**	**199**	**374**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

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

	for the period Jul 1- Sep 30 2014	for the period Jan 1 - Sep 30 2014	for the period Jul 1- Sep 30 2013	for the period Jan 1 - Sep 30 2013
	unaudited	*unaudited*	*unaudited*	*unaudited*
Items that are or may be reclassified to profit or loss				
Change in fair value of available-for-sale financial assets	(2,912)	(2,905)	(516)	(18,696)
Change in fair value of available-for-sale financial assets reclassified to profit or loss	2,912	-	-	(27,256)
Exchange differences on translating foreign operations	2,005	5,771	(1,722)	1,895
Tax on items that are or may be reclassified to profit or loss	-	559	143	8,776
	2,005	**3,425**	**(2,095)**	**(35,281)**
Total other comprehensive income	**1,974**	**(6,675)**	**(1,896)**	**(34,907)**
Total profit or loss and other comprehensive income	**10,920**	**236,957**	**(1,683)**	**735,824**
Net profit/(loss) attributable to:				
Owners of the parent	4,490	213,323	(3,676)	724,157
Non-controlling interests	4,456	30,309	3,889	46,574
Total profit or loss and other comprehensive income attributable to:				
Owners of the parent	2,213	204,385	(5,546)	689,061
Non-controlling interests	8,707	32,572	3,863	46,763
Earnings/(loss) per share:				
Basic (PLN)	0.05	2.15	(0.04)	7.30
Diluted (PLN)	0.05	2.15	(0.04)	7.30

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed consolidated statement of financial position

	as at Sep 30 2014	as at Dec 31 2013
	unaudited	*audited*
Assets		
Non-current assets		
Property, plant and equipment	5,870,692	5,791,013
Investment property	53,086	53,374
Intangible assets	480,269	516,099
Goodwill	13,389	11,617
Investments in subordinated entities	124,704	128,944
Available-for-sale financial assets	12,263	23,989
Other financial assets	9,909	53
Non-current receivables	1,897	3,408
Deferred tax assets	89,859	102,621
Other current assets	3,674	4,462
Total non-current assets	**6,659,742**	**6,635,580**
Current assets		
Inventory	1,222,799	1,170,626
Other financial assets	134,472	106,822
Called-up share capital not paid	2	-
Current tax assets	7,317	40,558
Trade and other receivables	1,104,747	1,273,112
Cash and cash equivalents	581,171	713,024
Other current assets	46,914	21,016
Assets held for sale	282	792
Total current assets	**3,097,704**	**3,325,950**
Total assets	**9,757,446**	**9,961,530**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed consolidated statement of financial position (continued)

	as at Sep 30 2014	as at Dec 31 2013
	unaudited	*audited*
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Fair value reserve	-	2,346
Exchange differences on translating foreign operations	(2,119)	(9,623)
Retained earnings, including:	2,833,875	2,654,487
profit for the period	*213,323*	*679,593*
Equity attributable to owners of the parent	**5,746,003**	**5,561,457**
Non-controlling interests	**727,825**	**709,194**
Total equity	**6,473,828**	**6,270,651**
Liabilities		
Borrowings	552,499	634,693
Employee benefit obligations	283,765	254,613
Other non-current liabilities	26,206	61,821
Provisions	119,687	119,343
Government grants	40,580	24,906
Deferred tax liabilities	262,779	294,728
Other financial liabilities	19,487	22,513
Total non-current liabilities	**1,305,003**	**1,412,617**
Borrowings	374,907	604,140
Employee benefit obligations	28,037	34,008
Current tax expense	3,454	4,903
Trade and other payables	1,276,583	1,313,547
Provisions	170,037	213,839
Government grants	33,239	2,936
Deferred income	3,555	25,921
Other financial liabilities	88,803	78,968
Total current liabilities	**1,978,615**	**2,278,262**
Total liabilities	**3,283,618**	**3,690,879**
Total equity and liabilities	**9,757,446**	**9,961,530**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed consolidated statement of changes in equity
for the period ended September 30th 2014

	Share capital	Share premium	Fair value reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at January 1st 2014	**495,977**	**2,418,270**	**2,346**	**(9,623)**	**2,654,487**	**5,561,457**	**709,194**	**6,270,651**
Profit or loss and other comprehensive income								
Net profit	-	-		-	213,323	213,323	30,309	243,632
Other comprehensive income	-	-	(2,346)	7,504	(14,096)	(8,938)	2,263	(6,675)
Total profit or loss and other comprehensive income	**-**	**-**	**(2,346)**	**7,504**	**199,227**	**204,385**	**32,572**	**236,957**
Transactions with owners of the Company, recognised directly in equity								
Dividends	-	-	-	-	(19,839)	(19,839)	(13,941)	(33,780)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(19,839)**	**(19,839)**	**(13,941)**	**(33,780)**
Total transactions with owners of the Company	**-**	**-**	**-**	**-**	**(19,839)**	**(19,839)**	**(13,941)**	**(33,780)**
Balance at September 30th 2014 (unaudited)	**495,977**	**2,418,270**	**-**	**(2,119)**	**2,833,875**	**5,746,003**	**727,825**	**6,473,828**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Consolidated statement of changes in equity (continued)
for the period ended September 30th 2013

	Share capital	Share premium	Fair value reserve	Other components of equity	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at January 1st 2013	**320,577**	**680,688**	**37,221**	**-**	**(1,279)**	**2,039,413**	**3,076,620**	**414,078**	**3,490,698**
Profit or loss and other comprehensive income									
Net profit	-	-	-	-	-	724,157	724,157	46,574	770,731
Other comprehensive income	-	-	(37,221)	207	1,895	23	(35,096)	189	(34,907)
Total profit or loss and other comprehensive income	**-**	**-**	**(37,221)**	**207**	**1,895**	**724,180**	**689,061**	**46,763**	**735,824**
Transactions with owners of the Company, recognised directly in equity									
Issue of ordinary shares	175,400	1,737,582		-	-	-	1,912,982	-	1,912,982
Dividends	-	-		-	-	(148,793)	(148,793)	(22,023)	(170,816)
Total contributions by and distributions to owners	**175,400**	**1,737,582**		**-**	**-**	**(148,793)**	**1,764,189**	**(22,023)**	**1,742,166**
Changes in ownership interests in subsidiaries	-	-	-	-	-	122	122	(122)	-
Acquisition of non-controlling interests without change of control	-	-	-	-	-	84,397	84,397	(395,433)	(311,036)
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	2	2	604,273	604,275
Total transactions with owners of the Company	**175,400**	**1,737,582**	**-**	**-**	**-**	**(64,272)**	**1,848,710**	**186,695**	**2,035,405**
Other Activities	-	-		-	-	5,100	5,100	-	5,100
Balance at September 30th 2013 (unaudited)	**495,977**	**2,418,270**	**-**	**207**	**616**	**2,704,421**	**5,619,491**	**647,536**	**6,267,027**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Consolidated statement of changes in equity (continued)
for the year ended 31 December 2013

	Share capital	Share premium	Fair value reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at January 1st 2013	**320,577**	**680,688**	**37,221**	**(1,279)**	**2,039,413**	**3,076,620**	**414,078**	**3,490,698**
Profit or loss and other comprehensive income								
Net profit	-	-	-	-	679,593	679,593	33,932	713,525
Other comprehensive income	-	-	(34,875)	(8,344)	(631)	(43,850)	(2,616)	(46,466)
Total profit or loss and other comprehensive income	**-**	**-**	**(34,875)**	**(8,344)**	**678,962**	**635,743**	**31,316**	**667,059**
Transactions with owners of the Company, recognised directly in equity								
Issue of ordinary shares	175,400	1,737,582		-	-	1,912,982	-	1,912,982
Dividends	-	-		-	(148,793)	(148,793)	(30,005)	(178,798)
Total contributions by and distributions to owners	**175,400**	**1,737,582**		**-**	**(148,793)**	**1,764,189**	**(30,005)**	**1,734,184**
Acquisition of non-controlling interests without change of control	-	-	-	-	84,905	84,905	(396,221)	(311,316)
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	-	690,026	690,026
Total transactions with owners of the Company	**175,400**	**1,737,582**	**-**	**-**	**(63,888)**	**1,849,094**	**263,800**	**2,112,894**
Balance at 31 December 2013 (audited)	**495,977**	**2,418,270**	**2,346**	**(9,623)**	**2,654,487**	**5,561,457**	**709,194**	**6,270,651**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed consolidated statement of cash flows

	for the period Jan 1 - Sep 30 2014	for the period Jan 1 - Sep 30 2013 restated*
	unaudited	*unaudited*
Cash flows from operating activities		
Profit before tax	**282,523**	**817,625**
Adjustments for:	*426,066*	*(57,464)*
Depreciation and amortisation	403,975	416,464
Impairment	2,647	(457)
Profit from investing activities	(751)	(474,322)
Profit on disposal of financial assets	(2,598)	(3,199)
Share of profit of equity-accounted associates	(9,795)	(8,267)
Interest, foreign exchange gains or losses	31,905	26,095
Dividends	(301)	(1,247)
Change in fair value of financial assets at fair value through profit or loss	984	(12,531)
Cash from operating activities before changes in working capital	***708,589***	***760,161***
Changes in trade and other receivables	124,494	(81,966)
Changes in inventory	(52,044)	225,592
Changes in trade and other payables	(64,192)	(14,089)
Changes in provisions, prepayments and grants	(25,441)	34,604
Other adjustments	3,226	(10,280)
Cash from operating activities	***694,632***	***914,022***
Income taxes paid	10,005	(66,677)
Net cash from operating activities	**704,637**	**847,345**

* See Section 3.2.b).

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed consolidated statement of cash flows (continued)

	for the period Jan 1 - Sep 30 2014	for the period Jan 1 - Sep 30 2013 restated*
	unaudited	*unaudited*
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	5,973	5,308
Acquisition of property, plant and equipment, intangible assets and investment property	(420,215)	(495,641)
Dividends received	11,366	28,066
Acquisition of financial assets	(138,581)	(89,433)
Acquisition of subsidiaries, net of cash acquired	(21,942)	(8,531)
Proceeds from sale of financial assets	126,606	38,198
Cash acquired, net of consideration transferred in acquisition of subsidiaries	-	273,797
Interest received	4,741	1,381
Government grants	-	2,510
Loans	(645)	251
Other proceeds/(disbursements)	(16,080)	(8,977)
Net cash used in investing activities	**(448,777)**	**(253,071)**
Cash flows from financing activities		
Net proceeds/(disbursements) from issue of share capital	936	(11,159)
Dividends paid	(41,768)	(170,816)
Proceeds from borrowings	158,264	539,193
Acquisition of non-controlling interests	-	(311,036)
Payment of borrowings	(472,566)	(195,895)
Interest paid	(35,275)	(27,986)
Payment of finance lease liabilities	(9,481)	(9,367)
Other proceeds/(disbursements)	7,397	2,758
Net cash from financing activities	**(392,493)**	**(184,308)**
Net increase/(decrease) in cash and cash equivalents	**(136,633)**	**409,966**
Cash and cash equivalents at the beginning of the period	**713,024**	**243,440**
Effect of exchange rate fluctuations	4,780	(792)
Cash and cash equivalents at the end of the period	**581,171**	**652,614**

* See Section 3.2.b).

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Supplementary information to the interim condensed consolidated financial statements

1. About the Grupa Azoty Group

1.1. Organisational structure

As at June 30th 2014, the Grupa Azoty Group (or the 'Group') comprised Grupa Azoty S.A. (the Parent) and ten subsidiaries (nine companies in which the Parent holds ownership interests above 50%, and one indirectly controlled entity), including:

- Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY),
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty ZAK),
- 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),
- 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.,
- Navitrans Sp. z o.o., an indirectly controlled subsidiary.

Further:

- Grupa Azoty PUŁAWY is the parent to nine subsidiaries, and holds ownership interests in five associates,
- Grupa Azoty ZAK is the parent to two subsidiaries, and holds ownership interests in two associates,
- Grupa Azoty POLICE is the parent to nine subsidiaries, and holds ownership interests in two associates,
- Grupa Azoty PKCh is the parent to three subsidiaries.

Structure of the Group as at September 30th 2014:

1) Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. – shares held by the Parent and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.
2) NAVITRANS Sp. z o.o. – shares held by the Parent, Grupa Azoty PUŁAWY S.A. and Bałtycka Baza Masowa Sp. z o.o.
3) ZAKSA S.A. – shares held by Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (91.67%) and CTL Chemkol Sp. z o.o. (0.783%).
4) EKOTAR Sp. z o.o. – shares held by Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. and Grupa Azoty PROREM Sp. z o.o.

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

Establishment of a subsidiary, Grupa Azoty AFRICA S.A., by Grupa Azoty POLICE

September 10th 2014 saw the registration of Grupa Azoty POLICE's subsidiary, Grupa Azoty AFRICA S.A. of Dakar, Senegal (established on May 7th 2014). The new company's business profile will include import, distribution of and trade in fertilizers and other chemical products, provision of storage and logistics services, as well vocational training of farmers.

Share capital increase at Agrochem Puławy Sp. z o.o.

Under a resolution of the Extraordinary General Meeting of September 1st 2014, the share capital of Agrochem Puławy Sp. z o.o., Grupa Azoty PUŁAWY's subsidiary, was increased by PLN 7,466.5 thousand. The share capital was increased to PLN 50,000 thousand through the creation of 74,665 new, equal and indivisible shares with a par value of PLN 100 per share. All of the new shares were acquired by the company's existing shareholder, Zakłady Azotowe Puławy S.A., and paid for with cash.

After the reporting date, on October 22nd 2014, the increase was registered with the National Court Register.

Acquisition of Unibaltic Agro Sp. z o.o. by Agrochem Puławy Sp. z o.o.

On September 11th 2014, Agrochem Puławy Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY) acquired 6,793 shares in Unibaltic Agro Sp. z o.o., representing 100% of its shares. Consequently, Unibaltic Agro Sp. z o.o. has become a member of the Grupa Azoty PUŁAWY Group.

In accordance with Section 18 of IFRS 3, the acquisition was accounted for with the acquisition method. The method requires that the fair value measurement of acquired assets and assumed liabilities be performed as at the acquisition date.

In connection with the acquisition of control, the acquisition was preliminarily accounted for based on carrying amounts. The acquiring company will perform the fair value measurement of the assets and liabilities at a later time. Based on the carrying amounts, net assets amount to PLN 3,951 thousand. The measurement having been performed, a PLN 1,772 thousand excess of the acquisition price over assets (goodwill) was identified. Goodwill is presented as a separate item of the statement of financial position. As 100% of shares have been purchased, all net assets are attributable to the Grupa Azoty PUŁAWY Group.

In accordance with IFRS 3, the acquisition has been accounted for provisionally and the result of final accounting may differ from the presented one.

Item	Shares/equity interests at the acquisition/ disposal price	Shares/equity interests as at the acquisition/ disposal date	Goodwill	Other income	Gain on disposal	Transactions with non-controlling shareholders
Acquisition of shares in Unibaltic Agro Sp. z o.o.	5,723	3,951	1,772	-	-	-
Total shares and other equity interests	**5,723**	**3,951**	**1,772**	**-**	**-**	**-**

SCF Natural Sp. z o.o.

The New Chemical Synthesis Institute of Puławy (Instytut Nowych Syntez Chemicznych, formerly Fertilizer Research Institute of Puławy (Instytut Nawozów Sztucznych)) failed to obtain clearance from the Minister of Economy and the Minister of State Treasury to make an in-kind contribution in the form of a leased hops extraction unit and hops extraction technology to SCF Natural Sp. z o.o. Consequently, the business relationship between the entities is subject to further arrangements.

Dissolution of Dom Wczasowy Jawor Sp. z o.o.

On September 30th 2014, the Extraordinary General Meeting of Grupa Azoty PUŁAWY approved the sale of an organised part of business under the name of Dom Wczasowy Jawor Sp. z o.o., including all tangible and intangible assets and liabilities. The subsidiary will be sold by way of an open tender.

2. Key events in the three months ended September 30th 2014

Grupa Azoty placed on the list of the State Treasury's strategic enterprises

On August 5th 2014, the Ministry of State Treasury announced that Grupa Azoty had been placed on the list of strategic enterprises.

The 'List of enterprises of strategic importance to Poland's economy' constitutes an appendix to the document 'Priorities in managing enterprises supervised by the Minister of State Treasury until 2015', whose first version was approved by the Council of the Ministry of State Treasury on April 30th 2014.

The list was reviewed by the Council of Ministers on August 5th 2014. In addition to Grupa Azoty, the list includes 21 other companies playing a leading role in Poland's reindustrialisation.

Anti-dumping tariffs on Russian ammonium nitrate upheld

The European Commission decided to uphold anti-dumping tariffs on ammonium nitrate imported from Russia. As a result, the import duties on ammonium nitrate, one of the most popular fertilizers in Europe, will amount to EUR 47 per tonne over the next five years. The decision serves to defend the European market, and thus the Polish chemical industry, against harmful imports. On September 23rd 2014, the European Commission passed an implementing regulation on this matter.

The decision is a response to a petition filed in March 2013 by Fertilizers Europe, a European association of fertilizer manufacturers in which Grupa Azoty is an active member. The petitioners emphasised that the expiry of the anti-dumping tariffs would give rise to a real risk of dumping practices.

The protection against Russian dumping is needed as long as Russia sells gas at low prices to Russian producers and at high prices to EU manufacturers.

Operationalisation of the Grupa Azoty Group's Strategy

In its continued work on strategic planning, commenced in 2013 with the adoption of the Strategy of the Grupa Azoty Group for 2013–2020, on August 14th 2014 the Management Board of the Group published the key assumptions of the 'Strategy of the Grupa Azoty Group for 2014–2020. Operationalisation'.

The implementation of the Strategy will be performed in the following three strategic areas:

- operational excellence programme, with the annual effect on the Grupa Azoty Group's EBIT expected at PLN 300m;
- Organic growth, with capital expenditure estimated at PLN 7bn over the seven years between 2014 and 2020;
- efficiency boost through mergers and acquisitions.

The operationalisation defines the Group's activity domains: the five value-building business segments (Fertilizers, Plastics, Oxoplast, Pigments and Melamine) and the supporting segment, Energy (for the Group's own needs), with potential entry into new segments, including new plastics and professional power generation.

The operationalisation lists 38 strategic projects designed to build the value of the individual segments or the entire Group (corporate projects), of both investment and marketing nature. The operationalisation also defines directions of activity in the M&A area.

Execution of trade agreement with Comexport

Grupa Azoty and Comexport of Brazil executed a framework trade agreement. As declared in the agreement, Comexport will purchase Grupa Azoty's polyamide, whose possible uses include production of structural fibres. The polymer sold to Comexport will ultimately be produced at the new PA6 plant in Tarnów. The new plant with an annual capacity of 80,000 tonnes is scheduled for launch in Q4 2016. The agreement, signed on June 20th 2014, is also viewed as the basis for considering a potential joint venture project to further process the product in Brazil.

The sale of polyamide to Brazil will be a continuation of the business relationship between Grupa Azoty and Comexport. At the end of 2013, as part of its negotiations of fertilizer contracts for the coming years, Grupa Azoty entered into a series of trade contracts with Comexport. The contracts for sale of ammonium sulfate produced in Tarnów and Puławy, as well as compound fertilizers produced in Police, are effective until the end of 2016.

Property and third-party liability insurance

In Q3 2014, the Azoty Group concluded insurance agreements under consolidated programmes of property, loss of profit, transport and third-party liability insurance for the period from July 1st 2014 to June 30th 2015, with insurance companies acting as co-insurers: PZU, Warta, Hestia, and with respect to transport insurance, Allianz.

Abandonment of the process of acquiring shares in Zakłady Chemiczne Organika-Sarzyna S.A.

The Management Board of Grupa Azoty PUŁAWY announced that on November 5th 2014 it resolved to abandon the process of acquiring shares in Zakłady Chemiczne Organika-Sarzyna S.A. from Ciech S.A. The resolution was adopted in connection with Ciech S.A.'s publication of a current report concerning the approval of the Ciech Group's strategy for 2014–2019 and the information published in Ciech S.A.'s official Web page. Pursuant to those disclosures, the Ciech Group's organic chemistry segment will be developed based on Zakłady Chemiczne Organika-Sarzyna S.A., which will remain within the Ciech Group.

Temporary reduction of fertilizer production

In August, a minor leakage at the ammonia synthesis plant of Grupa Azoty ZAK S.A. led to a hydrogen explosion. Following the accident, production was significantly reduced for about two weeks. The ammonia needed to carry on the production of fertilizers was supplied by other companies of the Grupa Azoty Group.

3. Policies applied in the preparation of the interim condensed consolidated financial statements

3.1. Statement of compliance and general policies

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as endorsed by the European Union, and in accordance with the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (consolidated text: Dz.U. of 2014, item 133), and present the Grupa Azoty Group's financial standing as at September 30th 2014, its operating performance for the three and nine months ended September 30th 2014, and cash flows for the nine months ended September 30th 2014.

These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Grupa Azoty Group for the financial year ended December 31st 2013, prepared in accordance with the International Financial Reporting Standards endorsed by the European Union ('EU IFRS') and other applicable laws.

All figures in these interim condensed consolidated financial statements are presented in thousands of złoty.

3.2. Accounting policies and computation methods

a) Applied accounting policies

The accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the full-year consolidated financial statements for 2013.

b) Adjustments to items presented in the condensed consolidated statement of cash flows

In the interim condensed statement of cash flows for the period ended September 30th 2013, the Group presented the following items: cash acquired net of consideration transferred in acquisition of subsidiaries, cash flows relating to acquisition of non-controlling interests, and acquisition costs, as cash flows relating to acquisition of financial assets under cash flows from investing activities. Under profit before tax, the Group also presented profit reduced by the loss on discontinued operations.

In the interim condensed statement of cash flows for the period ended September 30th 2014, the Group adjusted the presentation of the above transactions. Cash acquired net of consideration transferred in acquisition of subsidiaries was presented as a separate item under cash flows from investing activities, cash flows relating to acquisition of non-controlling interests were presented as a separate item under cash flows from financing activities, and acquisition costs reduced profit from investing activities under cash flows from operating activities. A presentation adjustment was also made to profit before tax.

Another presentation adjustment was made to acquisition of intangible assets, property, plant and equipment and investment property. The adjustment was disclosed under other proceeds/disbursements.

The table below presents the effect of the changed presentation of the above transactions on the condensed consolidated statement of cash flows for the period ended September 30th 2013:

	Before changes	After changes	
	For the period Jan 1 2013 to Sep 30 2013	**For the period Jan 1 2013 to Sep 30 2013**	**Impact of changes**
Cash flows from operating activities			
Profit before tax	**817,231**	**817,625**	**394**
Profit from investing activities	(464,742)	(474,322)	(9,580)
Other adjustments			(394)
Net cash from operating activities	**856,925**	**847,345**	**(9,580)**
Cash flows from investing activities			
Acquisition of property, plant and equipment, intangible assets and investment property	(1,102,495)	(495,641)	606,854
Acquisition of financial assets	(144,783)	(89,433)	55,350
Acquisition of subsidiaries, net of cash acquired	-	(8,531)	(8,531)

	Before changes	After changes	
	For the period Jan 1 2013 to Sep 30 2013	**For the period Jan 1 2013 to Sep 30 2013**	**Impact of changes**
Cash acquired, net of consideration transferred in acquisition of subsidiaries	-	273,797	273,797
Other disbursements	597,877	(8,977)	(606,854)
Net cash used in investing activities	**(573,687)**	**(253,071)**	**320,616**
Cash flows from financing activities			
Acquisition of non-controlling interests	-	(311,036)	(311,036)
Net cash from financing activities	**126,728**	**(184,308)**	**(311,036)**

c) Changes in International Financial Reporting Standards

The Grupa Azoty Group intends to adopt the changes in IFRS issued but not yet effective as at the date of issue of these interim condensed consolidated financial statements, as of their effective date.

d) 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. The estimates and underlying assumptions are based on historical experience and other factors reasonable in the circumstances and are the basis for determining the net carrying amount of assets and liabilities that do not result directly from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognised in the period in which the estimates are revised or in current and any future periods affected.

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 2013.

4. Selected supplementary notes

4.1. Segment reporting

Operating segments

Grupa Azoty operates in four main reportable segments, each with a separate management strategy for production, sales, and marketing.
For each segment the Management Board reviews internal management reports on a monthly basis.

The following summary describes the operations of each of the Group's reportable segments:

- Agro Fertilizers Segment comprises manufacture and marketing of the following products: nitrogen fertilizers (ammonium nitrate mixtures, ammonium nitrate with filler, carbonic acid diamide, water solution of ammonium nitrate and carbonic acid diamide, ammonium nitrate, urea, nitrate and urea solution), sulfur-based nitrogen fertilizers (mixtures of ammonium nitrate and ammonium sulphate, mixtures of ammonium nitrate and calcium sulphate, ammonium sulphate), compound fertilizers, phosphate fertilizers, ammonia, ammonium nitrate, syngas, nitric acid, industrial gases;
- Plastics Segment comprises manufacture and marketing of the following products: polyamide 6 (PA6), acetal copolymer, polypropylene, polybutylene terephthalate, polyamide 66 (PA66), caprolactam;

- Chemicals Segment comprises manufacture and marketing of the following products: oxo alcohols (2-ethylohexanol, n-butanol, isobutanol, octanol F), plasticizers (DEHP, DIBP, DPHP, DEHT), titanium white, Tytanpol®, melamine, maleic anhydride, AdBlue®, Fespol;
- Energy Segment comprises activities involving production of electricity and heat for the purposes of the chemical installations and contract-based sale of electricity to customers connected to the power network;
- Other Activities Segment comprises the remaining activities, including laboratory services, catalysts, rental of real estate, and other activities.

Performance of each of the segments is discussed below. Performance of each segment is measured based on sales revenue, EBIT and EBITDA.

Geographical areas

Geographical areas' revenue is determined based on customer location, while assets are allocated to particular areas based on the assets' location.

Operating segments

Revenue, expenses and financial result of operating segments for the three months ended September 30th 2014

Continuing operations	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,209,824	374,584	602,338	47,371	34,805	2,268,922
Inter-segment revenue	517,737	86,776	252,227	640,733	200,663	1,698,136
Total revenue	1,727,561	461,360	854,565	688,104	235,468	3,967,058
Operating expenses, including:(-)	(1,692,596)	(480,477)	(859,386)	(689,681)	(233,798)	(3,955,938)
Selling and distribution expenses (-)	*(99,912)*	*(13,854)*	*(33,355)*	*(18)*	*(240)*	*(147,379)*
Administrative expenses (-)	*(81,731)*	*(29,326)*	*(41,990)*	*(2,853)*	*(13,684)*	*(169,584)*
Other income	1,328	1,578	2,778	1,088	115	6,887
Other expenses(-)	(3,351)	(974)	(3,739)	(3,366)	(5,395)	(16,825)
Segment's EBIT	**32,942**	**(18,513)**	**(5,782)**	**(3,855)**	**(3,610)**	**1,182**
Gain from a bargain purchase	-	-	-	-	-	-
Operating profit	**-**	**-**	**-**	**-**	**-**	**1,182**
Finance income	-	-	-	-	-	9,221
Finance costs (-)	-	-	-	-	-	(16,773)
Share of profit/loss of equity-accounted associates	-	-	-	-	-	4,705
Profit/(loss) before tax	**-**	**-**	**-**	**-**	**-**	**(1,665)**
Result from discontinued operation						**(188)**
Tax expense	-	-	-	-	-	10,799
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**8,946**
EBIT*	32,942	(18,513)	(5,782)	(3,855)	(3,610)	1,182
Depreciation and amortisation	37,924	12,240	25,141	18,913	20,143	114,361
Unallocated depreciation and amortisation	-	-	-	-	-	10,778
EBITDA**	**70,866**	**(6,273)**	**19,359**	**15,058**	**16,533**	**126,321**

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss and adjusted by gain from a bargain purchase.
** EBITDA is calculated as operating profit (loss) before depreciation and amortisation and adjusted for gain from a bargain purchase.

Revenue, expenses and financial result of operating segments for the nine months ended September 30th 2014

Continuing operations	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	4,066,253	1,106,136	1,914,750	141,758	113,171	7,342,068
Inter-segment revenue	1,702,302	259,452	779,799	2,134,995	551,297	5,427,845
Total revenue	5,768,555	1,365,588	2,694,549	2,276,753	664,468	12,769,913
Operating expenses, including:(-)	(5,439,526)	(1,423,259)	(2,663,347)	(2,275,415)	(677,515)	(12,479,062)
Selling and distribution expenses (-)	*(284,662)*	*(39,382)*	*(97,055)*	*(59)*	*(1,181)*	*(422,339)*
Administrative expenses (-)	*(254,100)*	*(87,464)*	*(129,244)*	*(8,796)*	*(43,351)*	*(522,955)*
Other income	8,964	5,992	5,150	4,237	7,885	32,228
Other expenses(-)	(8,364)	(1,585)	(6,089)	(5,688)	(14,744)	(36,470)
Segment's EBIT	**329,629**	**(53,264)**	**30,263**	**(113)**	**(19,906)**	**286,609**
Gain from a bargain purchase	-	-	-	-	-	-
Operating profit	**-**	**-**	**-**	**-**	**-**	**286,609**
Finance income	-	-	-	-	-	35,789
Finance costs (-)	-	-	-	-	-	(49,670)
Share of profit/loss of equity-accounted associates	-	-	-	-	-	9,795
Profit/(loss) before tax	**-**	**-**	**-**	**-**	**-**	**282,523**
Result from discontinued operation						**(553)**
Tax expense	-	-	-	-	-	(38,338)
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**243,632**
EBIT*	329,629	(53,264)	30,263	(113)	(19,906)	286,609
Depreciation and amortisation	124,665	36,159	79,668	56,161	60,134	356,787
Unallocated depreciation and amortisation	-	-	-	-	-	47,188
EBITDA**	**454,294**	**(17,105)**	**109,931**	**56,048**	**40,228**	**690,584**

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss and adjusted by gain from a bargain purchase.
** EBITDA is calculated as operating profit (loss) before depreciation and amortisation and adjusted for gain from a bargain purchase.

Revenue, expenses and financial result of operating segments for the three months ended September 30th 2013

Continuing operations	Agro Fertilizers	Plastics	Chemicals*	Energy*	Other*	Total
External revenue	1,258,826	356,611	520,840	51,487	38,326	2,226,090
Inter-segment revenue	448,282	80,920	198,045	668,718	217,454	1,613,419
Total revenue	1,707,108	437,531	718,885	720,205	255,780	3,839,509
Operating expenses, including:(-)	(1,655,329)	(469,059)	(744,932)	(708,089)	(264,320)	(3,841,729)
Selling and distribution expenses (-)	*(80,180)*	*(11,970)*	*(17,969)*	*89*	*679*	*(109,351)*
Administrative expenses (-)	*(82,184)*	*(29,304)*	*(33,072)*	*(2,203)*	*(13,218)*	*(159,981)*
Other income	2,282	410	2,369	1,616	17,156	23,833
Other expenses(-)	(2,660)	(2,793)	(2,076)	(3,432)	(19,189)	(30,150)
Segment's EBIT	**51,401**	**(33,911)**	**(25,754)**	**10,300**	**(10,573)**	**(8,537)**
Gain from a bargain purchase	-	-	-	-	-	-
Operating profit	**-**	**-**	**-**	**-**	**-**	**(8,537)**
Finance income	-	-	-	-	-	1,169
Finance costs (-)	-	-	-	-	-	(7,417)
Share of profit/loss of equity-accounted associates	-	-	-	-	-	2,819
Profit/(loss) before tax	**-**	**-**	**-**	**-**	**-**	**(11,966)**
Result from discontinued operation	-	-	-	-	-	**(140)**
Tax expense	-	-	-	-	-	12,319
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**213**
EBIT**	51,401	(33,911)	(25,754)	10,300	(10,573)	(8,537)
Depreciation and amortisation	31,742	12,817	18,258	20,014	35,689	118,520
Unallocated depreciation and amortisation	-	-	-	-	-	1,273
EBITDA* **	**83,143**	**(21,094)**	**(7,496)**	**30,314**	**25,116**	**111,256**

* Following the acquisition of Grupa Azoty PUŁAWY, in 2013 the Group changed the presentation of the operating segments. The comparative data of the Chemicals Segment includes the data attributable to the OXO and Pigments Segments presented previously. The Energy Segment was previously presented under the Other Activities Segment.
** EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss and adjusted by gain from a bargain purchase.
*** EBITDA is calculated as operating profit (loss) before depreciation and amortisation and adjusted for gain from a bargain purchase.

Revenue, expenses and financial result of operating segments for the nine months ended September 30th 2013

Continuing operations	Agro Fertilizers	Plastics	Chemicals*	Energy*	Other*	Total
External revenue	4,245,901	1,111,767	1,795,027	204,225	116,216	7,473,136
Inter-segment revenue	1,439,656	266,320	473,413	2,071,800	603,895	4,855,084
Total revenue	5,685,557	1,378,087	2,268,440	2,276,025	720,111	12,328,220
Operating expenses, including:(-)	(5,264,176)	(1,457,167)	(2,248,100)	(2,292,587)	(728,833)	(11,990,863)
Selling and distribution expenses (-)	*(209,805)*	*(37,159)*	*(56,797)*	*(143)*	*(11,948)*	*(315,852)*
Administrative expenses (-)	*(241,420)*	*(86,405)*	*(96,268)*	*(11,144)*	*(54,056)*	*(489,293)*
Other income	14,130	4,332	12,369	5,000	31,535	67,366
Other expenses(-)	(5,618)	(6,699)	(3,539)	(4,372)	(50,996)	(71,224)
Segment's EBIT	**429,893**	**(81,447)**	**29,170**	**(15,934)**	**(28,183)**	**333,499**
Gain from a bargain purchase	-	-	-	-	-	446,116
Operating profit	**-**	**-**	**-**	**-**	**-**	**779,615**
Finance income	-	-	-	-	-	65,734
Finance costs (-)	-	-	-	-	-	(35,991)
Share of profit/loss of equity-accounted associates	-	-	-	-	-	8,267
Profit/(loss) before tax	**-**	**-**	**-**	**-**	**-**	**817,625**
Result from discontinued operation	-	-	-	-	-	**(394)**
Tax expense	-	-	-	-	-	(46,500)
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**770,731**
EBIT**	429,893	(81,447)	29,170	(15,934)	(28,183)	333,499
Depreciation and amortisation	173,932	34,571	55,932	56,609	91,380	412,424
Unallocated depreciation and amortisation	-	-	-	-	-	4,035
EBITDA* **	**603,825**	**(46,876)**	**85,102**	**40,675**	**63,197**	**749,958**

* Following the acquisition of Grupa Azoty PUŁAWY, in 2013 the Group changed the presentation of the operating segments. The comparative data of the Chemicals Segment includes the data attributable to the OXO and Pigments Segments presented previously. The Energy Segment was previously presented under the Other Activities Segment.
** EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss and adjusted by gain from a bargain purchase.
*** EBITDA is calculated as operating profit (loss) before depreciation and amortisation and adjusted for gain from a bargain purchase.

Geographical areas

Geographical information for the three months ended September 30th 2014

	Revenue	Expenses
Poland	1,202,890	1,207,460
Germany	301,453	287,799
Other EU countries	484,201	469,548
Asian countries	146,628	147,001
South American countries	43,463	48,788
Other countries	90,287	97,206
Total	**2,268,922**	**2,257,802**

Geographical information for the nine months ended September 30th 2014

	Revenue	Expenses
Poland	3,852,476	3,662,029
Germany	858,581	820,264
Other EU countries	1,682,559	1,623,669
Asian countries	410,018	398,070
South American countries	254,796	264,856
Other countries	283,638	282,329
Total	**7,342,068**	**7,051,217**

Geographical information for the three months ended September 30th 2013

	Revenue	Expenses
Poland	1,192,951	1,193,048
Germany	245,228	251,122
Other EU countries	517,543	514,374
Asian countries	119,882	117,431
South American countries	63,872	63,655
Other countries	86,614	88,680
Total	**2,226,090**	**2,228,310**

Geographical information for the nine months ended September 30th 2013

	Revenue	Expenses
Poland	4,148,714	3,904,021
Germany	699,070	698,284
Other EU countries	1,682,276	1,614,020
Asian countries	398,870	384,222
South American countries	295,702	291,218
Other countries	248,504	244,014
Total	**7,473,136**	**7,135,779**

4.2. Contingent assets and liabilities, sureties, guarantees and other collateral

Contingent assets

	as at Sep 30 2014	as at Dec 31 2013
Contingent receivables	32,419	28,812

Contingent liabilities and guarantees

	as at Sep 30 2014	as at Dec 31 2013
Guarantees	12,223	13,336
Other	1,231	1,302,503
Other contingent liabilities	23,803	27,879
	37,257	**1,343,718**

As at September 30th 2014, Grupa Azoty PUŁAWY had secured a signed financing commitment for the benefit of its associate, Elektrownia Puławy Sp. z o.o., to finance a power plant construction project, amounting to PLN 1,300,000 thousand (December 31st 2013: PLN 1,300,000 thousand).

4.3. Accounting estimates and assumptions

In the reporting period, the following changes in accounting estimates were made:

Changes in provisions and employee benefit obligations (excluding deferred tax liability)

	for the period Jul 1- Sep 30 2014	for the period Jan 1- Sep 30 2014	for the period Jan 1- Dec 31 2013	for the period Jul 1- Sep 30 2013	for the period Jan 1- Sep 30 2013
Balance at the beginning of the period	**566,910**	**621,803**	**406,970**	**546,509**	**406,970**
Effect of acquisition of subsidiaries	-	-	163,655	-	144,403
Recognised	79,495	213,660	247,068	46,733	200,759
Reversed (-)	(39,985)	(47,025)	(50,240)	(4,747)	(26,910)
Used (-)	(4,894)	(186,912)	(145,650)	(28,551)	(166,438)
Balance at the end of the period	**601,526**	**601,526**	**621,803**	**558,784**	**558,784**

Changes in impairment loss of property, plant and equipment

	for the period Jul 1- Sep 30 2014	for the period Jan 1- Sep 30 2014	for the period Jan 1– Dec 31 2013	for the period Jul 1- Sep 30 2013	for the period Jan 1- Sep 30 2013
Balance at the beginning of the period	**171,012**	**171,844**	**129,971**	**132,306**	**129,971**
Effect of acquisition of subsidiaries	-	-	341	-	-
Recognised	1,772	2,834	47,658	2,210	5,399
Reversed (-)	(101)	(474)	(2,366)	(3,377)	(3,792)
Used (-)	(9,172)	(10,693)	(3,760)	(1,648)	(2,087)
Balance at the end of the period	**163,511**	**163,511**	**171,844**	**129,491**	**129,491**

Changes in inventory write-downs

	for the period Jul 1- Sep 30 2014	for the period Jan 1- Sep 30 2014	for the period Jan 1- Dec 31 2013	for the period Jul 1- Sep 30 2013	for the period Jan 1- Sep 30 2013
Balance at the beginning of the period	**51,487**	**41,400**	**21,192**	**39,242**	**21,192**
Effect of acquisition of subsidiaries	-	-	41,122	-	39,900
Recognised	8,233	54,934	44,582	9,849	30,673
Reversed (-)	(7,980)	(32,146)	(30,289)	(6,247)	(28,487)
Used (-)	(11,465)	(23,913)	(35,207)	(2,507)	(22,941)
Balance at the end of the period	**40,275**	**40,275**	**41,400**	**40,337**	**40,337**

Changes in impairment loss on receivables

	for the period Jul 1- Sep 30 2014	for the period Jan 1- Sep 30 2014	for the period Jan 1- Dec 31 2013	for the period Jul 1- Sep 30 2013	for the period Jan 1- Sep 30 2013
Balance at the beginning of the period	**79,752**	**78,665**	**21,291**	**80,732**	**21,291**
Effect of acquisition of subsidiaries	21	21	46,529	-	45,757
Recognised	1,490	5,784	21,073	1,217	19,627
Reversed (-)	(1,829)	(4,117)	(7,354)	(1,902)	(5,783)
Used (-)	(2,259)	(3,178)	(2,874)	(214)	(1,059)
Balance at the end of the period	**77,175**	**77,175**	**78,665**	**79,833**	**79,833**

4.4. Related parties

Significant related-party transactions:

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

In the three months ended September 30th 2014, the Grupa Azoty Group did not execute any related-party transactions on non-arm's length terms.

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

During the three months ended September 30th 2014, the Grupa Azoty Group did not grant any advances, loans, guarantees or sureties to management or supervisory personnel or persons closely related to them, nor did it enter into any agreements with them to provide benefits to the Group.

4.5. Events after the end of the reporting period that could impact future financial performance

No such events were recorded.

4.6. Dividends

Dividend for 2013 was paid out on July 9th 2014.

A resolution on distribution of profit was passed on June 10th 2014 by the Parent's Annual General Meeting. From the profit, PLN 44,117 thousand (PLN 0.20 per share) was allocated to payment of dividend. The remaining profit amount was allocated to statutory reserve funds. The dividend record date was June 18th 2014.

4.7. Seasonality of operations

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

Mineral fertilizers

The end of the first quarter and beginning of the second quarter of each year (March, April, and May) as well as the third quarter of each year (August and September) are periods of increased activity in the agricultural sector, when demand for agricultural materials (including mineral fertilizers) is high. However, compared with the spring fertilizer application period, the third quarter normally sees lower demand for nitrogen fertilizers. The seasonality of fertilizer sales at the Grupa Azoty Group is minimised through a distribution strategy based on year-round supplies, which guarantees easy availability of such products on the market.

Titanium white

Sales pick up in the spring-summer period (Q2 and Q3) on the back of stronger demand for paints and varnishes, mainly in the construction industry. Sales of titanium white usually decline during the winter season. Titanium white remains a seasonal product, but given its widespread application, demand for this product depends chiefly on general market conditions.

For other chemicals manufactured by the Grupa Azoty Group, seasonality may occur but it has limited effect on the Group's performance as such chemicals' contribution to the total output is insignificant.

Interim condensed separate financial statements for the three and nine months ended September 30th 2014 prepared in accordance with IAS 34 'Interim Financial Reporting' as endorsed by the European Union

STATEMENT OF THE MANAGEMENT BOARD

The Management Board of Grupa Azoty S.A. presents the interim condensed separate financial statements for the three and nine months ended September 30th 2014, comprising:

- Condensed separate statement of profit or loss and other comprehensive income for the period July 1st – September 30th 2014 and January 1st – September 30th 2014,
- Condensed separate statement of financial position as at September 30th 2014,
- Condensed separate statement of changes in equity for the period January 1st – September 30th 2014,
- Condensed separate statement of cash flows for the period January 1st – September 30th 2014,
- Supplementary information to the interim condensed separate financial statements.

These interim condensed separate financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as endorsed by the European Union, and give a fair and clear view of the financial position and performance of Grupa Azoty S.A.

Signatures of the Members of the Management Board

……
Paweł Jarczewski
President of the Management Board

……
Andrzej Skolmowski
Vice-President of the Management Board

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

……
Marek Kapłucha
Vice-President of the Management Board

……
Marian Rybak
Vice-President of the Management Board

……
Krzysztof Jałosiński
Vice-President of the Management Board

……
Artur Kopeć
Member of the Management Board

Person entrusted with maintaining accounting records

……
Ewa Gładysz
Head of the Corporate Finance Department

Tarnów, November 12th 2014

Condensed separate statement of profit or loss and other comprehensive income

	for the period Jul 1- Sep 30 2014	for the period Jan 1- Sep 30 2014	for the period Jul 1- Sep 30 2013	for the period Jan 1 - Sep 30 2013
	unaudited	*unaudited*	*unaudited*	*unaudited*
Profit or loss				
Revenue	464,351	1,377,237	448,469	1,415,273
Cost of sales	(415,205)	(1,213,615)	(410,409)	(1,256,663)
Gross profit/(loss)	**49,146**	**163,622**	**38,060**	**158,610**
Selling and distribution expenses	(20,904)	(59,314)	(14,804)	(42,275)
Administrative expenses	(37,638)	(105,070)	(35,851)	(102,852)
Other income	463	3,240	895	3,146
Other expenses	(5,636)	(12,845)	(6,795)	(16,266)
Operating profit/(loss)	**(14,569)**	**(10,367)**	**(18,495)**	**363**
Finance income	(1,185)	270,567	1,347	132,792
Finance costs	(9,149)	(28,300)	(5,990)	(19,703)
Net finance income/(costs)	**(10,334)**	**242,267**	**(4,643)**	**113,089**
Profit/(loss) before tax	**(24,903)**	**231,900**	**(23,138)**	**113,452**
Tax expense	6,751	5,678	3,994	2,195
Net profit/(loss)	**(18,152)**	**237,578**	**(19,144)**	**115,647**
Other comprehensive income				
Items that will never be reclassified to profit or loss				
Remeasurements of defined benefit obligation	-	(1,471)	-	(166)
Tax on items that will never be reclassified to profit or loss	-	279	-	31
	-	**(1,192)**	**-**	**(135)**
Items that are or may be reclassified to profit or loss				
Change in fair value of available-for-sale financial assets	-	-	-	(18,696)
Change in fair value of available-for-sale financial assets reclassified to profit or loss	-	-	-	(27,256)
Tax on items that are or may be reclassified to profit or loss	-	-	-	8,731
	-	**-**	**-**	**(37,221)**
Total other comprehensive income	**-**	**(1,192)**	**-**	**(37,356)**
Total profit or loss and other comprehensive income	**(18,152)**	**236,386**	**(19,144)**	**78,291**
Earnings/(loss) per share:				
Basic (PLN)	(0.18)	2.40	(0.19)	1.17
Diluted (PLN)	(0.18)	2.40	(0.19)	1.17

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed separate statement of financial position

	as at Sep 30 2014	as at Dec 31 2013
	unaudited	*audited*
Assets		
Non-current assets		
Property, plant and equipment	978,782	1,000,610
Investment property	14,399	15,154
Intangible assets	41,778	40,370
Investments in subordinated entities	3,814,993	3,814,983
Available-for-sale financial assets	12,134	12,134
Other non-current assets	450	690
Total non-current assets	**4,862,536**	**4,883,941**
Current assets		
Inventory	205,425	236,749
Other financial assets	1,719	5,649
Current tax assets	1,212	10,268
Trade and other receivables	250,806	227,114
Cash and cash equivalents	12,630	6,349
Other current assets	12,484	5,611
Assets held for sale	125	125
Total current assets	**484,401**	**491,865**
Total assets	**5,346,937**	**5,375,806**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed separate statement of financial position (continued)

	as at Sep 30 2014	as at Dec 31 2013
	unaudited	*audited*
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Retained earnings, including:	1,286,181	1,069,634
profit for the period	*237,578*	*44,117*
Total equity	**4,200,428**	**3,983,881**
Liabilities		
Borrowings	388,744	513,827
Employee benefit obligations	44,749	41,873
Provisions	23,359	22,781
Government grants	3,351	3,463
Deferred tax liabilities	27,287	33,381
Other financial liabilities	1,075	1,842
Total non-current liabilities	**488,565**	**617,167**
Borrowings	345,698	402,883
Employee benefit obligations	1,977	2,369
Trade and other payables	201,153	257,177
Provisions	30,993	40,145
Government grants	4,632	533
Deferred income	2	3,669
Other financial liabilities	73,489	67,982
Total current liabilities	**657,944**	**774,758**
Total liabilities	**1,146,509**	**1,391,925**
Total equity and liabilities	**5,346,937**	**5,375,806**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed separate statement of changes in equity
for the period ended September 30th 2014

	Share capital	Share premium	Retained earnings	Total equity
Balance at January 1st 2014	**495,977**	**2,418,270**	**1,069,634**	**3,983,881**
Correction of errors	-	-	-	-
Balance at January 1st 2014, adjusted	**495,977**	**2,418,270**	**1,069,634**	**3,983,881**
Profit or loss and other comprehensive income				-
Profit for the year	-	-	237,578	237,578
Other comprehensive income	-	-	(1,192)	(1,192)
Total profit or loss and other comprehensive income	**-**	**-**	**236,386**	**236,386**
Transactions with owners of the Company, recognised directly in equity				-
Issue of ordinary shares	-	-	-	-
Dividends	-	-	(19,839)	(19,839)
Total transactions with owners of the Company	**-**	**-**	**(19,839)**	**(19,839)**
Other Activities	-	-	-	-
Balance at September 30th 2014 (unaudited)	**495,977**	**2,418,270**	**1,286,181**	**4,200,428**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed separate statement of changes in equity (continued)
for the period ended September 30th 2013 and December 31st 2013

	Share capital	Share premium	Fair value reserve	Retained earnings	Total equity
Balance at January 1st 2013	**320,577**	**680,688**	**37,221**	**1,176,649**	**2,215,135**
Profit or loss and other comprehensive income for the year					-
Profit for the year	-	-	-	115,647	115,647
Other comprehensive income	-	-	(37,221)	(135)	(37,356)
Total profit or loss and other comprehensive income	**-**	**-**	**(37,221)**	**115,512**	**78,291**
Transactions with owners of the Company, recognised directly in equity					-
Issue of ordinary shares	175,400	1,737,582	-	-	1,912,982
Dividends	-	-	-	(148,793)	(148,793)
Total transactions with owners of the Company	**175,400**	**1,737,582**	**-**	**(148,793)**	**1,764,189**
Balance at September 30th 2013 (unaudited)	**495,977**	**2,418,270**	**-**	**1,143,368**	**4,057,615**
Balance at January 1st 2013	**320,577**	**680,688**	**37,221**	**1,176,649**	**2,215,135**
Profit or loss and other comprehensive income for the year					-
Profit for the year	-	-	-	44,117	44,117
Other comprehensive income	-	-	(37,221)	(2,339)	(39,560)
Total profit or loss and other comprehensive income	**-**	**-**	**(37,221)**	**41,778**	**4,557**
Transactions with owners of the Company, recognised directly in equity					-
Issue of ordinary shares	175,400	1,737,582	-	-	1,912,982
Dividends	-	-	-	(148,793)	(148,793)
Total transactions with owners of the Company	**175,400**	**1,737,582**	**-**	**(148,793)**	**1,764,189**
Balance at 31 December 2013 (audited)	**495,977**	**2,418,270**	**-**	**1,069,634**	**3,983,881**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed separate statement of cash flows

	for the period Jan 1 - Sep 30 2014	for the period Jan 1 - Sep 30 2013
	unaudited	*unaudited*
Cash flows from operating activities		
Profit before tax	**231,900**	**113,452**
Adjustments for:	*(171,804)*	*(50,730)*
Depreciation and amortisation	68,067	65,350
Impairment	349	2,090
(Profit)/loss from investing activities	3,162	(25,830)
Interest, foreign exchange gains or losses	26,478	17,183
Dividends	(269,938)	(99,754)
Change in fair value of financial assets at fair value through profit or loss	78	(9,769)
Cash from operating activities before changes in working capital	***60,096***	***62,722***
Changes in trade and other receivables	(23,707)	(8,525)
Changes in inventory	31,323	50,703
Changes in trade and other payables	(37,751)	(31,049)
Changes in provisions, prepayments and grants	(14,935)	(103)
Cash from operating activities	***15,026***	***73,748***
Income taxes paid	8,921	(7,250)
Net cash from operating activities	**23,947**	**66,498**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Condensed separate statement of cash flows (continued)

	for the period Jan 1 - Sep 30 2014	for the period Jan 1 - Sep 30 2013
	unaudited	*unaudited*
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	1,953	1,770
Acquisition of property, plant and equipment, intangible assets and investment property	(65,190)	(121,676)
Dividends received	269,938	118,254
Acquisition of financial assets	(10)	(320,618)
Interest received	128	-
Government grants	-	2,013
Loans	3,852	3,336
Other disbursements	(5,068)	(3,965)
Net cash used in investing activities	**205,603**	**(320,886)**
Cash flows from financing activities		
Net expenses related to share issue	-	(11,159)
Dividends paid	(19,840)	(148,802)
Proceeds from borrowings	96,221	443,195
Payment of borrowings	(280,828)	(70,898)
Interest paid	(24,267)	(16,878)
Payment of finance lease liabilities	(1,288)	(1,627)
Other proceeds	6,733	2,525
Net cash from financing activities	**(223,269)**	**196,356**
Net increase/(decrease) in cash and cash equivalents	**6,281**	**(58,032)**
Cash and cash equivalents at the beginning of the period	**6,349**	**66,992**
Effect of exchange rate fluctuations	-	-
Cash and cash equivalents at the end of the period	**12,630**	**8,960**

The supplementary and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Supplementary information to the interim condensed separate financial statements

These interim condensed separate financial statements should be read in conjunction with the interim condensed consolidated financial statements of the Grupa Azoty Group for the three and nine months ended September 30th 2014, and the audited separate financial statements of Grupa Azoty S.A. for the financial year ended December 31st 2013.

The accounting policies applied in these interim condensed separate financial statements are the same as those applied in the full-year separate financial statements for 2013.

In the opinion of the Management Board of Grupa Azoty S.A., notes to the interim condensed consolidated financial statements of the Grupa Azoty Group contain all relevant information required to properly assess the Company's assets and financial position in the presented period.

Management’s discussion and analysis: the Grupa Azoty Group in Q3 2014

1. Discussion of the interim consolidated financial statements

1.1. Assessment of factors and non-typical events having a material impact on the Grupa Azoty Group's operations and financial performance

1.1.1. Volatility of exchange rates

In Q3 2014, a continued appreciation of USD against EUR and PLN was observed, triggered by symptoms of sustainable economic growth coming from the US and the US Federal Reserve tapering its monetary policy. In addition, there was higher risk of stagnation and deflation in the eurozone, the risk of continued loosening of the ECB monetary policy, as well as the risk of continued conflict in Ukraine and decelerating GDP growth and deflation in Poland. Yet the Polish economy fares well relative to the eurozone economies, which results in a stable PLN/EUR exchange rate.

During Q3 2014, the Polish currency weakened significantly, by approximately 8.7%, against USD, but only slightly, by approximately 0.3%, against EUR compared with the exchange rates of June 30th 2014. At the same time, the average PLN/USD exchange rate in Q3 2014 eroded by 3.7% on Q2 2014, while the average PLN/EUR exchange rate went up by about 0.2%, improving slightly on the previous quarter.

The higher USD/PLN exchange rate had a positive effect on the Company's performance in Q3 2014, given its positive net currency exposure in USD. However, the effect was not significant as the average USD appreciation in the period was lower than that observed at the end of Q3 2014 (relative to the end of Q2 2014).

Based on the Market Risk Management Policy under the 2014 Plan and in accordance with the internal guidelines of the Foreign Exchange Risk Committee, in Q3 2014 the Group applied rolling hedges to up to 50% of its planned currency exposure under open contracts, in a time horizon of up to twelve months from the hedge contract date.

In Q3 2014, the Group's hedging tools were EUR and USD swap forwards, reflecting its planned net exposure in both currencies.

The Grupa Azoty Group earned a PLN 3,624 thousand gain on hedging transactions realised in the first nine months of 2014, and posted a PLN (3,189) thousand loss on revaluation of hedges.

On non-hedged net currency exposure, the Group reported a PLN (3,710) thousand foreign exchange loss, and a PLN 8,128 thousand surplus of foreign-currency income over expenses.

In total, during the first nine months of 2014, the Group's total result on foreign exchange differences and currency derivative transactions (taking into account revaluation as at the end of the reporting period) was PLN 4,616 thousand (including PLN (86) thousand on realised foreign exchange differences and currency hedging transactions and PLN 4,702 thousand on unrealised items).

In the first nine months of 2014, the Group posted a PLN (46) thousand loss on valuation and settlement of an interest rate hedging collar transaction for a EUR-denominated loan (the transaction was settled and closed on June 27th 2014, and the loan was repaid), and a PLN 1,294 thousand gain on valuation and settlement of transactions hedging the price of emission allowances.

1.1.2. CO_2 emission allowances

The prices of CO_2 emission allowances continued to rise in July and August 2014. Limiting the number of EU Allowances (EUA) sold in the primary auctions contributed to the growth of their value.

On September 24th 2014, the Committee on the Environment, Public Health and Food Safety (ENVI) decided that the vote on the structural reform of the EU ETS would be held on February 23rd and 24th 2015. Following the publication of this decision, the value of EUAs declined by 5.5%.

The Committee confirmed its willingness to preserve the free-of-charge allocation of EU allowances to energy-intensive industries in 2015–2019, under the EU ETS. This means that free allowances would be given to the units that are exposed to the risk of carbon leakage, in accordance with the existing rules set forth in EU ETS Regulation.

In September 2014, the prices of emission allowances started to decline due to their increased supply in the primary auctions. Since the beginning of September 2014, the number of allowances sold in auctions has returned to the level seen before August 2014.

In the reporting period, the average spot price of EUA rights was EUR 6.04 (EUR 5.28 in the previous quarter). The changes in the prices that took place in Q3 2014 followed largely from high electricity prices, increase in electricity sales, and the need to purchase EUA allowances on the secondary market in September 2014.

In the near future, negotiations on the introduction of a market stability reserve will be the main factor contributing to EUA price volatility and uncertainty on the EU ETS market.

1.1.3. Market overview

Agro Fertilizers

Agricultural market

In Q3 2014, grain prices continued to decline, which is a typical trend at this time of the year. The drop in grain prices also resulted from grain harvest forecasts increased each month both in Poland and on foreign markets. Higher supply suppressed the prices in 2014 below the figures recorded in the corresponding period of the previous year (by 6% on average). The large grain harvest in 2014 across the world and a significant rise in domestic grain harvest indicate that the balance of supply and demand in the 2014/2015 season will be the same as last year.

Oil seed rape, wheat, rye and corn prices

Source: Ministry of Agriculture and Rural Development

Nitrogen fertilizers

In Q3 2014, demand for nitrogen fertilizers was typically weak, reflecting the fact that the period from July to September usually has the lowest demand figures compared with the rest of the year. A slight recovery was seen at the end of the reporting period, when the agricultural sector prepared for growing winter crops. The increased demand reflected current needs and was similar to last year's trends. No major trend of accumulating stocks for use in the spring was observed. Nitrogen fertilizer imports remained low and had no adverse effect on sales of fertilizers produced domestically. Compared with the same period in 2013, the average nitrogen fertilizer prices remained virtually unchanged, with the exception of urea, which posted an approximately 8% increase.

CAN, AN and AS prices

Sources: ICIS, FMB.

Ammonium nitrate/calcium ammonium nitrate (CAN)

In Q3 2014, average quarterly prices of ammonium nitrate (France delivered (bulk)) were slightly down year on year, from EUR 296/tonne to EUR 294/tonne. Calcium ammonium nitrate (Germany CIF Inland (bulk)) prices were slightly up from EUR 229/tonne to EUR 231/tonne. The demand for AN/CAN in Q3 2014 was considered low.

Fertilizers purchased in the period were mostly intended for fertilization of grassland. The lift in nitrate fertilizer prices recorded in Q3 2014 was a result of the pricing policy of the largest market players and the conditions on the global urea market.

The demand for nitrogen fertilizers in the period was weak due to grain harvesting and post-harvest field preparation.

Ammonium sulfate

A strong oversupply of ammonium sulfate continues to put pressure on its price. Compared with the corresponding period of the previous year, ammonium sulfate prices increased, with the average quarterly price (Black Sea FOB) up from USD 131/tonne in Q3 2013 to USD 144/tonne in Q3 2014.

Over the same time, the gap between prices of coke-oven sulfate, coarse-grained sulfate from compacting and white sulfate from caprolactam production narrowed.

Ammonia and urea prices

Sources: ICIS, FMB.

Ammonia

In Q3 2014, the average quarterly price of ammonia (FOB YUZHNY) was USD 488/tonne, up by USD 58 year on year. In the reporting period, supply and demand remained weak. In the second half of August ammonia prices began to climb, driven by stronger demand in south-east Asia (technological applications) and the United States (seasonal agricultural applications). The higher price was attributable to shutdowns of ammonia production units and reduced production in Ukraine, Trinidad and North Africa.

In Q3 2014, as in the preceding months, the conditions on the ammonia market were very unstable, mainly due to the ongoing conflict in Ukraine.

Urea

Urea prices increased markedly year on year. The average quarterly price of prilled bulk urea went up from EUR 295/tonne in Q3 2013 to EUR 318/tonne in Q3 2014 (FOB Baltic).

The key driver of urea prices was the tight supply and demand balance on global markets, involving reduced production (overhaul shutdowns, the conflict in Ukraine, change of China's trading policy) with significant demand for urea announced in India.

UAN

In Q3 2014, farmers and distributors were interested in replenishing their UAN stocks prior to the beginning of the new fertilizer application season. UAN is mostly applied as fertilizer for rapeseed and grains in the spring, but also on an as-needed basis for growing winter crops. In Q3 2014, the average quarterly price of UAN (FOB Black Sea) was EUR 171/tonne, close to the 2013 price of EUR 173/tonne. The demand was also similar to that recorded last year.

Prices of NPK, DAP, potassium chloride and phosphate rock

Source: FMB, FERTECON, Profercy.

NPK fertilizers

In Europe, similarly to Poland, during the harvest season demand for NPK fertilizers was weak and their prices were stable. Low prices of agricultural crops kept farmers from purchasing NPK fertilizers. Only minimum amounts were purchased to cover day-to-day needs. The key NPK fertilizer manufacturers in Western Europe maintained the prices of their standard products.

In Q3 2014, the average quarterly price of fertilizers (FOB FSU) was USD 361/tonne, compared with USD 373/tonne the year before. Farmers tried to reduce costs by purchasing imported or less concentrated fertilizers. As expected, directly before the sowing of winter crops in the second half of August demand for compound fertilizers grew and remained strong until the first half of September.

DAP fertilizers

DAP fertilizer prices followed a visible upward trend, with the average quarterly prices up from EUR 447/tonne in Q3 2013 to EUR 504/tonne in Q3 2014 (FOB Baltic). Demand came mainly from the United States, South American countries and India (which is the world's largest importer of DAP fertilizers). In September, the prices offered by manufacturers in the United States, Russia and China were lower.

Potassium chloride (KCl)

In Q3 2014, the average price of potassium chloride was USD 297/tonne (spot FOB Baltic). The prices decreased substantially from USD 373/tonne in Q3 2013, mainly due to weak demand.

Phosphate rock

The prices decreased year on year, with the average price down from USD 129/tonne in Q3 2013 to USD 124/tonne in Q3 2014 (FOB North Africa).

Plastics

Prices of caprolactam, PA6, phenol and benzene

Source: TECNON, ICIS.

Caprolactam

In Q3 2014, demand for caprolactam in Europe remained weak but stable. In Europe and Asia the oversupply of caprolactam still prevailed, resulting from the rapid growth of production in China. The caprolactam market is affected by the development of the target markets for polyamide-based products, which mainly include engineering plastics markets.

Compared with the corresponding period of the previous year, prices of liquid caprolactam increased. In Q3 2014, the average quarterly price of liquid caprolactam (DDP WE) was EUR 1,953/tonne, compared with EUR 1,878/tonne in the same period of the previous year, while flaked caprolactam prices (CFR N.E.ASIA) stood at USD 2,265/tonne vs. USD 2,351/tonne a year ago.

Polyamide 6 (PA 6)

According to many suppliers of polyamide, the drop in demand usually recorded in the summer holiday season was less noticeable this year. However, others had a different opinion and stated that the drop in demand continued throughout July and August. Q3 2014 saw slightly higher prices of polyamide 6 and a stronger demand on the target markets for polyamide 6-based products, in particular on the automotive market.

Polyamide 6 prices increased year on year, with the average quarterly price (DDP WE Technon) up from EUR 2,00/tonne in Q3 2013 to EUR 2,075/tonne in Q3 2014.

Phenol

The phenol market was stable in Q3 2014, showing better supply and demand balance than in Q2 2014. The market conditions were mainly affected by benzene prices. As in previous months, the average capacity utilisation rate at Europe's largest phenol plants was relatively low. Favourable conditions on the acetone market contributed to its stabilisation. Also, supplies from non-European countries (spot) increased.

Phenol prices increased year on year, with the average quarterly price (FD NWE) up from EUR 1,551/tonne in Q3 2013 to EUR 1,640/tonne in Q3 2014.

Benzene

At the end of Q3 2014, contract prices of benzene remained above EUR 1,000/tonne, which was not directly justified by the conditions prevailing on the caprolactam and polyamide 6 market in Europe. As in previous months, the trend followed chiefly from strong demand for benzene (exports outside the EU), strong increase in demand for this material on global markets (driven by higher purchases of European benzene by the United States) as well as speculative transactions (fall from the high price levels observed in May 2014). Markets remained highly volatile throughout the period, with strong periodic movements in supply and demand as well as regular monthly increase in demand from non-European importers. The market conditions were also significantly affected by changes in the EUR/USD exchange rate.

In Q3 2014, the average quarterly price of benzene was up year or year, from EUR 969/tonne to EUR 1,063/tonne (FOB NWE).

Chemicals

2-EH, n-Butanol, DEHP, OT (DOTP) and propylene prices

Source: ICIS.

Propylene

Propylene prices increased slightly year on year, with the average quarterly price (FD NWE spot) up from EUR 1,057/tonne in Q3 2013 to EUR 1,065/tonne in Q3 2014.

The beginning of the quarter saw moderate rises in the market prices of propylene, but later the falling prices of crude oil drove down the spot prices of that compound. With cracker capacities coming back on stream, and thanks to additional imports from other parts of the world, the availability of propylene in Europe improved considerably, which was reflected in price levels.

Oxo alcohols and plasticizers

Compared with the same period last year, the average quarterly prices of 2-EH and DEHP went down, as opposed to the other average prices. The average FD NWE spot prices of oxo alcohols and plasticizers:

	2-EH	n-butanol	DEHP	OT(DOTP)
Q3 2013	1,437	1,119	1,546	1,524
Q3 2014	1,385	1,125	1,521	1,558

Demand for oxo alcohols and plasticizers in Q3 2014 remained largely unchanged from the same quarter of 2013. The third quarter is typically a period of maintenance shutdowns of oxo alcohol and plasticizer capacities, with similar maintenance work performed also by end customers for oxo alcohols and plasticizers. The last month of Q3 saw increased customer activity on the market, as stocks were being replenished after the holiday season.

Prices of melamine and hydrogen peroxide (100% solution)

Source: ICIS, Global Bleaching Chemicals.

Melamine

In Q3 2014, the European market of melamine was fairly stable. There was a seasonal slump in demand typical of summer holidays. Melamine prices declined year on year, with the average quarterly price (NWE) down from EUR 1,387/tonne in Q3 2013 to EUR 1,304/tonne in Q3 2014.

Hydrogen peroxide

In Q3 2014, the European market of hydrogen peroxide also remained stable. A rise in demand was seen in the paper pulp industry, with limited supply, especially in Northern Europe.

Compared with the same period last year, the prices of hydrogen peroxide (for 100% solution equivalent) remained unchanged. Both in 2013 and 2014, the average quarterly price was EUR 920/tonne (FD Europe).

Market prices of titanium white and ilmenite

Sources: ICIS, CCM.

Titanium white

In Q3 2014, there was no significant strengthening of the global titanium white markets. Titanium white prices decreased year on year, with the average quarterly price (FD NWE) down from EUR 2,425/tonne in Q3 2013 to EUR 2,367/tonne in Q3 2014. One of the largest sources of demand – the paper industry – has been recording declining sales for many years. Lower demand was also recorded in another application industry, namely the coating sector, which generates 60% of total demand for TiO_2. With the prevailing oversupply, there were no availability constraints on the titanium white market.

Ilmenite and titanium slag

Ilmenite prices declined year on year, with the average quarterly price (ex works China) down from USD 170/tonne in Q3 2013 to USD 111/tonne in Q3 2014. In Q3, the prices of materials used for the production of titanium white (ilmenite and titanium slag) on the benchmark Chinese market were undergoing slight corrections, with the market affected by continued weak demand.

Sulfur prices

Sources: FERTECON.

Sulfur

Throughout Q3 2014, the NWE refinery prices of sulfur remained unchanged.

Compared with the corresponding period of the previous year, there was a rise in sulfur prices. The average quarterly price for Q3 2014 (NWE refinery) was USD 167/tonne, against USD 149/tonne the year before.

In Q3 2014, China reduced its market purchases of sulfur, as its internal output increased following completion of maintenance work on desulfurization units. This resulted in an increase in sulfur stocks, pushing the market towards oversupply.

Energy

Electricity

In Q3 2014, Grupa Azoty continued to purchase electricity under annual contracts concluded for 2014 with major suppliers, supplementing its purchase portfolio on the SPOT market and/or in short-term transactions, depending on price levels. The prices and transmission charges are set in the PSE S.A. Electricity Tariff approved by the President of the Energy Regulatory Office as effective from January 2014.

Coal

In the reporting period, Grupa Azoty purchased coal under its key coal supply contract at prices agreed for 2014. In addition, low-sulfur coal was purchased to meet the day-to-day fuel requirements of the CHP plant.

Natural gas

In Q3 2014, Grupa Azoty purchased natural gas on the basis of PGNiG's Gas Fuel Supply Tariff No. 6/2014, effective until December 31st 2014. In the discussed period, it also purchased gas in other transactions to diversify its sources of supply and ensure production security. The gas is supplied using the allocated virtual reverse flow capacities on the Yamal pipeline, the Lasów interconnector and the Polish transmission system.

1.2. Key financial data of the Grupa Azoty Group

1.2.1. Consolidated financial information

For Q3 2014, the Grupa Azoty Group posted a positive EBITDA of PLN 126,321 thousand and a net profit of PLN 8,946 thousand.

Year on year, these figures improved by PLN 15,065 thousand and PLN 8,733 thousand, respectively.

The table below compares the key items in the consolidated statement of profit or loss for Q3 2014 and Q3 2013.

Consolidated data

	Q3 2014	Q3 2013	change	% change
Revenue	2,268,922	2,226,090	42,832	1.9
Cost of sales	(1,940,839)	(1,958,978)	18,139	(0.9)
Gross profit	**328,083**	**267,112**	**60,971**	**22.8**
Selling and distribution expenses	(147,379)	(109,351)	(38,028)	34.8
Administrative expenses	(169,584)	(159,981)	(9,603)	6.0
Profit/(loss) from sales	**11,120**	**(2,220)**	**13,340**	**(600.9)**
Net other income/(expenses)	(9,938)	(6,317)	(3,621)	57.3
Operating profit/(loss) (EBIT)	**1,182**	**(8,537)**	**9,719**	**(113.8)**
Net finance income/(costs)	(7,552)	(6,248)	(1,304)	20.9
Share of profit of equity-accounted associates	4,705	2,819	1,886	66.9
Loss before tax	**(1,665)**	**(11,966)**	**10,301**	**(86.1)**
Tax expense	10,799	12,319	(1,520)	(12.3)
Net profit from continuing operations	**9,134**	**353**	**8,781**	**2,487.5**
Net loss from discontinued operations	(188)	(140)	(48)	34.3
Net profit	**8,946**	**213**	**8,733**	**4,100.0**
EBIT	**1,182**	**(8,537)**	**9,719**	**(113.8)**
Depreciation and amortisation	125,139	119,793	5,346	4.5
EBITDA	**126,321**	**111,256**	**15,065**	**13.5**

Source: Company data.

The year-on-year increase in revenue is attributable to the Grupa Azoty Group having generated higher sales in its Plastics and Chemicals segments. Although selling, distribution and administrative expenses grew faster than revenue, the Group earned a gross profit and a net profit for the period.

In Q3 2014, the Group posted a PLN 9,938 thousand loss on other operating activities. Although operating expenses grew faster than operating income (compared with Q3 2013), the Group posted an operating profit of PLN 1,182 thousand.

On the other hand, the Group posted a net loss on financing activities in Q3 2014, chiefly due to costs related to interest payments.

1.2.2. Segments' results

EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other
Revenue	1,209,824	374,584	602,338	47,371	34,805
Share [%]	*53.3*	*16.5*	*26.5*	*2.1*	*1.5*
Net profit on sales	34,965	(19,117)	(4,821)	(1,577)	1,670
EBIT	32,942	(18,513)	(5,782)	(3,855)	(3,610)

Source: Company data.

Sales of the Grupa Azoty Group's products in Q3 2014 were driven primarily by the market situation in the Agro Fertilizers, Plastics and Chemicals segments. The segments with the most significant year-on-year revenue growth were Chemicals (15.7%) and Plastics (5.0%). The other segments recorded revenue declines. Shares of the individual segments in the overall revenue structure remained relatively unchanged compared with Q3 2013.

Revenue by segment

Source: Company data.

Agro Fertilizers

In Q3 2014, revenue in the Agro Fertilizers segment was PLN 1,209,824 thousand and accounted for 56.3% of the Group's total revenue. Relative to Q3 2013, the figure was slightly lower.

Most of the revenue from sale of products in the segment was derived from the domestic market, which accounted for 70.1% of total fertilizer sales.

Plastics

In Q3 2014, revenue in the Plastics segment was PLN 374,584 thousand and accounted for 16.5% of the Group's total revenue, having increased by 5,0% relative to the comparative period. Concurrently, the loss on sales was reduced by over 39.4%.

More than 92.2% of the segment's revenue from sale of products was derived from foreign markets.

Chemicals

In Q3 2014, revenue in this segment reached PLN 602,338 thousand, which represented 26.5% of the Group's total revenue. Relative to Q3 2013, the segment's revenue increased by 15.7%, while the loss on sales was reduced by 81.5%.

Most of the segment's revenue from sale of products was derived from foreign markets, which accounted for 62.0% of the segment's total revenue.

Energy

The Energy Segment comprises activities involving production of electricity and heat for the purposes of the chemical installations and contract-based sale of electricity to customers connected to the power network.

In Q3 2014, revenue in the Energy segment was PLN 47,371 thousand and accounted for 2.1% of the Group's total revenue.

Loss on sales and the segment's other expenses resulted in a negative EBIT.

Other Activities

In Q3 2014, revenue of the Other Activities segment decreased year on year, to PLN 34,805 thousand.

Although a profit on sales was posted, the segment's other expenses resulted in a negative EBIT. The segment's revenue accounts for 1.5% of the total revenue.

Sales by product group

Revenue by product group

Source: Company data.

The key revenue drivers in the Grupa Azoty Group's sales are nitrogen fertilizers and compound fertilizers. The share of plastics and intermediates, oxo alcohols and plasticizers in the revenue is also significant.

Compared with the same period of the previous year, in Q3 2014 revenue from sale of nitrogen fertilizers fell slightly and the decrease affected the total revenue of the Agro Fertilizers segment, which was lower than in the comparative period.

Relative to Q3 2013, the revenue from sale of plastics and intermediates was higher. Similarly, the Chemicals segment saw a year-on-year increase in revenue, mostly driven by higher revenue from sale of chemicals, despite the lower revenue from sale of other product groups in the segment.

Sale of other products generated slightly higher revenue year on year.

Revenue by product group

Source: Company data.

Compared with Q3 2013, the share of nitrogen fertilizers in revenue decreased from 38.6% to 36.1%, while the share of compound fertilizers rose from 16.6% to 17.1%. The share of plastics and intermediates increased from 16.9% to 17.6%. There were only slight movements in other products' shares in total revenue from sale of products.

1.2.3. Operating expenses

In Q3 2014, operating expenses were PLN 2,194,863 thousand, down by PLN 92,431 thousand on Q3 2013. A significant rise occurred in costs of services – by PLN 45,164 thousand, and in labour costs – by PLN 28,028 thousand. Costs of raw material and consumables used, the largest item of expenses, decreased by PLN 190,412 thousand.

Operating expenses by nature

	Q3 2014	Q3 2013	change	% change
Depreciation and amortisation	125,139	119,793	5,346	4.5
Raw material and consumables used	1,415,183	1,605,596	(190,413)	(11.9)
Services	265,968	220,804	45,164	20.5
Salaries and wages, including overheads, and other benefits	285,872	257,844	28,028	10.9
Taxes and charges	73,809	55,419	18,390	33.2
Other costs by type	28,892	27,839	1,053	3.8
Total	**2,194,863**	**2,287,295**	**(92,432)**	**(4.0)**

Source: Company data.

Raw material and consumables used

In Q3 2014, the cost of raw material and consumables used was 11.9% lower year on year. Among other factors, this decrease was attributable to lower prices of basic commodities.

Raw material and consumables used

	Q3 2014	Q3 2013	change	% change
Parent	221,456	259,827	(38,371)	(14.8)
Grupa Azoty POLICE Group	287,382	396,403	(109,021)	(27.5)
Grupa Azoty PUŁAWY Group	488,602	559,238	(70,636)	(12.6)
Grupa Azoty ZAK Group	359,669	377,033	(17,364)	(4.6)
Other Grupa Azoty Group companies	58,074	13,095	44,979	343.5
Total	**1,415,183**	**1,605,596**	**(190,413)**	**(11.9)**

Source: Company data.

The Grupa Azoty PUŁAWY Group accounted for the largest share of raw material and consumables used in Q3 2014, which translated into its largest share in the corresponding costs (34.5% of the total costs of raw material and consumables incurred by the Grupa Azoty Group).

Grupa Azoty ZAK Group and Grupa Azoty POLICE Group incurred costs of PLN 359,669 thousand and PLN 287,382 thousand respectively, which in aggregate accounted for 45.7% of the total costs.

Compared with Q3 2013, this item of the Parent's costs fell 14.8% year on year, to PLN 221,456 thousand.

Other Group companies accounted for 4.1% of the total costs.

Raw material and consumables used

Source: Company data.

Other costs

Costs by kind net of raw materials and consumables used represented 35.5% of total costs by kind in Q3 2014 (29.8% of total costs by kind in Q3 2013).

Structure of other costs [%]

	Q3 2014	Q3 2013
Depreciation and amortisation	5.7	5.2
Services	12.1	9.7
Salaries and wages, including overheads, and other benefits	13.0	11.3
Taxes and charges	3.4	2.4
Other costs by type	1.3	1.2
Total	**35.5**	**29.8**

Source: Company data.

An analysis of changes in the structure of other costs reveals:

- higher costs of services (up by 2.4 pp),
- higher share of labour costs in total costs (up by 1.7 pp),
- higher share of taxes and charges in total costs (up by 1 pp).

1.2.4. Structure of assets, equity and liabilities

In Q3 2014, the Group's assets rose to PLN 9,757,446 thousand, up 4.6% on the end of Q3 2013. As at September 30th 2014, non-current assets stood at PLN 6,659,742 thousand, and current assets were PLN 3,097,704 thousand.

The most significant year-on-year changes in assets in Q3 2014 included:

- a 9.2% increase in property, plant and equipment,
- a 10.0% decrease in intangible assets,
- a 15.0% increase in inventory,
- a 12.8% decrease in trade receivables,
- a 10.9% decrease in cash.

Structure of assets

	Q3 2014	Q3 2013	change	% change
Non-current assets, including:	**6,659,742**	**6,225,970**	**433,772**	**7.0**
Property, plant and equipment	5,870,692	5,376,581	494,111	9.2
Investment property	53,086	52,115	971	1.9
Intangible assets	480,269	533,578	(53,309)	(10.0)
Investments in subordinated entities	124,704	129,821	(5,117)	(3.9)
Available-for-sale financial assets	12,263	21,497	(9,234)	(43.0)
Deferred tax assets	89,859	95,420	(5,561)	(5.8)
Current assets, including:	**3,097,704**	**3,104,053**	**(6,349)**	**(0.2)**
Inventory	1,222,799	1,063,006	159,793	15.0
Other financial assets	134,472	58,891	75,581	128.3
Trade and other receivables	1,104,747	1,267,085	(162,338)	(12.8)
Cash and cash equivalents	581,171	652,614	(71,443)	(10.9)
Other current assets	46,914	34,500	12,414	36.0
Total assets	**9,757,446**	**9,330,023**	**427,423**	**4.6**

Source: Company data.

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

- a 17.3% increase in non-current employee benefit obligations,
- a 12.4% increase in non-current borrowings,
- a 5.7% decrease in current liabilities under borrowings,
- an 8.3% increase in trade and other payables,
- a 3.4% decrease in long-term provisions.

Structure of equity and liabilities

Item	Q3 2014	Q3 2013	change	% change
Equity	**6,473,828**	**6,267,027**	**206,801**	**3.3**
Non-current liabilities, including:	**1,305,003**	**1,174,781**	**130,222**	**11.1**
Borrowings	552,499	491,462	61,037	12.4
Employee benefit obligations	283,765	241,905	41,860	17.3
Provisions	119,687	118,140	1,547	1.3
Deferred tax liabilities	262,779	252,480	10,299	4.1
Current liabilities, including:	**1,978,615**	**1,888,215**	**90,400**	**4.8**
Borrowings	374,907	397,400	(22,493)	(5.7)
Trade and other payables	1,276,583	1,179,263	97,320	8.3
Provisions	170,037	175,934	(5,897)	(3.4)
Other financial liabilities	88,803	61,813	26,990	43.7
Total liabilities	**3,283,618**	**3,062,996**	**220,622**	**7.2**
Total equity and liabilities	**9,757,446**	**9,330,023**	**427,423**	**4.6**

Source: Company data.

1.2.5. Financial ratios

Profitability

In Q3 2014, all the profitability ratios improved when compared with the same period of 2013. Gross margin rose by 2.5pp, on the back of higher gross profit, which improved 22.8% year on year. Improved EBIT and EBITDA margins are attributable to the achievement of operating profit (EBIT) and a simultaneous slower increase in revenue.

The changes in net margin were similar. Net margin rose on a year-on-year increase in net profit, with a slight revenue growth.

A similar pattern was seen in the case of ROA, ROE, and return on non-current assets. The stronger increase in net profit compared with the growth in assets and equity resulted in higher ROA and ROE. In the reporting period, return on capital employed also increased, mainly as a result of EBIT growing faster than the capital employed.

Profitability ratios

	Q3 2014	Q3 2013
Gross margin	14.5 %	12.0 %
EBIT margin	0.1 %	(0.4) %
EBITDA margin	5.6 %	5.0 %
Net margin	0.4 %	0.0 %
ROE	0.1 %	0.0 %
ROCE	0.0 %	(0.1) %
ROE	0.1 %	0.0 %
Return on non-current assets	0.1 %	0.0 %

Source: Company data.

Ratio formulas:

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

Liquidity

As at the end of Q3 2014, a slight decrease was recorded in the quick ratio. The remaining ratios remained on par with the Q3 2013 levels.

Liquidity ratios

	Q3 2014	Q3 2013
Current ratio	1.6	1.6
Quick ratio	0.9	1.1
Cash ratio	0.4	0.4

Source: Company data.

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

As a result of the changes in current assets and liabilities, as at September 30th 2014 working capital was PLN 1,119,089 thousand.

Changes in working capital

Source: Company data.

Operating efficiency

Inventory turnover increased, primarily due to an increase in inventory with a simultaneous reduction in cost of sales. The average collection period shortened to 44 days, which is directly attributable to lower trade receivables. At the same time, the average payment period, which lengthened following the decline in cost of sales, led to the cash conversion cycle of 41 days, which is also reflected in the liquidity ratios.

Operating efficiency ratios

	Q3 2014	Q3 2013
Inventory turnover	57	49
Average collection period	44	51
Average payment period	59	54
Cash conversion cycle	41	46

Source: Company data.

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

Debt

During the reporting period, the main source of financing of the Company's assets and operations was equity. Stable leverage was maintained throughout the period, which was financially effective and safe in terms of the financing risk. The interest cover ratio was positive, at a level confirming the Group's ability to service its debt.

Debt ratios

Ratio	Q3 2014	Q3 2013
Total debt ratio	33.7 %	32.8 %
Long-term debt ratio	13.4 %	12.6 %
Short-term debt ratio	20.3 %	20.2 %
Equity-to-debt ratio	197.2 %	204.6 %
Interest cover ratio	84.3 %	(21.6) %

Source: Company data.

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

1.3. Significant agreements

In Current Report No. 46/2014 of July 15th 2014, the Parent's Management Board announced that the value of commercial transactions between the Grupa Azoty Group and Ampol – Merol Sp. z o.o. of Wąbrzeźno had reached the significance threshold.

The total value of contracts and commercial transactions in the period from July 14th 2013 to the date of the report had reached PLN 1,143,000 thousand (exclusive of VAT).

The contract of the highest value was the annex of July 14th 2014 to the contract of February 6th 2002 for sale of compound fertilizers and urea to be resold by the buyer, between Grupa Azoty POLICE, the Parent's subsidiary, and Ampol - Merol Sp. z o.o., reported by Grupa Azoty POLICE in Current Report No. 24/2014 of July 14th 2014.

Under the annex, the term of the contract was extended by 5 years, i.e. for the period from July 1st 2014 to June 30th 2019. The value of the annex throughout its entire term is estimated at PLN 384,295.7 thousand, calculated as the product of the number of years (five years) covered by the contract and the value estimate (given the expected variation in quantities sold and possible price revisions) for the first year of its term.

Further, in the reporting period the Grupa Azoty Group executed the following material financing agreements or annexes to such agreements:

Receivables discounting agreement with mBank S.A.

On August 26th 2014, the Parent executed an annex to the receivables discounting agreement with mBank S.A. (concerning receivables from a subsidiary) whereby the agreed limit was raised from EUR 18,000 thousand to EUR 20,000 thousand, the agreement's term was extended until September 23rd 2015 and the servicing cost was reduced.

In addition, on September 24th 2014 the Parent and mBank S.A. executed a receivables discounting agreement (concerning receivables from third parties) with the agreed limit of EUR 7,000 thousand, and the agreement's term running to November 1st 2015.

Agreement with the Provincial Fund for Environmental Protection and Water Management concerning a loan for Zakłady Azotowe Chorzów S.A.

On September 12th 2014, Zakłady Azotowe Chorzów S.A. received a loan of PLN 1,381 thousand as *de minimis* aid from the Provincial Fund for Environmental Protection and Water Management in Katowice towards the cost of modernisation of its industrial wastewater treatment plant. The agreement was signed on May 27th 2014 and amended on September 3rd 2014. The loan was granted until December 15th 2017. Repayment of the loan principal together with interest, contractual penalties and other liabilities, if any, is secured by three agreements on assignment of receivables under a term deposit agreement for PLN 1,426 thousand, effective until full repayment of the loan, i.e. until December 15th 2017.

Multi-purpose credit facility agreement of Grupa Azoty POLICE and African Investment Group S.A. with BNP Paribas Polska S.A.

On September 26th 2014, Grupa Azoty POLICE and African Investment Group S.A. signed Amendment No. 2 to the EUR 8,000 thousand multi-purpose credit facility agreement of February 18th 2014 with BNP Paribas Polska S.A., transferring the liabilities under the agreement directly to African Investment.

Factoring agreement under receivables discounting agreement between Grupa Azoty POLICE and Raiffeisen Bank Polska S.A.

Under the existing receivables discounting agreement of October 4th 2013 which provides, among other things, for a factoring arrangement to finance Grupa Azoty POLICE's operations, on July 16th 2014 the company executed a separate factoring agreement.

Investment credit facility agreement between Grupa Azoty ZAK S.A. and BGK S.A.

On September 30th 2014, Grupa Azoty ZAK S.A. executed an investment credit facility agreement with Bank Gospodarstwa Krajowego S.A. for up to PLN 21,155 thousand to finance the launch of OXOPLAST® OT continuous-flow production, repayable by September 30th 2018.

Financing and factoring agreements executed or amended in Q3 2014 and subsequent to the end of the reporting period

	Agreement date	Annex date	Currency	Amount	Maturity
Annex to the Parent's receivables discounting agreement with mBank S.A. (formerly BRE Bank S.A.) (concerning receivables from a subsidiary)	Jul 30 2010	Sep 24 2014	EUR	20,000	Sep 25 2015
The Parent's receivables discounting agreement with mBank S.A. (formerly BRE Bank S.A.) (concerning receivables from a subsidiary)	Sep 24 2014	-	EUR	7,000	Nov 1 2015
Annex to the Agreement with the Provincial Fund for Environmental Protection and Water Management in Katowice concerning a loan for Zakłady Azotowe Chorzów S.A.	May 27 2014	Sep 3 2014	PLN	1,381	Dec 15 2017
Multi-purpose credit facility agreement between Grupa Azoty POLICE/AIG and BNP Paribas Polska	Feb 18 2014	Sep 26 2014	EUR	8,000	Feb 17 2016
Factoring agreement under receivables discounting agreement between Grupa Azoty POLICE and Raiffeisen Bank Polska S.A.	Oct 4 2013	Jul 16 2014	PLN	40,000 (factoring)	Jun 15 2015
Investment credit facility agreement between Grupa Azoty POLICE and BGK S.A.	Sep 30 2014	-	PLN	21,155	Sep 30 2018
Investment credit facility agreement between Grupa Azoty POLICE and BGK S.A.	Oct 22 2014	-	PLN	256,000	Jun 30 2024

Events after the end of the reporting period

Investment credit facility agreement between Grupa Azoty ZAK S.A. and BGK S.A.

On October 22nd 2014, Grupa Azoty ZAK S.A. executed an investment credit facility agreement with Bank Gospodarstwa Krajowego S.A. for up to PLN 256,000 thousand to finance the construction of a new CHP plant at Grupa Azoty ZAK S.A., repayable by June 30th 2024.

Significant transactions with the Kronospan Group

In Current Report No. 59/2014 of October 8th 2014, the Parent's Management Board announced that the value of commercial transactions between the Grupa Azoty Group and Kronospan Group companies had reached the significance threshold.

The total value of contracts and commercial transactions between the Grupa Azoty Group and Kronospan Group companies, i.e. Kronospan Chemical Szczecinek Sp. z o.o., Kronospan Mielec Sp. z o.o., Diakol Strazske S.R.O. of Slovakia and Dukol Ostrava S.R.O. of the Czech Republic in the period

from October 8th 2013 until the publication of the report reached PLN 1,118,000 thousand (exclusive of VAT).

The highest value agreement was the urea sale agreement executed on October 8th 2014 by Grupa Azoty POLICE S.A., a subsidiary of the Parent's, and Kronospan Chemical Szczecinek Sp. z o.o., as reported by Grupa Azoty POLICE in Current Report No. 35/2014 of October 8th 2014.

The agreement is effective from October 1st 2014 to December 31st 2018. Pursuant to the agreement, Grupa Azoty POLICE undertakes to deliver, and the Kronospan Group company undertakes to collect and pay for the urea. Prices will be negotiated on a monthly basis. The value of the agreement is estimated at PLN 347,000 thousand (exclusive of VAT). The agreement defines the amount of urea Grupa Azoty POLICE S.A. undertakes to provide and the Kronospan Group company undertakes to collect with a 5% tolerance.

The other terms and conditions of the agreement do not differ from standard terms used in agreements of this type.

1.4. Use of issue proceeds and achievement of issue objectives

The Parent had spent the proceeds from Public Offerings by the end of 2013. The proceeds were used in line with the original issue objectives.

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

There were no one-off events non-typical in terms of their nature, size or effect which would impact the Grupa Azoty Group's assets, equity and liabilities, capital, net profit/loss or cash flows.

1.6. Issue, redemption, and repayment of debt and equity securities

The most recent equity issue (Series D shares) was carried out at the end of 2012 and beginning of 2013 and was completed.

2. Other information

2.1. Organisational structure

For a description of the Group's organisational structure, see Section 1.1 of the Financial Statements.1.1

Parent's direct shareholdings in subsidiaries as at September 30th 2014

(currency)

Company	Registered office/address	Share capital	Ownership interest (%)
Grupa Azoty Group ATT Polymers GmbH	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
Grupa Azoty KOLTAR Sp. z o.o.	ul. Kwiatkowskiego 8 33-101 Tarnów, Poland	PLN 32,760,000	100.00
Grupa Azoty PUŁAWY	Al. Tysiąclecia Państwa Polskiego 13. 24-110 Puławy, Poland	PLN 191,150,000	95.98
Grupa Azoty ZAK S.A.	ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn-Koźle, Poland	PLN 285,064,300	93.48
Grupa Azoty POLICE	ul. Kuźnicka 1 72-010 Police, Poland	PLN 750,000,000	66.00
Grupa Azoty PKCh Sp. z o.o.	ul. Kwiatkowskiego 7 33-101 Tarnów, Poland	PLN 85,630,550	63.27
Grupa Azoty SIARKOPOL	Grzybów 28-200 Staszów, Poland	PLN 55,000,000	85.00
Grupa Azoty Group Folie Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 5,000	100.00
Grupa Azoty Compounding Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 5,000	100.00
Navitrans Sp. z o.o.	ul. Świętojańska 18/5 81-368 Gdynia, Poland	PLN 75,625	26.45

As at September 30th 2014, the Parent also held non-controlling interests in 11 entities. Parent's non-controlling interests are presented below.

Parent's non-controlling interests as at September 30th 2014

Company	Ownership interest (%)
Centrum Naukowo-Produkcyjne Materiałów Elektronicznych CEMAT'70 S.A.	1.24
INWESTSTAR S.A.	0.06
Konsorcjum Rozwoju Eksploatacji Majątku Trwałego EKSPLOSYSTEM Sp. z o.o.	3.36
LEN S.A. w Likwidacji	0.29
Tarnowska Agencja Rozwoju Regionalnego S.A.	0.06
Tarnowski Klaster Przemysłowy S.A.	0.11
Tarnowskie Wodociągi Sp. z o.o.	12.39
Tłocznia Metali PRESSTA S.A. w Upadłości Likwidacyjnej (in bankruptcy by liquidation)	0.02
*Wytwórnia Silników PZL MIELEC Sp. z o.o. (in bankruptcy)[*)]	0.12
Zakłady Tworzyw Sztucznych PRONIT S.A. (in bankruptcy)	0,28
Zakłady Włókien Chemicznych WISTOM S.A. w Upadłości (in bankruptcy)	9.83

[*)] Wytwórnia Silników PZL MIELEC Sp. z o.o. (in bankruptcy) – subsequent to the end of the reporting period, on October 13th 2014, the company was deleted from the National Court Register – Decision of the District Court of Tarnobrzeg, 5th Commercial Division, Bankruptcy Section, on termination of bankruptcy proceedings pursuant to Art. 368.1. of the Bankruptcy and Reorganisation Law ("In cases where bankruptcy proceedings involve liquidation of assets, the court shall confirm completion of the bankruptcy proceedings after the final distribution plan has been implemented"), dated December 30th 2013.

2.2. Changes in the Group's organisation

For information on the effects of changes in the Group's organisation during the reporting period, including the effects of business combinations, acquisitions or disposals of the Grupa Azoty Group companies, or long-term investments, demergers, restructuring or discontinuation of operations, see Section 1.2 of the interim condensed consolidated financial statements for the nine months ended September 30th 2014.

2.3. Management Board's position on the achievement of forecasts

As no forecasts for 2014 have been published, the position of the Parent's Management Board concerning achievement of such forecasts is not presented.

2.4. Shareholders holding directly, or indirectly through subsidiaries, at least 5% of total voting rights at the General Meeting as at the date of this report, including information on the number of shares held by such entities, their respective ownership interests, the number of voting rights held, and their share in total voting rights at the General Meeting, as well as changes in the large holdings of the Parent shares since the issue of the Group's most recent financial report

Shareholding structure as at August 14th 2014 (issue date of the most recent report)

Shareholder	Number of shares	% of share capital	Number of votes	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
Norica Holding S.à r.l.	19,841,700	20.00	19,841,700	20.00
ING OFE	9,883,323	9.96	9,883,323	9.96
TFI PZU S.A.	8,689,591	8.76	8,689,591	8.76
EBRD	5,700,000	5.75	5,700,000	5.75
Other	22,346,361	22.53	22,346,361	22.53
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

On October 31st 2014, the Management Board of the Parent received a notification from Rainbee Holdings Limited of Nicosia, Cyprus, provided under Art. 69.1.1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005.

According to the notification, following the in-kind contributions of October 29th 2014 and October 31st 2014 of Parent shares to cover the increased share capital of Rainbee Holdings Limited, made by its sole shareholder, Norica Holding S.à r.l., controlling 100% of the share capital of Rainbee Holdings Limited, Rainbee Holdings Limited: (i) on October 29th 2014 acquired 100 Parent shares, representing approximately 0.0001% of the Parent's share capital and carrying 100 voting rights (approximately 0.0001% of total voting rights) at the Parent's General Meeting, (ii) on October 31st 2014 acquired 9,820,252 Parent shares, representing approximately 9.8999% of the Parent's share capital and carrying 9,820,252 voting rights (approximately 9.8999% of total voting rights) at the Parent's General Meeting, and as a result of the transactions exceeded the threshold of 5% of total voting rights at the Parent's General Meeting.

Prior to the transaction, Rainbee Holdings Limited had not held, whether directly or indirectly, any Parent shares.

Following the transaction, Rainbee Holdings Limited held directly 9,820,352 Parent shares, representing approximately 9.8999% of the Parent's share capital and carrying 9,820,352 voting rights (approximately 9.8999% of total voting rights) at the Parent's General Meeting.

Rainbee Holdings Limited notified the Parent that none of its subsidiaries held any Parent shares.

Rainbee Holdings Limited also notified the Parent that there were no persons such as those referred to in Art. 87.1.3.c of the Public Offering Act.

Also, following the transaction:

Norica Holding S.à r.l. held, directly and through its subsidiary, Rainbee Holdings Limited, 19,841,700 Parent shares, representing approximately 20.0026% of the Parent's share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent's General Meeting, of which:

a) Norica Holding S.à r.l. holds directly 10,021,348 Parent shares, representing approximately 10.1026% of the Parent's share capital and carrying 10,021,348 voting rights (approximately 10.1026% of total voting rights) at the Parent's General Meeting;

b) Norica Holding S.à r.l. hols indirectly, through its subsidiary, Rainbee Holdings Limited, 9,820,352 Parent shares, representing approximately 9.8999% of the Parent's share capital and carrying 9,820,352 voting rights (approximately 9.8999% of total voting rights) at the Parent's General Meeting.

Shareholding structure as at October 31st 2014

Shareholder	Number of shares	% of share capital	Number of votes	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
Norica Holding S.à r.l.	10,021,348	10.10	10,021,348	10.10
ING OFE	9,883,323	9.96	9,883,323	9.96
Rainbee Holdings Limited*)	9,820,352	9.90	9,820,352	9.90
TFI PZU S.A.	8,689,591	8.76	8,689,591	8.76
EBRD	5,700,000	5.75	5,700,000	5.75
Other	22,346,361	22.53	22,346,361	22.53
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

*) A direct subsidiary of Norica Holding S.à r.l.

In the period from October 31st 2014 to the date of this report, the Parent has not been notified of any changes in the large holdings of its shares.

2.5. Grupa Azoty shares held by management and supervisory personnel as at the date of issue of this report, with information on changes in such holdings since the issue of the most recent financial report, presented separately for each individual

As at the date of issue of these financial statements, none of the Management Board members held any shares in the Parent.

Grupa Azoty held by supervisory personnel

	Number of shares/voting rights		
	As at Jan 1 2014	as at Sep 30 2014	as at Nov 12 2014
Tomasz Klikowicz	190	190	190

The remaining members of the Parent's supervisory personnel held no Grupa Azoty shares.

2.6. Litigation

There are no proceedings pending at the Grupa Azoty Group companies concerning liabilities or debt claims whose individual or aggregate value would represent 10% of the Parent's equity, i.e. would satisfy the materiality criteria specified in the Regulation of the Minister of Finance of February 19th 2009 on current and periodic information(consolidated text: Dz. U. of 2014, item 133).

2.7. Related parties

For information on related-party transactions, see Section 4.4. of the interim condensed consolidated financial statements for the nine months ended September 30th 2014.

2.8. Sureties on borrowings, guarantees granted

In Q3 2014, the Grupa Azoty Group did not issue any sureties or guarantees whose value would exceed 10% of the Parent's equity.

2.9. Other information essential for the assessment of the staffing levels, assets, financial position and financial performance, or changes in any of the foregoing, at the Parent and its Group, including information essential for the assessment of the Parent's and the Group's ability to fulfil their obligations

2.9.1. Execution of key investment projects

The Group's total capital expenditure in Q3 2014 was PLN 133,450 thousand. Structure of capital expenditure:

- Business development PLN 73,040 thousand,
- Business continuity PLN 27,669 thousand,
- Mandatory investments PLN 24,286 thousand,
- Purchase of finished goods PLN 8,455 thousand.

Structure of the Grupa Azoty Group's capital expenditure in Q3 2014

Source: Company data.

Capital expenditure at the Grupa Azoty Group in Q3 2014:

- Parent PLN 12,050 thousand,
- Grupa Azoty POLICE Group PLN 44,882 thousand,
- Grupa Azoty ZAK Group PLN 38,688 thousand,
- Grupa Azoty PUŁAWY Group PLN 32,863 thousand,
- Grupa Azoty SIARKOPOL PLN 2,750 thousand,
- Grupa Azoty PKCh Sp. z o.o. PLN 1,093 thousand,
- Grupa Azoty ATT Polymers GmbH PLN 825 thousand,
- Grupa Azoty KOLTAR Sp. z o.o. PLN 299 thousand.

Parent

The key investment projects in Q3 2014 included:

- Upgrade of the interior of ammonia synthesis reactors – the project's budget is PLN 18,600 thousand. Expenditure incurred so far is PLN 11,554 thousand, of which PLN 544 thousand was spent in Q3 2014.
- Purchase and assembly of a new circulating hydrogen compressor for the phenol hydrogenation unit at the PD catalyst – the project's budget is PLN 16,200 thousand. Expenditure incurred so far is PLN 14,340 thousand, of which PLN 1,120 thousand was spent in Q3 2014.
- Consolidation of IT systems of the Grupa Azoty Group companies – the project's budget is PLN 9,800 thousand. Expenditure incurred so far is PLN 9,655 thousand, of which PLN 227 thousand was spent in Q3 2014.

- Bulk fertilizer storage facility – the project's budget is PLN 43,000 thousand. Expenditure incurred so far is PLN 1,135 thousand, of which PLN 304 thousand was spent in Q3 2014.
- Granulation Plant – the project's budget is PLN 141,000 thousand. Expenditure incurred so far is PLN 543 thousand, of which PLN 493 thousand was spent in Q3 2014.
- Polyamide Plant II 80 thousand t/y – the project's budget is PLN 320,000 thousand. Expenditure incurred so far is PLN 2,181 thousand, of which PLN 453 thousand was spent in Q3 2014.
- Intensification of the unit for manufacturing cyclohexanone from phenol – the project's budget is PLN 25,750 thousand. Expenditure incurred so far is PLN 15 thousand, all of which was spent in Q3 2014.
- New iron-chromium catalyst plant – the project's budget is PLN 27,700 thousand. Expenditure incurred so far is PLN 15 thousand, all of which was spent in Q3 2014.

Grupa Azoty POLICE Group

The key investment projects in Q3 2014 included:

- Exhaust gas treatment unit and upgrade of the EC II CHP plant – the project's budget is PLN 163,700 thousand. Expenditure incurred so far is PLN 88,914 thousand, of which PLN 17,279 thousand was spent in Q3 2014.
- Upgrade of the ammonia unit – the project's budget is PLN 155,600 thousand. Expenditure incurred so far is PLN 1,767 thousand, of which PLN 673 thousand was spent in Q3 2014.
- Upgrade of ammonia synthesis reactors – the project's budget is PLN 24,400 thousand. Expenditure incurred so far is PLN 21,417 thousand, of which PLN 2,949 thousand was spent in Q3 2014.
- Purchase and assembly of the second 63-7 roller mill facility – the project's budget is PLN 5,390 thousand. Expenditure incurred so far is PLN 4,955 thousand, of which PLN 91 thousand was spent in Q3 2014.
- Production of POLIFOSKA® 21 and ammonium sulfate at the DAP facility – the project's budget is PLN 11,000 thousand. Expenditure incurred so far is PLN 10,945 thousand, of which PLN 70 thousand was spent in Q3 2014.
- Construction of industrial wastewater neutralisation unit at the titanium white plant – the project's budget is PLN 20,000 thousand. Expenditure incurred so far is PLN 708 thousand, of which PLN 135 thousand was spent in Q3 2014.
- Change of the DA-HF phosphoric acid production method – the project's budget is PLN 67,000 thousand. No expenditure has been incurred yet.

Grupa Azoty ZAK Group

The key investment projects in Q3 2014 included:

- Upgrade of sewage treatment facilities – the project's budget is PLN 6,580 thousand. Expenditure incurred so far is PLN 6,243 thousand, with no expenditure incurred in Q3 2014.
- Replacement of a LaMont boiler at the TK IV nitric acid unit – the project's budget is PLN 7,014 thousand. Expenditure incurred so far is PLN 6,993 thousand, of which PLN 1,250 thousand was spent in Q3 2014.
- Launch of OXOPLAST® OT continuous-flow production – the project's budget is PLN 42,300 thousand. Expenditure incurred so far is PLN 22,618 thousand, of which PLN 12,235 thousand was spent in Q3 2014.
- New CHP Plant at Grupa Azoty ZAK S.A. – stage I (former designation: New Energy for ZAK) – the project's budget is PLN 375,000 thousand. Expenditure incurred so far is PLN 26,276 thousand, of which 20,234 thousand was spent in Q3 2014.
- Replacement of the interior of the R-1001 ammonia synthesis reactor – the project's budget is PLN 18,500 thousand. Expenditure incurred so far is PLN 1,957 thousand, of which PLN 4 thousand was spent in Q3 2014.

Grupa Azoty PUŁAWY Group

The key investment projects in Q3 2014 included:

- Construction of ammonia storage and distribution facilities – the project's budget is PLN 108,500 thousand. Expenditure incurred so far is PLN 93,304 thousand, of which PLN 5,153 thousand was spent in Q3 2014.
- Construction of unit for manufacture of solid fertilizers based on urea and ammonium sulfate –

the project's budget is PLN 137,500 thousand. Expenditure incurred so far is PLN 109,604 thousand, of which PLN 10,892 thousand was spent in Q3 2014.

- Purchase and assembly of three-layer plastic film extrusion line – the project's budget is PLN 12,760 thousand. Expenditure incurred so far is PLN 10,505 thousand, of which PLN 8,712 thousand was spent in Q3 2014.
- Biological Wastewater Treatment Plant's precipitate dehydration unit – the project's budget is PLN 15,400 thousand. Expenditure incurred so far is PLN 9,850 thousand, of which PLN 344 thousand was spent in Q3 2014.
- Construction of NOx reduction units at two boilers at the CHP plant – the project's budget is PLN 16,000 thousand. Expenditure incurred so far is PLN 10,322 thousand, with no expenditure incurred in Q3 2014.

Grupa Azoty SIARKOPOL

The key investment projects in Q3 2014 included:

- Construction of sulfur pelletizing unit – the project's budget is PLN 35,000 thousand. Expenditure incurred so far is PLN 14,101 thousand, of which PLN 2,404 thousand was spent in Q3 2014.
- Production wells with productive lives longer than one year – the project's budget is PLN 24,750 thousand. Expenditure incurred so far is PLN 6,072 thousand, with no expenditure incurred in Q3 2014.
- Upgrade of the water and electricity system at the Osiek Sulfur Mine – assembly of the fourth line of exchangers – the project's budget is PLN 8,100 thousand. Expenditure incurred so far (in 2012 and 2013) is PLN 400 thousand.

2.9.2. Financial liquidity

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

The liquidity management policy operated by the Grupa Azoty Group consists in maintaining cash surpluses and available credit facilities that are safe and adequate to the scale of its business.

2.9.3. Loans

In Q3 2014, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.

The Grupa Azoty Group has access to overdraft limits under virtual cash pooling, which may be used by the Parent at times of increased demand for funding by Group companies. In addition, the Group also has access to free multi-purpose credit lines that are available to the Parent and the Group companies.

The Group complies with the uniform covenants of its facility agreements which provide it with an ability to significantly increase financial debt as needed.

The aggregate value of available overdraft limits and multi-purpose credit lines available to the Group at September 30st 2014 was PLN 455,000 thousand. The Group also had access to free factoring limits totalling PLN 99,000 thousand, and available investment credit facilities totalling PLN 165,000 thousand.

The Group's strategic lenders view its financial standing as sound, and there are no significant threats or risks of this strong position deteriorating in the future.

2.9.4. Composition and powers of the Management Board and the Supervisory Board

Parent's Management Board

In Q3 2014, there were no changes in the composition of the Management Board.
As at September 30th 2014, the composition of the Parent's Management Board was as follows:

- Paweł Jarczewski – President of the Management Board,
- Andrzej Skolmowski – Vice-President of the Management Board,

- Witold Szczypiński – Director General, Vice-President of the Management Board
- Marek Kapłucha – Vice-President of the Management Board,
- Marian Rybak – Vice-President of the Management Board,
- Krzysztof Jałosiński – Vice-President of the Management Board,
- Artur Kopeć – Member of the Management Board.

The composition of the Parent's Management Board and the powers and responsibilities of its members are as follows:

- Paweł Jarczewski – President of the Management Board,
- Andrzej Skolmowski – Vice-President of the Management Board, responsible for finance and IT at the Grupa Azoty Group,
- Witold Szczypiński – Director General, Vice-President of the Management Board, responsible for integration of production processes, plastics and organic synthesis at the Grupa Azoty Group,
- Marek Kapłucha – Vice-President of the Management Board, responsible for supply chain management at the Grupa Azoty Group,
- Marian Rybak – Vice-President of the Management Board, responsible for investments at the Grupa Azoty Group,
- Krzysztof Jałosiński – Vice-President of the Management Board, responsible for strategy and development at the Grupa Azoty Group,
- Artur Kopeć – Member of the Management Board, responsible for social dialogue, technical safety and environmental protection at the Grupa Azoty Group.

The Parent's Management Board operates on the basis of:

- the Commercial Companies Code,
- the Act on Commercialisation and Privatisation of August 30th 1996, as amended,
- the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005,
- the Act on Trading in Financial Instruments of July 29th 2005,
- and secondary legislation issued on the basis of the above acts,
- provisions of the Parent's Articles of Association.

Powers and responsibilities of the Management Board members

The division of authority between the Parent's Management Board members was made by Resolution No. 467/IX/2013 of August 20th 2013. For detailed information on the division of powers and responsibilities between members of the Management Board, see p. 101 of the Grupa Azoty Group's half-year 2013 consolidated report.

On April 15th 2014, the Parent's Management Board passed Resolution No. 639/IX/2014 on supplementing the resolution on the division of powers and responsibilities in connection with the appointment of Mr Witold Szczypiński, Vice-President of the Management Board, as Director General.

Another change in the division of powers and responsibilities was introduced by the Management Board's Resolution No. 735/IX/2014 of September 8th 2014 whereby oversight over the Parent's sponsorship activities was transferred from Management Board Member to Management Board Vice-President responsible for integration of production processes, plastics and organic synthesis.

Supervisory Board

In Q3 2014, there were no changes in the composition of the Supervisory Board.
Composition of the Parent's Supervisory Board as at September 30th 2014 was as follows:

- Monika Kacprzyk-Wojdyga – Chairperson,
- Jacek Obłękowski – Deputy Chairman,
- Ewa Lis – Secretary,
- Robert Kapka – Member,
- Tomasz Klikowicz – Member,
- Artur Kucharski – Member,
- Marek Mroczkowski – Member,
- Zbigniew Paprocki – Member,
- Ryszard Trepczyński – Member.

The Supervisory Board operates on the basis of:

- the Commercial Companies Code of September 15th 2000 (Dz.U. No. 94, item 1037, as amended),
- the Act on Commercialisation and Privatisation (...),
- the Accountancy Act,
- the Parent's Articles of Association (Article 33),
- the Rules of Procedure for the Parent's Supervisory Board.

The powers and responsibilities of the Supervisory Board are defined in Article 33 of the Parent's Articles of Association.

To streamline its work and improve control over the Parent and the Group, on July 4th 2013 the Supervisory Board passed Resolution No. 21/IX/2013 on appointment of the Audit Committee, with the following composition:

- Jacek Obłękowski – Chairperson,
- Tomasz Klikowicz,
- Marek Mroczkowski.

The rules of operation of the Audit Committee are provided for in the Rules for the Audit Committee, drawn up with based on Annex I, sec. 4 (Audit Committee) to the European Council Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (Official Journal of the European Union L 52/52), and Art. 86 of the Act on Qualified Auditors, Their Self-Government, Entities Qualified to Audit Financial Statements and Public Supervision of May 7th 2009. The Rules were adopted by the Supervisory Board by way of Resolution No. 21/IX/2013 of July 4th 2013. Under the Rules, the main tasks of the Committee are:

- monitoring of the financial reporting process,
- monitoring of the effectiveness of internal control systems,
- monitoring of financial audit,
- monitoring of the independence of the auditor and the entity qualified to audit financial statements,
- monitoring of the audit of separate and consolidated financial statements,
- monitoring of the work of the internal audit team,
- monitoring of the work and reports of the independent statutory auditor,
- review of selected economic events relevant to the Company's operations.

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

2.10.1. Exchange rates

The information about continued economic growth and tapering of the monetary policy in the US is offset by signals of deepening stagnation and deflation in the eurozone. In addition, the consequences of the conflict in Ukraine, accompanied by sanctions imposed against Russia, as well as ECB's decision to loosen its monetary policy, result in further strengthening of USD against EUR, a trend which is likely to continue in Q4 2014.

In Poland, in Q3 2014, the leading indicators deteriorated and economy was exposed to deflation, which brought about an announcement of interest rate cuts, followed by an actual reduction in early October. Still, as Poland's economy is in a relatively good condition compared with the eurozone economies, the PLN/EUR exchange rate remained at a stable level, while the PLN/USD exchange rate decreased significantly, reflecting the downward EUR/USD trend.

The medium-term outlook for the PLN exchange rate against EUR is flat (between PLN 4.15 and 4.20/EUR 1), with possible limited strengthening, while the strong appreciation of USD against EUR will most likely cause the USD to strengthen against PLN in a parallel trend.

The current and anticipated PLN/USD and PLN/EUR exchange rate fluctuations are unlikely to pose a risk to the Group's performance in Q4 2014, since the PLN depreciation against the USD, accompanied by a stable PLN/EUR exchange rate should have a limited positive impact on the Group's performance given its positive net exposure in both currencies.

2.10.2. Interest rates in Poland

In Q3 2014, domestic interest rates remained at a stable level. In line with its earlier announcement, the Monetary Policy Council cut the base rate by 0.5% at the beginning of October. However, given the GDP growth coming to a standstill and prevailing deflation, yet another cut by 0.25% is expected by the end of 2014.

In 2015, domestic interest rates should remain unchanged, as it is unlikely that the inflation target will be reached in the period, thus allowing the Monetary Policy Council to wait for new symptoms of economic growth.

In effect, the Group's basic reference rate (1M WIBOR) should remain at ca. 2% over the next year, which will help improve the stability of the Group's borrowing costs by keeping them relatively low and facilitate debt service if the Group decides to increase debt to finance investing activities, especially if credit rates remain low.

Faced with continued stagnation in the eurozone, weaker GDP growth in Germany, and higher risk of deflation, at the beginning of September the European Central Bank decided to cut interest rates to the all-time low (including the base rate cut to 0.05%) and adopt non-standard solutions (quantitative easing of the monetary policy) to avoid deflation and stimulate economic growth. In this context, the Group expects that interest rates for the euro will stay very low at least over the next year.

On the other hand, FED has begun to gradually taper its monetary policy, while continuing to postpone the increase of USD interest rates, which are currently low and likely to remain unchanged until the end of 2014.

In summary, it is relatively unlikely that any adverse changes in the presently low interest rates for the Grupa Azoty Group's principal currencies (PLN, EUR and USD) will occur within the next twelve months, so the risk of the Group's funding costs adversely affecting its financial position or performance is limited.

Any increase in EURIBOR and WIBOR rates would have to be preceded by approximately twelve months of positive growth trends in the eurozone, and Poland, as well as emergence of inflationary pressures. An increase in LIBOR rate for USD, which is more likely, would have no material impact on the Group's borrowing costs as the Group has only limited USD-denominated liabilities.

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

Interest income earned by the Group on free cash under cash pooling and fixed-term deposits will partially offset the cost of funding.

2.10.3. Raw material and product price dynamics

The Grupa Azoty Group analyses its growth prospects mainly in the context of its business lines, paying special attention to the information from the target markets and raw materials markets, depending on current tendencies and macroeconomic conditions.

The National Bank of Poland's optimistic forecasts concerning the Polish economy (growing investment, lower unemployment, GDP of 3.2%) are positive indicators. Other material factors include:

- global geopolitical situation,
- crude oil and petroleum product prices,
- situation on core target markets (e.g. agricultural produce and automotive markets),
- legal regulations.

The chemical industry has always depended on oil and gas prices.
Thanks to a sustained decline in crude oil prices around the world, the prices of basic petrochemical feedstocks should follow the same trend in the coming weeks. There are no material circumstances which could increase the price of crude oil, which is tied to supply. Aside from the potential escalation of the military conflict in the Middle East, risk factors for the forecast include a significant drop in crude oil prices and its adverse effect on the countries whose budget is largely dependent on oil production, such as Russia and Venezuela.

Declining crude prices are also a consequence of the increased shale oil production in the US.

According to forecasts, the contract price of benzene, which is one of the Group's key petroleum feedtsocks, may remain in the region of EUR 1,000/tonne until the end of 2014.

In the following months, the situation on the CEE ammonia market may change significantly, depending on how the political situation in Ukraine and the region develops. The changes may affect demand, supply and prices (above USD 600/tonne).

Joint market efforts regarding sulfur supplies have allowed the Grupa Azoty Group to optimise its supply chain and bring down sulfur procurement costs, and will ensure greater supply management flexibility within the Grupa Azoty Group through a common trading policy and optimal use of its own resources. Conditions on the sulfur market in subsequent periods will be largely depend on the situation on the fertilizer market, particularly in the compound fertilizers segment, where no dramatic price changes are anticipated.

As the autumn period for sowing winter crops and the October/November fertilizer application season are ending, the demand for fertilizers, particularly for NPK, will dwindle. According to the prevailing market opinion, fertilizer stocks to be used in spring will be purchased in Q1 2015 rather than in Q4 2014. However, the quality of grain crops may adversely affect farmers' incomes, which would in turn reduce fertilizer sales. The situation on key urea markets is expected to improve in terms of demand and supply in Q4 2014, with urea prices set to decline. The urea demand in Q1 2015, which typically reaches its highest in the period, will be the key variable in the new fertilizer season.

Manufacturers forecast a double- or triple-digit increase in melamine prices in Q4 2014 due to anticipated availability problems (caused by seasonal factors and stock reductions among producers). Customers disagree, claiming that the market situation will remain balanced.

In Q4 2014, the prices of key raw materials used to produce compound NPK fertilizers will display various trends. Phosphate rock prices should remain broadly flat, while the prices of potassium chloride may increase as announced.

Although the demand for caprolactam changes depending on the sector and the geographical market, it remains at a stable level on the end markets, particularly on the automotive market, and should not change in the coming quarter.

In Q4 2014, OXO alcohol and plasticizer prices may decline on the back of unfavourable trends affecting crude oil prices, depressed demand from end customers (construction industry) and high supply.

The titanium white market is expected to stabilise (from the supply-demand standpoint) next year, when some Chinese titanium white factories non-compliant with environmental requirements are closed. Many of the market participants believe that demand for titanium white in Europe will grow given the improving macroeconomic situation.

Acting in accordance with the European Union's requirements, Poland has begun to deregulate its electricity market in a process which will involve granting corporate customers the ability to choose their electricity supplier, then granting the same to retail customers, and finally deregulating the market price of electricity.

According to the CEO of Polska Grupa Energetyczna (PGE), the coming months will bring more pressure on electricity prices, driving them up even further as a result of:

- introducing a new mechanism to the balancing market – the operating reserve (service offered by and purchased from electric utilities by the transmission system operator with a bearing on wholesale electricity prices);
- difficulties in terms of operating reserve volumes available to the operator anticipated to materialise around 2017.

2.10.4. Legal regulations

- At the request of Fertilizers Europe, a European association of fertilizer manufacturers, submitted in March 2013, the European Commission resolved to uphold the anti-dumping duties on ammonium nitrate imports from Russia. Import duties of up to EUR 47 per tonne of ammonium nitrate will be in force over the next five years, beginning in September. The fertilizer industry representatives argued that the protection against Russian dumping is needed as long as Russia sells gas at low prices to Russian producers and at high prices to EU manufacturers. Earlier, Ukraine had also imposed import duties on Russian ammonium nitrate for the period of five years.

- An amendment to the PGNiG S.A. tariff has been announced, introducing a new settlement method from August 1st 2014, whereby natural gas consumption is settled based on actual consumption of energy expressed in kilowatt hours (kWh) rather than the volume of supplied gas (m^3), as was the case previously.
- The government-sponsored bill on renewable energy sources (RES) approved by the Council of Ministers in April 2014, which envisages that RES should account for no less than 15% of the final gross energy consumption in 2020, is still being reviewed. The purpose of the proposed Energy Efficiency Act, whose key postulates include a national action plan, tasks for the public sector, a support system, and energy auditing of companies, is to modify Poland's legal system in accordance with EU legislation.
- The relief in the obligation to purchase certificates of electricity origin and present them for redemption granted to energy-intensive industries under the Small Three-Pack requires notification to the European Commission, which is currently pending.
- On October 1st 2014, the Polish Power Exchange (Towarowa Giełda Energii) introduced changes to the electricity trading schedule in its Day-Ahead Market (Rynek Dnia Następnego) and Intra Day Market (Rynek Dnia Bieżącego).
- On July 23rd 2014, the European Commission approved a document assessing the EU's progress towards its 20% energy efficiency goal for 2020 and proposed a new energy efficiency target of 30% for 2030.

The consolidated interim report of the Grupa Azoty Group for Q3 2014 contains 80 pages.

Signatures of the Members of the Management Board

……
Paweł Jarczewski
President of the Management Board

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Andrzej Skolmowski
Vice-President of the Management Board

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Witold Szczypiński
Vice-President of the Management Board
Director General

……
Marek Kapłucha
Vice-President of the Management Board

……
Marian Rybak
Vice-President of the Management Board

……
Krzysztof Jałosiński
Vice-President of the Management Board

……
Artur Kopeć
Member of the Management Board

Tarnów, November 12th 2014