Consolidated interim report for the six months ended June 30th 2016

Contents

Key financial results

Consolidated financial information

	PLN '000		EUR '000	
	for the period Jan 1– Jun 30 2016	for the period Jan 1- Jun 30 2015* restated	for the period Jan 1– Jun 30 2016	for the period Jan 1- Jun 30 2015* restated
Revenue	4,633,835	5,110,531	1,057,832	1,236,189
Operating profit	437,900	534,682	99,966	129,335
Profit before tax	442,965	532,745	101,122	128,866
Net profit	355,505	457,635	81,156	110,698
Total comprehensive income	349,809	449,869	79,856	108,819
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per ordinary share (PLN)	3.19	4.06	0.73	0.98
Net cash from operating activities	432,433	702,276	98,718	169,874
Net cash used in investing activities	(552,080)	(415,348)	(126,031)	(100,469)
Net cash from/(used in) financing activities	9,959	(66,526)	2,273	(16,092)
Net increase/(decrease) in cash and cash equivalents	(109,688)	220,402	(25,040)	53,313
Cash at beginning of period	753,144	558,603	171,931	135,121
Cash at end of period	644,919	780,418	147,225	188,776
	as at Jun 30 2016	as at Dec 31 2015* restated	as at Jun 30 2016	as at Dec 31 2015* restated
Non-current assets	7,518,490	7,224,923	1,698,902	1,695,394
Current assets	3,433,317	3,552,411	775,803	833,606
Non-current liabilities	1,848,551	1,785,146	417,704	418,901
Current liabilities	1,748,135	1,855,967	395,014	435,520
Equity	7,355,121	7,136,221	1,661,986	1,674,580
Share capital	495,977	495,977	112,073	116,386
Non-controlling interests	763,803	768,933	172,591	180,437

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

Separate financial information

	PLN '000		EUR '000	
	for the period Jan 1– Jun 30 2016	for the period Jan 1- Jun 30 2016 restated	for the period Jan 1– Jun 30 2016	for the period Jan 1- Jun 30 2015* restated
Revenue	793,309	866,965	181,100	209,711
Operating profit	3,012	24,612	688	5,953
Profit before tax	261,217	240,598	59,632	58,198
Net profit	258,194	236,376	58,942	57,177
Total comprehensive income	245,564	235,925	56,058	57,068
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per ordinary share (PLN)	2.60	2.38	0.59	0.58
Net cash from/(used in) operating activities	(27,814)	33,409	(6,350)	8,081
Net cash from/(used in) investing activities	(30,648)	71,261	(6,996)	17,237
Net cash from/(used in) financing activities	2,632	(40,305)	601	(9,749)
Net increase/(decrease) in cash and cash equivalents	(55,830)	64,365	(12,745)	15,569
Cash at beginning of period	111,942	27,431	25,555	6,635
Cash at end of period	56,112	91,796	12,809	22,205
	as at Jun 30 2016	as at Dec 31 2015* restated	as at Jun 30 2016	as at Dec 31 2015* restated
Non-current assets	5,494,551	5,240,330	1,241,566	1,229,691
Current assets	588,839	616,295	133,056	144,619
Non-current liabilities	1,068,423	1,043,852	241,424	244,949
Current liabilities	469,956	430,002	106,193	100,904
Equity	4,545,011	4,382,771	1,027,005	1,028,457
Share capital	495,977	495,977	112,073	116,386

* Financial data restated as described in the 'Supplementary information to the interim condensed separate financial statements'.

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:

- items of assets and equity and liabilities in the statement of financial position have been translated at the exchange rate effective for the last day of the reporting period:
  - the exchange rate as at December 31st 2015 was EUR 1 = PLN 4.2615 (table No. 254/A/NBP/2015),
  - the exchange rate as at June 30th 2016 was EUR 1 = PLN 4.4255 (table No. 125/A/NBP/2016),
- 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 the period January 1st–June 30th 2015, the average exchange rate was EUR 1 = PLN 4.1341,
  - in the period January 1st–March 31st 2016, the average exchange rate was EUR 1 = PLN 4.3805.

The translation has been 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 six and three months
ended June 30th 2016
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 six and three months ended June 30th 2016, comprising:

- Condensed consolidated statement of profit or loss and other comprehensive income for the period January 1st – June 30th 2016 and April 1st – June 30th 2016,
- Condensed consolidated statement of financial position as at June 30th 2016,
- Condensed consolidated statement of changes in equity for the period January 1st–June 30th 2016,
- Condensed consolidated statement of cash flows for the period January 1st–June 30th 2016,
- 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 assets, financial position and performance of the Grupa Azoty Group.

Signatures of Members of the Management Board

………………………………
Mariusz Bober
President of the Management Board

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

………………………………
Tomasz Hinc
Vice President of the Management Board

………………………………
Paweł Łapiński
Vice President of the Management Board

………………………………
Józef Rojek
Vice President of the Management Board

………………………………
Artur Kopeć
Member of the Management Board

Person responsible for maintaining accounting records

………………………………
Ewa Gładysz
Head of Corporate Finance Department

Tarnów, August 23rd 2016

(all amounts in PLN '000 unless indicated otherwise)

Condensed consolidated statement of profit or loss and other comprehensive income

	Note	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015* restated	for the period Apr 1– Jun 30 2015* restated
		unaudited	*unaudited*	*unaudited*	*unaudited*
Revenue	1	4,633,835	2,158,201	5,110,531	2,276,151
Cost of sales	2	(3,458,506)	(1,713,689)	(3,908,739)	(1,761,471)
Gross profit		**1,175,329**	**444,512**	**1,201,792**	**514,680**
Selling and distribution expenses	2	(344,972)	(182,834)	(309,873)	(150,998)
Administrative expenses	2	(365,844)	(191,645)	(355,531)	(187,074)
Other income	3	16,170	7,757	27,458	10,009
Other expenses	4	(42,783)	(29,115)	(29,164)	(15,513)
Operating profit		**437,900**	**48,675**	**534,682**	**171,104**
Finance income	5	27,586	27,910	18,022	22,819
Finance costs	6	(30,484)	(19,290)	(27,437)	(22,671)
Net finance income/(costs)		**(2,898)**	**8,620**	**(9,415)**	**148**
Share of profit of equity-accounted associates		7,963	5,255	7,478	4,378
Profit before tax		**442,965**	**62,550**	**532,745**	**175,630**
Income tax	7	(87,460)	(14,036)	(75,110)	(23,832)
Net profit		**355,505**	**48,514**	**457,635**	**151,798**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Remeasurement of defined benefit obligation		(8,332)	(8,332)	(2,320)	(2,320)
Tax on items that will not be reclassified to profit or loss		1,582	1,582	441	441
		(6,750)	**(6,750)**	**(1,879)**	**(1,879)**

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.

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

(all amounts in PLN '000 unless indicated otherwise)

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

	Note	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015* restated	for the period Apr 1– Jun 30 2015* restated
		unaudited	*unaudited*	*unaudited*	*unaudited*
Items that are or may be reclassified to profit or loss					
Cash flow hedging – effective portion of change in fair-value measurement		(8,200)	(7,855)	-	-
Exchange differences on translating foreign operations		9,254	7,077	(5,887)	4,782
		1,054	**(778)**	**(5,887)**	**4,782**
Total other comprehensive income		**(5,696)**	**(7,528)**	**(7,766)**	**2,903**
Total profit or loss and other comprehensive income		**349,809**	**40,986**	**449,869**	**154,701**
Net profit attributable to:					
Owners of the Parent		316,722	44,351	402,758	126,623
Non-controlling interests		38,783	4,163	54,877	25,175
Total profit or loss and other comprehensive income attributable to:					
Owners of the Parent		307,133	34,279	398,223	127,647
Non-controlling interests		42,676	6,707	51,646	27,054
Earnings per share:	8				
Basic (PLN)		3.19	0.45	4.06	1.28
Diluted (PLN)		3.19	0.45	4.06	1.28

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.

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(all amounts in PLN '000 unless indicated otherwise)

Condensed consolidated statement of financial position

	Note	as at Jun 30 2016	as at Dec 31 2015* restated
		unaudited	*audited*
Assets			
Non-current assets			
Property, plant and equipment	9	6,232,069	5,945,284
Perpetual usufruct of land		481,889	484,483
Investment property		54,886	52,204
Intangible assets	10	550,704	532,798
Goodwill		10,057	12,550
Investments in subordinated entities		106,254	111,095
Available-for-sale financial assets		12,818	12,370
Other financial assets		2,667	4,347
Other receivables		7,638	7,023
Deferred tax assets		59,432	62,769
Other current assets		76	-
Total non-current assets		**7,518,490**	**7,224,923**
Current assets			
Inventories		912,334	958,769
Property rights		169,169	226,931
Derivatives		805	4,174
Other financial assets		500,942	498,711
Current tax assets		1,184	2,156
Trade and other receivables		1,194,632	1,096,286
Cash and cash equivalents	11	644,919	753,144
Other current assets		8,992	9,117
Assets held for sale		340	3,123
Total current assets		**3,433,317**	**3,552,411**
Total assets		**10,951,807**	**10,777,334**

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.

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

(all amounts in PLN '000 unless indicated otherwise)

Condensed consolidated statement of financial position (continued)

	Note	as at Jun 30 2016	as at Dec 31 2015* restated
		unaudited	*audited*
Equity and liabilities			
Equity			
Share capital		495,977	495,977
Share premium		2,418,270	2,418,270
Hedging reserve		(8,135)	65
Exchange differences on translating foreign operations		6,050	752
Retained earnings, including:		3,679,156	3,452,224
net profit for the period		*316,722*	*609,499*
Equity attributable to owners of the Parent		**6,591,318**	**6,367,288**
Non-controlling interests		**763,803**	**768,933**
Total equity		**7,355,121**	**7,136,221**
Liabilities			
Borrowings	12	1,074,010	1,047,450
Other financial liabilities		13,774	16,112
Employee benefit obligations	13	334,344	326,968
Trade and other payables		920	972
Provisions	14	102,495	100,740
Government grants		61,147	47,036
Deferred tax liabilities		261,861	245,868
Total non-current liabilities		**1,848,551**	**1,785,146**
Borrowings	12	161,218	118,880
Derivatives		18,715	986
Other financial liabilities		74,859	56,672
Employee benefit obligations	13	32,251	33,167
Current tax liabilities		43,028	18,986
Trade and other payables		1,316,411	1,576,538
Provisions	14	44,670	45,647
Government grants		56,983	5,091
Total current liabilities		**1,748,135**	**1,855,967**
Total liabilities		**3,596,686**	**3,641,113**
Total equity and liabilities		**10,951,807**	**10,777,334**

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.

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

(all amounts in PLN '000 unless indicated otherwise)

Condensed consolidated statement of changes in equity
for the period ended June 30th 2016

	Share capital	Share premium	Hedging reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at Jan 1 2016	**495,977**	**2,418,270**	**65**	**752**	**3,452,224**	**6,367,288**	**768,933**	**7,136,221**
Profit or loss and other comprehensive income								
Net profit	-	-	-	-	316,722	316,722	38,783	355,505
Other comprehensive income	-	-	(8,200)	5,298	(6,687)	(9,589)	3,893	(5,696)
Total profit or loss and other comprehensive income	**-**	**-**	**(8,200)**	**5,298**	**310,035**	**307,133**	**42,676**	**349,809**
Transactions with owners, recognised directly in equity								
Dividends	-	-	-	-	(83,324)	(83,324)	(13,526)	(96,850)
Total contributions by and distributions to owners	-	-	-	-	**(83,324)**	**(83,324)**	**(13,526)**	**(96,850)**
Acquisition of non-controlling interests without change of control	-	-	-	-	221	221	(34,280)	(34,059)
Total transactions with owners	**-**	**-**	**-**	**-**	**(83,103)**	**(83,103)**	**(47,806)**	**(130,909)**
Balance as at Jun 30 2016 (unaudited)	**495,977**	**2,418,270**	**(8,135)**	**6,050**	**3,679,156**	**6,591,318**	**763,803**	**7,355,121**

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

(all amounts in PLN '000 unless indicated otherwise)

Consolidated statement of changes in equity (continued)
for the period ended June 30th 2015

	Share capital	Share premium	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at Jan 1 2015	**495,977**	**2,418,270**	**1,403**	**2,843,389**	**5,759,039**	**729,097**	**6,488,136**
Profit or loss and other comprehensive income							
Net profit	-	-	-	402,758	402,758	54,877	457,635
Other comprehensive income	-	-	(2,631)	(1,904)	(4,535)	(3,231)	(7,766)
Total profit or loss and other comprehensive income	**-**	**-**	**(2,631)**	**400,854**	**398,223**	**51,646**	**449,869**
Transactions with owners, recognised directly in equity							
Dividends	-	-	-	-	-	(25,576)	(25,576)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**(25,576)**	**(25,576)**
Changes in ownership interests in subsidiaries							
Acquisition of non-controlling interests without change of control	-	-	-	3,130	3,130	(3,130)	-
Total transactions with owners	**-**	**-**	**-**	**3,130**	**3,130**	**(28,706)**	**(25,576)**
Balance as at Jun 30 2015 (unaudited)	**495,977**	**2,418,270**	**(1,228)**	**3,247,373**	**6,160,392**	**752,037**	**6,912,429**

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

(all amounts in PLN '000 unless indicated otherwise)

Condensed consolidated statement of cash flows

	for the period Jan 1– Jun 30 2016	for the period Jan 1- Jun 30 2015
	unaudited	*unaudited*
Cash flows from operating activities		
Profit before tax	**442,965**	**532,745**
Adjustments for:	*284,850*	*256,174*
Depreciation and amortisation	256,627	242,446
Impairment	4,749	906
Loss from investing activities	6,553	6,277
Loss on disposal of financial assets	11	-
Share of profit of equity-accounted associates	(7,963)	(7,478)
Interest, foreign exchange gains or losses	5,134	16,288
Dividends	(996)	(1,135)
Loss/(gain) on change in fair value of financial instruments carried at fair value	20,735	(1,130)
Cash from operating activities before changes in working capital	***727,815***	***788,919***
Change in trade and other receivables	(112,939)	22,125
Change in inventories and property rights	104,277	82,847
Change in trade and other payables	(269,333)	(170,686)
Change in provisions, prepayments and grants	26,041	12,055
Other adjustments	(506)	324
Cash from operating activities	***475,355***	***735,584***
Income taxes paid	(42,922)	(33,308)
Net cash from operating activities	**432,433**	**702,276**

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

(all amounts in PLN '000 unless indicated otherwise)

Condensed consolidated statement of cash flows (continued)

	for the period Jan 1– Jun 30 2016	for the period Jan 1- Jun 30 2015
	unaudited	*unaudited*
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	1,393	8,598
Acquisition of property, plant and equipment, intangible assets and investment property	(566,573)	(383,471)
Dividends received	11,553	11,626
Acquisition of financial assets	(825,371)	(184,690)
Proceeds from sale of financial assets	822,430	135,854
Interest received	6,998	1,886
Government grants	-	1,522
Loans	(561)	(3,000)
Other disbursements	(1,949)	(3,673)
Net cash used in investing activities	**(552,080)**	**(415,348)**
Cash flows from financing activities		
Dividends paid	(11,726)	(23,933)
Proceeds from borrowings	76,942	833,856
Acquisition of non-controlling interests	(34,060)	-
Payment of borrowings	(16,727)	(856,054)
Interest paid	(17,497)	(19,996)
Payment of finance lease liabilities	(6,757)	(6,265)
Other proceeds	19,784	5,866
Net cash from/(used in) financing activities	**9,959**	**(66,526)**
Net increase/(decrease) in cash and cash equivalents	**(109,688)**	**220,402**
Cash and cash equivalents at beginning of period	**753,144**	**558,603**
Effect of exchange rate fluctuations	1,463	1,413
Cash and cash equivalents at end of period	**644,919**	**780,418**

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

Supplementary information to the interim condensed consolidated financial statements

1. Description of the Group

1.1. Organisational structure

As at June 30th 2016, the Grupa Azoty Group (the "Grupa Azoty Group" or the "Group") comprised Grupa Azoty S.A. (the "Parent") and nine subsidiaries, 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 Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKOPOL),
- Grupa Azoty Koltar Sp. z o.o.,
- Grupa Azoty Folie Sp. z o.o.,
- Grupa Azoty Compounding Sp. z o.o.

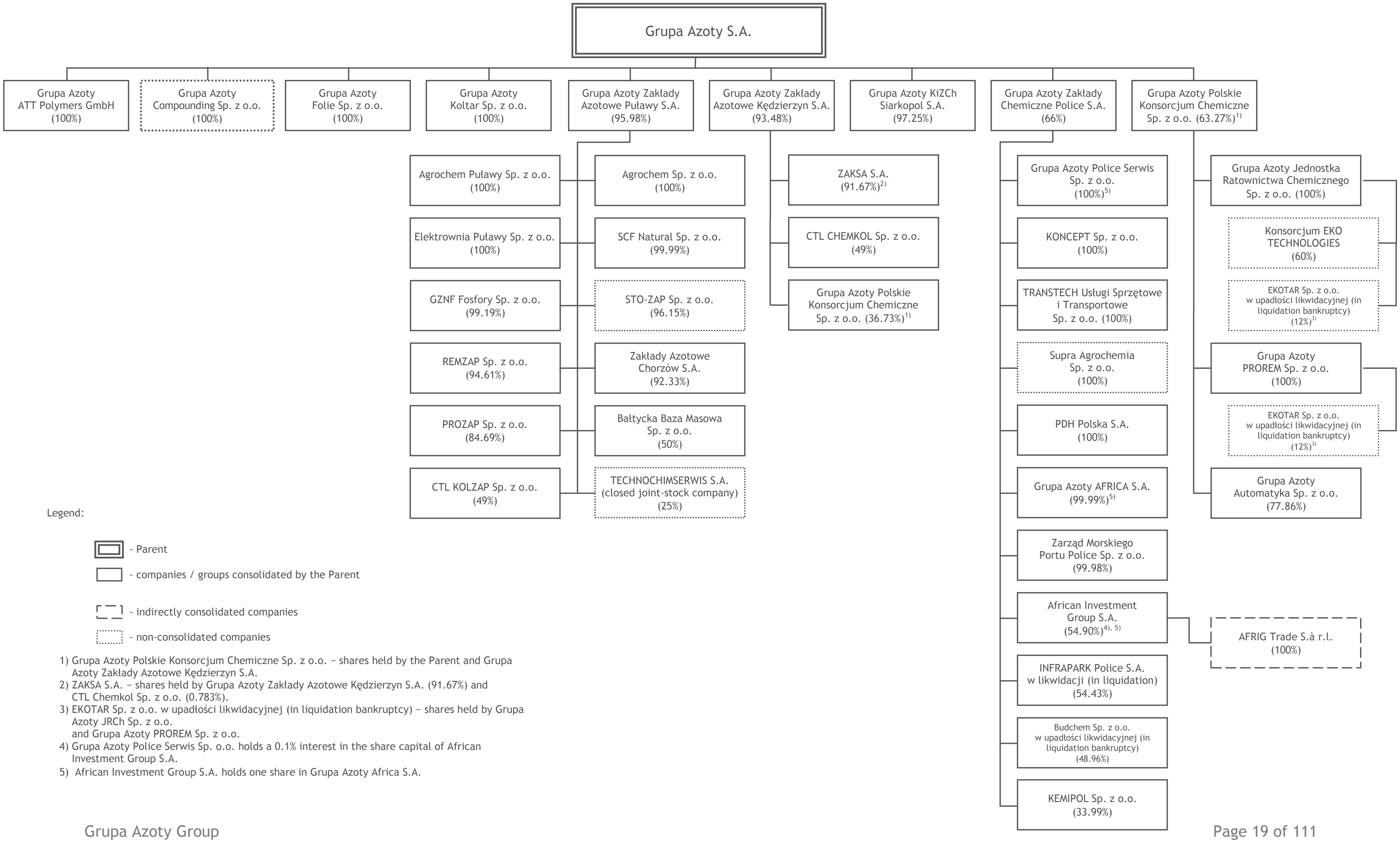
Furthermore:

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

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

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

Structure of the Group as at June 30th 2016:



Legend:

- Parent
- companies / groups consolidated by the Parent
- indirectly consolidated companies
- non-consolidated companies

1) Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. – shares held by the Parent and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.
2) ZAKSA S.A. – shares held by Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (91.67%) and CTL Chemkol Sp. z o.o. (0.783%).
3) EKOTAR Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy) – shares held by Grupa Azoty JRCh Sp. z o.o. and Grupa Azoty PROREM Sp. z o.o.
4) Grupa Azoty Police Serwis Sp. o.o. holds a 0.1% interest in the share capital of African Investment Group S.A.
5) African Investment Group S.A. holds one share in Grupa Azoty Africa S.A.

The following companies have not been included in these consolidated financial statements due to immateriality of their financial information:

- Grupa Azoty Compounding Sp. z o.o.,
- STO-ZAP Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY),
- Technochimserwis S.A. (closed joint-stock company, a subsidiary of Grupa Azoty PUŁAWY),
- Konsorcjum EKO TECHNOLOGIES (an associate of Grupa Azoty PKCh Sp. z o.o.),
- EKOTAR Sp. z o.o. w upadłości (in bankruptcy, a subsidiary of Grupa Azoty PKCh Sp. z o.o.).
- Supra Agrochemia Sp. z o.o. (a subsidiary of Grupa Azoty POLICE).

1.2. Changes in the Group's structure

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

Acquisition of shares in Grupa Azoty SIARKOPOL
In H1 2016, the Parent acquired 497,586 shares of Grupa Azoty SIARKOPOL, representing 9.05% of the company's share capital, for a total of PLN 34,059 thousand. Following the transaction, as at June 30th 2016 the Parent held 5,348,603 shares of Grupa Azoty SIARKOPOL, representing 97.25% of the company's share capital.

The net asset value of Grupa Azoty SIARKOPOL as at the acquisition date was approximately PLN 404m. As a result, the Group recognised a PLN 36,578 thousand decrease in non-controlling interests and a PLN 2,519 thousand increase in retained earnings.

Liquidation of Navitrans Sp. z o.o. w likwidacji (in liquidation)
On March 31st 2016, the liquidation of Navitrans Sp. z o.o. w likwidacji (in liquidation) of Gdynia was completed. On March 31st 2016, the amount left after the liquidation was completed, that is PLN 35 thousand, was paid out to the shareholders. On June 30th 2016, the company was deleted from the National Court Register.

Agreement to sell shares in Remzap Sp. z o.o.
On December 10th 2015, REMIN Sp. z o.o. and Grupa Azoty PUŁAWY executed a conditional agreement to sell shares in REMZAP Sp. z o.o. (subsequently amended under an annex of February 4th 2016). Since REMIN Sp. z o.o. failed to fulfil conditions precedent by the time prescribed, the conditional agreement is deemed not executed.

On March 14th 2016, 156 shares previously held by other shareholders (REMZAP Sp. z o.o. employees) were cancelled. As a consequence, Grupa Azoty PUŁAWY's share in total voting rights at the General Meeting of REMZAP Sp. z o.o. increased from 95.74% to 96.33%.

Share capital increase at Automatyka Sp. z o.o.
On January 27th 2016, an increase in the share capital of Automatyka Sp. z o.o. was registered in the National Court Register. The company's share capital was increased by PLN 107 thousand, to PLN 4,654 thousand, through an issue of 214 new shares with a par value of PLN 500 per share, which were all subscribed for by new shareholders (the company employees). As a result, Grupa Azoty PKCh's share in the company's share capital was reduced from 79.69% to 77.86%.

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

2.1. Statement of compliance and general basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and 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, and present the Grupa Azoty Group's financial position as at June 30th 2016, results of its operations for the six and three months ended June 30th 2016, and cash flows for the six months ended June 30th 2016.

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 2015, prepared in accordance with the International Financial Reporting Standards endorsed by the European Union ('EU IFRS') and other applicable laws and regulations.

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

2.2. 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 2015, save for the changes in the presentation of financial statements described in item c) below.

b) Changes in International Financial Reporting Standards

A number of new Standards and amendments to Standards and Interpretations which are not yet effective for interim periods ending June 30th 2016 have not been applied in these financial statements. The Group intends to apply them for the periods for which they will be effective for the first time.

c) Changes in the presentation of the financial statements

In the reporting period the presentation of financial statements was changed to improve the presentation of information on the effect of certain transactions on the Group's assets and financial position. The comparative data have been appropriately restated.

The table below presents the impact of the changes on the consolidated statement of profit or loss and other comprehensive income:

	Before restatement	Restated			
	For the period Jan 1-Jun 30 2015	**For the period Jan 1-Jun 30 2015**	**Impact of change 1**	**Impact of change 2**	**Impact of change 3**
Revenue	5,119,657	5,110,531	(9,126)	-	-
Cost of sales	(3,915,371)	(3,908,739)	7,068	(436)	-
Gross profit	**1,204,286**	**1,201,792**	**(2,058)**	**(436)**	**-**
Selling and distribution expenses	(315,064)	(309,873)			5,191
Other income	24,009	27,458	9,126		(5,677)
Other expenses	(22,582)	(29,164)	(7,068)	-	486
Operating profit	**535,118**	**534,682**	**-**	**(436)**	**-**
Finance income	17,586	18,022	-	436	-
Net finance income/(costs)	**(9,851)**	**(9,415)**	**-**	**436**	**-**

- 1 – Income from and cost of lease of investment property were reclassified from revenue and cost of sales to other income and other expenses,
- 2 – valuation of financial instruments regarding CO_2 emission allowances was reclassified from finance income or finance costs to cost of sales,
- 3 – impairment losses on trade receivables and their reversal were reclassified from other expenses or other income to cost of sales.

(all amounts in PLN '000 unless indicated otherwise)

The table below presents the effect of the changes on the information disclosed in the Notes:

	Before restatement	Restated			
	For the period Jan 1-Jun 30 2015	**For the period Jan 1-Jun 30 2015**	**Impact of change 1**	**Impact of change 2**	**Impact of change 3**
Note 1 Revenue					
Sales of goods and services	5,003,082	4,993,956	(9,126)	-	-
	5,119,657	**5,110,531**	**(9,126)**	**-**	**-**
Note 2 Operating expenses					
Depreciation and amortisation	242,446	240,866	(1,580)	-	-
Raw materials and consumables used	2,985,527	2,985,075	(452)	-	-
Services	500,049	499,038	(1,011)	-	-
Taxes and charges	220,745	218,475	(2,706)	436	-
Wages and salaries	489,197	489,003	(194)	-	-
Social security and other employee benefits	127,375	127,328	(47)	-	-
Other costs	74,313	69,039	(83)	-	(5,191)
Costs by type of expense	**4,639,652**	**4,628,824**	**(6,073)**	**436**	**(5,191)**
Work performed by the entity and capitalised (-)	(115,308)	(116,303)	(995)	-	-
Selling and distribution expenses (-)	(315,064)	(309,873)	-	-	5,191
Cost of sales	**3,915,371**	**3,908,739**	**(7,068)**	**436**	**-**
Note 3 Other income					
Reversed impairment losses - trade receivables	5,677	-	-	-	(5,677)
	6,019	**342**	**-**	**-**	**(5,677)**
Income from lease of investment property	-	9,126	9,126	-	-
	15,546	**24,672**	**9,126**	**-**	**-**
	24,009	**27,458**	**9,126**	**-**	**(5,677)**
Note 4 Other expenses					
Recognised impairment losses - trade receivables	486	-	-	-	(486)
	693	**207**	**-**	**-**	**(486)**
Cost of investment property maintenance	-	7,068	7,068	-	-
	14,071	**21,139**	**7,068**	**-**	**-**
	22,582	**29,164**	**7,068**	**-**	**(486)-**
Note 5 Finance income					**-**
Net change in fair value of financial assets at fair value through profit or loss	2,748	3,184	-	436	-
	2,748	**3,184**	**-**	**436**	**-**
	17,586	**18,022**	**-**	**436**	**-**

The table below presents the impact of the changes on the consolidated statement of financial position:

(all amounts in PLN '000 unless indicated otherwise)

	Before restatement	Restated								
	As at Dec 31 2015	**As at Dec 31 2015**	**Impact of change 1**	**Impact of change 2**	**Impact of change 3**	**Impact of change 4**	**Impact of change 5**	**Impact of change 6**	**Impact of change 7**	**Impact of change 8**
Assets										
Non-current assets										
Property, plant and equipment	6,429,767	5,945,284	(484,483)	-	-	-	-	-	-	-
Perpetual usufruct of land	-	484,483	484,483	-	-	-	-	-	-	-
Other receivables	1,797	7,023	-	-	-	5,226	-	-	-	-
Other non-current assets	5,226	-	-	-	-	(5,226)	-	-	-	-
Total non-current assets	**7,224,923**	**7,224,923**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Current assets										
Inventories	1,180,599	958,769	-	(221,830)	-	-	-	-	-	-
Property rights	-	226,931	-	221,830	-	-	-	-	5,101	-
Derivative financial instruments	-	4,174	-	-	4,174	-	-	-	-	-
Other financial assets	502,885	498,711	-	-	(4,174)	-	-	-	-	-
Trade and other receivables	1,078,292	1,096,286	-	-	-	22,930	-	-	-	(4,936)
Other current assets	32,047	9,117	-	-	-	(22,930)	-	-	-	-
Total current assets	**3,552,246**	**3,552,411**	**-**	**-**	**-**	**-**	**-**	**-**	**5,101**	**(4,936)**
Total assets	**10,777,169**	**10,777,334**	**-**	**-**	**-**	**-**	**-**	**-**	**5,101**	**(4,936)**
Equity and liabilities										
Liabilities										
Derivative financial instruments	-	986	-	-	986	-	-	-	-	-
Other financial liabilities	57,658	56,672	-	-	(986)	-	-	-	-	-
Trade and other payables	1,347,227	1,576,538	-	-	-	-	1,346	222,864	5,101	-
Provisions	273,447	45,647	-	-	-	-		(222,864)	-	(4,936)
Deferred income	1,346	-	-	-	-	-	(1,346)	-	-	-
Total current liabilities	**1,855,802**	**1,855,967**	**-**	**-**	**-**	**-**	**-**	**-**	**5,101**	**(4,936)**
Total liabilities	**3,640,948**	**3,641,113**	**-**	**-**	**-**	**-**	**-**	**-**	**5,101**	**(4,936)**

(all amounts in PLN '000 unless indicated otherwise)

	Before restatement	Restated								
	As at Dec 31 2015	As at Dec 31 2015	Impact of change 1	Impact of change 2	Impact of change 3	Impact of change 4	Impact of change 5	Impact of change 6	Impact of change 7	Impact of change 8
Total equity and liabilities	**10,777,169**	**10,777,334**	**-**	**-**	**-**	**-**	**-**	**-**	**5,101**	**(4,936)**

- 1, 2 and 3 – perpetual usufruct right to land, property rights and derivatives were recognised as separate assets,
- 4 – prepayments and accrued income were reclassified from other assets to trade and other receivables,
- 5 – deferred income was included in trade and other payables,
- 6 – provisions for emission allowances were reclassified from provisions to trade and other payables,
- 7 – settlements related to energy certificates are recognised separately as property rights and trade and other payables,
- 8 – provisions for bonuses and rebates were offset against trade and other receivables.

As these changes did not have a material effect on the presentation of the consolidated statement of cash flows, the statement was not restated.

The table below presents the impact of changes in:

- the presentation of lease of investment property,
- the presentation of measurement of CO_2 emission allowances, and
- the presentation of impairment losses on trade receivables,

on the presentation of information on operating segments:

	Before restatement			Restated					
	for the six months ended June 30th 2015			for the six months ended June 30th 2015			Impact of changes		
	Energy	Other	Total	Energy	Other	Total	Energy	Other	Total
External revenue	101,323	78,372	5,119,657	101,323	69,246	5,110,531	-	(9,126)	(9,126)
Total revenue	1,563,130	449,892	8,825,091	1,563,130	440,766	8,815,965	-	(9,126)	(9,126)
Operating expenses, including:(-)	(1,560,842)	(442,745)	(8,291,400)	(1,561,278)	(430,486)	(8,279,577)	(436)	12,259	11,823
Selling and distribution expenses	*(50)*	*(871)*	*(315,064)*	*(50)*	*4,320*	*(309,873)*	-	*5,191*	*5,191*
Other income	4,729	10,987	24,009	4,729	14,436	27,458	-	3,449	3,449
Other expenses (-)	(1,459)	(8,845)	(22,582)	(1,459)	(15,427)	(29,164)	-	(6,582)	(6,582)
Segment's EBIT	**5,558**	**9,289**	**535,118**	**5,122**	**9,289**	**534,682**	**(436)**	**-**	**(436)**
Finance income	-	-	17,586	-	-	18,022	-	-	436
EBIT	5,558	9,289	535,118	5,122	9,289	534,682	(436)	-	(436)
EBITDA	**42,076**	**48,632**	**777,564**	**41,640**	**48,632**	**777,128**	**(436)**	**-**	**(436)**

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 the current and any future periods affected.

Except for the issues described in Note 17, 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 2015.

3. Selected notes and supplementary information

3.1. Explanatory notes

Segment reporting

Operating segments

The Grupa Azoty Group's business is carried out through four main reportable segments, each with a separate management strategy for production, sales, and marketing.
The Management Board reviews the internal management reports of each segment on a monthly basis.

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

- Agro Fertilizers Segment comprises the manufacturing or marketing of the following products:
  - Nitrogen fertilizers (Saletrzak 27 Standard (calcium ammonium nitrate), Saletrzak , Salmag®, Saletrzak z borem (with boron) 27+B Standard, Salmag z borem®, ZAKsan® (Kędzierzyńska Saletra Amonowa (Kędzierzyn ammonium nitrate)), Saletra Amonowa 30 Makro, mocznik.pl® (urea), 46% granulated urea, PULGRAN®, PULAN®, RSM®, PULREA®),
  - Nitrogen-sulfur fertilizers (ammonium sulfate AS21, Saletrosan®30 (ammonium sulfate nitrate), Saletrosan® 26, POLIFOSKA® 21, Salmag z siarką®, Pulgran®S, Pulsar®, Pulaska®, RSM®S),
  - Compound fertilizers (POLIFOSKA® 4, POLIFOSKA® 5, POLIFOSKA® 6, POLIFOSKA® 8, POLIFOSKA® 12, POLIFOSKA® M, POLIFOSKA® TYTAN, POLIFOSKA® START, POLIFOSKA® Petroplon, POLIMAG® S, POLIFOSKA®PLUS, Amofoska® NPK 5-10-25 +0,1B, Amofoska® NPK 4-16-18, Amofoska® NPK 4-10-28 +2,5Mg+0,1B, Amofoska® NPK 4-12-20, Amofoska® NPKMg 4-12-12+2,5, Amofoska® NPK 4-14-32, Amofoska® Corn NPK 4-10-22 +2,5Mg+0,2Zn),
  - nitrogen-phosphorus and phosphorus fertilizers (POLIDAP® TYTAN, POLIDAP®, POLIDAP® light, Super FOS DAR 40™),
  - ammonia,
  - technical-grade and concentrated nitric acid,
  - industrial gases;
- Plastics Segment comprises the manufacturing and marketing of the following products:
  - Tarnamid® (PA6) and its modifications,
  - Tarnoform® (POM) and its modifications,
  - alphalon™ (PA6),
  - Tarnoprop C and H (PPC, modified PPH),
  - Tarnodur A (modified PBT),
  - Tarnamid® A (modified PA66),
  - caprolactam,
  - polyamide 11 and 12 tubes, polyethylene tubes, polyamide 6 tubes,
  - standard Ż polyamide casings;

- Chemicals Segment comprises the manufacturing and marketing of the following products:
  - oxo alcohols (2-ethylhexanol, N-butanol, Isobutanol and Oktanol F),
  - plasticizers (Oxoplast® O, Oxoviflex®, Oxoplast Medica® and Oxoplast® PH),
  - titanium white (Tytanpol®),
  - melamine,
  - iron II sulfate (Fespol®),
  - urea- and ammonia-based special solutions, including: water solution of urea (Noxy®), water solution of urea with a 35%, 40% and 45% urea content (PULNOx®), ammonia water (LIKAM®);
- Energy Segment comprises the production of electricity and heat for the purposes of 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, catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts), rental of real estate, and other activities which cannot be allocated to any of the segments specified above. In the first half of 2016 and 2015, none of these activities met the quantitative criteria to be separated as a reportable segment.

Key financial results and performance of each of the segments are discussed below. Performance of each segment is measured based on revenue, EBIT and EBITDA.

(all amounts in PLN '000 unless indicated otherwise)

Operating segments

Revenues, expenses and financial results of operating segments for the six months ended June 30th 2016

Continuing operations	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	2,742,039	571,297	1,127,530	118,804	74,165	4,633,835
Inter-segment revenue	949,604	158,336	435,105	1,159,183	214,645	2,916,873
Total revenue	3,691,643	729,633	1,562,635	1,277,987	288,810	7,550,708
Operating expenses, including:(-)	(3,287,146)	(779,558)	(1,449,757)	(1,277,867)	(291,867)	(7,086,195)
Selling and distribution expenses (-)	*(238,785)*	*(27,795)*	*(77,521)*	*(85)*	*(786)*	*(344,972)*
Administrative expenses (-)	*(180,208)*	*(61,542)*	*(84,809)*	*(9,546)*	*(29,739)*	*(365,844)*
Other income	3,596	1,857	1,354	1,852	7,511	16,170
Other expenses (-)	(11,824)	(2,256)	(1,032)	(2,018)	(25,653)	(42,783)
Segment's EBIT*	**396,269**	**(50,324)**	**113,200**	**(46)**	**(21,199)**	**437,900**
Finance income	-	-	-	-	-	27,586
Finance costs (-)	-	-	-	-	-	(30,484)
Share of profit of equity-accounted associates	-	-	-	-	-	7,963
Profit before tax	**-**	**-**	**-**	**-**	**-**	**442,965**
Income tax	-	-	-	-	-	(87,460)
Net profit	**-**	**-**	**-**	**-**	**-**	**355,505**
EBIT*	396,269	(50,324)	113,200	(46)	(21,199)	437,900
Depreciation and amortisation	99,230	24,872	51,913	39,383	26,827	242,225
Unallocated depreciation and amortisation	-	-	-	-	-	14,402
EBITDA**	**495,499**	**(25,452)**	**165,113**	**39,337**	**5,628**	**694,527**

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.
** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

(all amounts in PLN '000 unless indicated otherwise)

Revenues, expenses and financial results of operating segments for the three months ended June 30th 2016

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,165,838	293,130	592,672	58,492	48,069	2,158,201
Inter-segment revenue	496,065	79,762	216,583	560,736	113,792	1,466,938
Total revenue	1,661,903	372,892	809,255	619,228	161,861	3,625,139
Operating expenses, including:(-)	(1,595,676)	(397,284)	(757,553)	(625,081)	(179,512)	(3,555,106)
Selling and distribution expenses (-)	*(127,222)*	*(14,436)*	*(40,942)*	*(53)*	*(181)*	*(182,834)*
Administrative expenses (-)	*(88,310)*	*(35,097)*	*(45,334)*	*(5,419)*	*(17,485)*	*(191,645)*
Other income	3,071	734	184	936	2,832	7,757
Other expenses (-)	(10,359)	(1,461)	(396)	(1,250)	(15,649)	(29,115)
Segment's EBIT*	**58,939**	**(25,119)**	**51,490**	**(6,167)**	**(30,468)**	**48,675**
Finance income	-	-	-	-	-	27,910
Finance costs (-)	-	-	-	-	-	(19,290)
Share of profit of equity-accounted associates	-	-	-	-	-	5,255
Profit before tax	**-**	**-**	**-**	**-**	**-**	**62,550**
Income tax	-	-	-	-	-	(14,036)
Net profit	**-**	**-**	**-**	**-**	**-**	**48,514**
EBIT*	58,939	(25,119)	51,490	(6,167)	(30,468)	48,675
Depreciation and amortisation	57,242	12,466	27,073	19,839	5,084	121,704
Unallocated depreciation and amortisation	-	-	-	-	-	7,486
EBITDA**	**116,181**	**(12,653)**	**78,563**	**13,672**	**(25,384)**	**177,865**

* EBIT is calculated as operating profit (loss) as disclosed in the statement of profit or loss.
** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

(all amounts in PLN '000 unless indicated otherwise)

Revenues, expenses and financial results of operating segments for the six months ended June 30th 2015, restated*

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	3,054,362	675,389	1,210,211	101,323	69,246	5,110,531
Inter-segment revenue	1,174,220	156,515	541,372	1,461,807	371,520	3,705,434
Total revenue	4,228,582	831,904	1,751,583	1,563,130	440,766	8,815,965
Operating expenses, including:(-)	(3,746,139)	(839,846)	(1,701,828)	(1,561,278)	(430,486)	(8,279,577)
Selling and distribution expenses (-)	*(214,384)*	*(28,294)*	*(71,465)*	*(50)*	*4,320*	*(309,873)*
Administrative expenses (-)	*(181,520)*	*(57,892)*	*(87,290)*	*(6,865)*	*(21,964)*	*(355,531)*
Other income	7,198	580	515	4,729	14,436	27,458
Other expenses (-)	(7,530)	(1,856)	(2,892)	(1,459)	(15,427)	(29,164)
Segment's EBIT**	**482,111**	**(9,218)**	**47,378**	**5,122**	**9,289**	**534,682**
Finance income	-	-	-	-	-	18,022
Finance costs (-)	-	-	-	-	-	(27,437)
Share of profit of equity-accounted associates	-	-	-	-	-	7,478
Profit before tax	**-**	**-**	**-**	**-**	**-**	**532,745**
Income tax	-	-	-	-	-	(75,110)
Net profit	**-**	**-**	**-**	**-**	**-**	**457,635**
EBIT**	482,111	(9,218)	47,378	5,122	9,289	534,682
Depreciation and amortisation	73,917	23,926	45,772	36,518	39,343	219,476
Unallocated depreciation and amortisation	-	-	-	-	-	22,970
EBITDA***	**556,028**	**14,708**	**93,150**	**41,640**	**48,632**	**777,128**

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.
** EBIT is calculated as operating profit (loss), as disclosed in the statement of profit or loss.
*** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

(all amounts in PLN '000 unless indicated otherwise)

Revenues, expenses and financial results of operating segments for the three months ended June 30th 2015, restated*

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,256,578	335,306	601,706	43,016	39,545	2,276,151
Inter-segment revenue	580,580	79,247	248,002	697,023	205,421	1,810,273
Total revenue	1,837,158	414,553	849,708	740,039	244,966	4,086,424
Operating expenses, including:(-)	(1,689,186)	(409,047)	(832,720)	(742,781)	(236,082)	(3,909,816)
Selling and distribution expenses (-)	*(99,985)*	*(14,050)*	*(36,189)*	*(22)*	*(752)*	*(150,998)*
Administrative expenses (-)	*(91,696)*	*(32,886)*	*(47,941)*	*(3,667)*	*(10,884)*	*(187,074)*
Other income	2,508	241	(543)	976	6,827	10,009
Other expenses (-)	(5,015)	(1,126)	(658)	(1,153)	(7,561)	(15,513)
Segment's EBIT**	**145,465**	**4,621**	**15,787**	**(2,919)**	**8,150**	**171,104**
Finance income	-	-	-	-	-	22,819
Finance costs (-)	-	-	-	-	-	(22,671)
Share of profit of equity-accounted associates	-	-	-	-	-	4,378
Profit before tax	**-**	**-**	**-**	**-**	**-**	**175,630**
Income tax	-	-	-	-	-	(23,832)
Net profit	**-**	**-**	**-**	**-**	**-**	**151,798**
EBIT**	145,465	4,621	15,787	(2,919)	8,150	171,104
Depreciation and amortisation	35,635	12,022	23,178	18,311	10,374	99,520
Unallocated depreciation and amortisation	-	-	-	-	-	21,233
EBITDA***	**181,100**	**16,643**	**38,965**	**15,392**	**18,524**	**291,857**

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.
** EBIT is calculated as operating profit (loss), as disclosed in the statement of profit or loss.
*** EBITDA is calculated as operating profit (loss) before depreciation and amortisation.

(all amounts in PLN '000 unless indicated otherwise)

Geographical areas

Revenue split by geographical areas is determined based on customer location. Assets are allocated to geographical areas based on the assets' location.

Revenue

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015* restated	for the period Apr 1– Jun 30 2015* restated
Poland	2,599,380	1,075,743	2,697,864	1,078,676
Germany	535,899	278,463	590,060	282,383
Other EU countries	1,010,098	492,067	1,195,792	579,521
Asian countries	174,370	92,573	268,416	127,146
African countries	107,207	49,849	111,409	62,443
South American countries	84,460	83,731	169,302	117,457
Other countries	122,421	85,775	77,688	28,525
Total	**4,633,835**	**2,158,201**	**5,110,531**	**2,276,151**

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.

No single customer accounted for more than 10% of revenue in H1 2016 or H1 2015.

Note 1 Revenue

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015* restated	for the period Apr 1– Jun 30 2015* restated
Sales of goods and services	4,516,387	2,096,477	4,993,956	2,228,124
Construction contract revenue	30,978	31,405	12,326	7,699
Sales of merchandise and raw materials	84,722	28,998	103,150	39,898
Sales of rights	1,748	1,321	1,075	430
Licence fees	-	-	-	(24)
Other income			24	24
	4,633,835	**2,158,201**	**5,110,531**	**2,276,151**

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Note 2 Operating expenses

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015* restated	for the period Apr 1– Jun 30 2015* restated
Depreciation and amortisation	254,431	127,909	240,866	119,962
Raw materials and consumables used	2,546,305	1,277,926	2,985,075	1,429,306
Services	501,699	262,087	499,038	257,304
Taxes and charges	181,631	85,697	218,475	106,590
Wages and salaries	521,594	273,434	489,003	261,250
Social security and other employee benefits	135,977	70,120	127,328	66,700
Other costs	110,083	71,462	69,039	39,282
Costs by type of expense	**4,251,720**	**2,168,635**	**4,628,824**	**2,280,394**
Change in inventories of finished goods (+/-)	(54,963)	(45,483)	(35,740)	(170,218)
Work performed by the entity and capitalised (-)	(100,266)	(55,492)	(116,303)	(61,538)
Selling and distribution expenses (-)	(344,972)	(182,834)	(309,873)	(150,998)
Administrative expenses (-)	(365,844)	(191,645)	(355,531)	(187,074)
Cost of merchandise and raw materials sold	72,831	20,508	97,362	50,905
Cost of sales	**3,458,506**	**1,713,689**	**3,908,739**	**1,761,471**
Includes excise duty	10,591	5,435	15,951	7,969

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Note 3 Other income

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015* restated	for the period Apr 1– Jun 30 2015* restated
Gain on disposal of assets:				
Gain on disposal of property, plant and equipment	-	-	2,444	218
			2,444	**218**
Reversed impairment losses on:				
Property, plant and equipment	354	354	-	-
Other	73	(436)	342	327
	427	**(82)**	**342**	**327**
Other operating income:				
Received compensations	3,426	1,808	7,153	1,326
Sales of social services	10	10	13	13
Reversal of provisions	929	620	1,476	1,197
Government grants	2,590	1,308	2,317	433
Fixed assets restored to use	-	-	71	71
Stock-taking surplus	-	-	1	(1)
Income from lease of investment property	8,280	4,146	9,126	4,560
Other (aggregated insignificant items)	508	(53)	4,515	1,865
	15,743	**7,839**	**24,672**	**9,464**
	16,170	**7,757**	**27,458**	**10,009**

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Note 4 Other expenses

	for the period Jan 1− Jun 30 2016	for the period Apr 1− Jun 30 2016	for the period Jan 1- Jun 30 2015* restated	for the period Apr 1− Jun 30 2015* restated
Loss on disposal of assets:				
Loss on sale of property, plant and equipment	788	(201)	7,818	5,501
	788	**(201)**	**7,818**	**5,501**
Recognised impairment loss on:				
Property, plant and equipment	2,239	2,238	207	183
Goodwill	2,493	2,493	-	-
Other	579	819	-	(6)
	5,311	**5,550**	**207**	**177**
Other expenses:				
Net loss on change in value of investment property	-	-	-	(6)
Fines and compensations	1,338	1,141	1,201	440
Plant outages	1,203	548	2,438	463
Cost of social services sold	133	92	145	103
Current asset decommissioning costs	3,727	928	1,020	390
Failure recovery expenses	4,686	1,370	6,827	4,735
Provisions recognised	13,209	12,920	1,120	778
Stock-taking shortage	1	1	-	(4)
Cost of investment property maintenance	6,250	3,303	7,068	3,535
Other (aggregated insignificant items)	6,137	3,463	1,320	(599)
	36,684	**23,766**	**21,139**	**9,835**
	42,783	**29,115**	**29,164**	**15,513**

* Financial data restated in accordance with the information presented in Note 2.2.c) to the interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Note 5 Finance income

	for the period Jan 1− Jun 30 2016	for the period Apr 1− Jun 30 2016	for the period Jan 1- Jun 30 2015* restated	for the period Apr 1− Jun 30 2015* restated
Interest income on:				
Bank deposits	8,839	5,068	4,611	2,752
Cash pooling	532	439	1,233	522
Loans	293	150	109	56
Trade receivables	1,116	592	1,459	729
Other	67	22	628	581
	10,847	**6,271**	**8,040**	**4,640**
Gain on sale of financial investments:				
Gains on sale of financial investments	-	-	-	(2)
	-	**-**	**-**	**(2)**
Gain on valuation of financial assets and liabilities:				
Net change in fair value of financial assets at fair value through profit or loss	142	-	3,184	2,646
Net change in fair value of financial liabilities at fair value through profit or loss	(324)	(324)	-	-
	(182)	**(324)**	**3,184**	**2,646**
Other finance income:				
Net foreign exchange gains	9,565	15,644	4,204	13,219
Dividends received	996	996	35	35
Other finance income	6,360	5,323	2,559	2,281
	16,921	**21,963**	**6,798**	**15,535**
	27,586	**27,910**	**18,022**	**22,819**

* Financial data restated in accordance with the information presented in Section 2.2.c) of the Supplementary Information to the interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Note 6 Finance costs

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015	for the period Apr 1– Jun 30 2015
Interest expense on:				
Credit facilities, including overdrafts	9,238	2,895	15,517	8,873
Cash pooling	480	445	1,176	472
Loans	883	775	199	103
Finance leases	808	389	811	404
Factoring	184	76	120	86
Receivables discounting	390	234	705	335
Trade payables	69	58	8	5
Tax liabilities	461	376	285	44
Other	4,695	3,668	2,662	2,656
	17,208	**8,916**	**21,483**	**12,978**
Loss on sale of financial investments:				
Loss on sale of financial investments	11	-	4	4
Other	-	-	902	902
	11	**-**	**906**	**906**
Loss from valuation of financial assets and liabilities:				
Net change in fair value of financial assets at fair value through profit or loss	5,971	3,477	834	5,278
Net change in fair value of financial liabilities at fair value through profit or loss	1,401	1,401	-	-
	7,372	**4,878**	**834**	**5,278**
Other finance costs:				
Unwind of discount on provisions	493	484	1,588	1,566
Other finance costs	5,400	5,012	2,626	1,943
	5,893	**5,496**	**4,214**	**3,509**
	30,484	**19,290**	**27,437**	**22,671**

(all amounts in PLN '000 unless indicated otherwise)

Note 7 Income tax expense

Note 7.1 Tax recognised in the statement of profit or loss

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015	for the period Apr 1– Jun 30 2015
Current tax expense:				
Current year	69,038	24,640	64,074	24,780
Adjustment for prior years	(1,102)	(1,102)	(15,574)	1
	67,936	**23,538**	**48,500**	**24,781**
Deferred tax expense:				
Origination and reversal of temporary differences	19,524	(9,502)	26,610	(949)
	19,524	**(9,502)**	**26,610**	**(949)**
Tax expense in the statement of profit or loss	**87,460**	**14,036**	**75,110**	**23,832**

Note 7.2 Effective tax rate

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015	for the period Apr 1– Jun 30 2015
Profit before tax	**442,965**	**62,550**	**532,745**	**175,630**
Tax at the Company's domestic tax rate	84,163	11,884	101,222	33,370
Effect of tax rates in foreign jurisdictions	(2,410)	(1,205)	11	358
Non-taxable income (+/-)	(1,501)	(750)	634	(1,063)
Non-deductible expenses (+/-)	10,414	5,207	6,185	4,384
Effect of tax losses deducted in the period (+/-)	(171)	(85)	(1,465)	(630)
Recognition of government grants deductible in subsequent periods (+/-)	(819)	(409)	(18,123)	(11,005)
Other(+/-)	(2,216)	(606)	(13,354)	(1,582)
Tax expense in the statement of profit or loss	**87,460**	**14,036**	**75,110**	**23,832**
Effective tax rate	**19.7%**	**22.4%**	**14.1%**	**13.6%**

(all amounts in PLN '000 unless indicated otherwise)

The effective tax rate of 14.1% for the period January 1st – June 30th 2015 resulted mainly from the recognition of a deferred tax asset related to government grants received in connection with Grupa Azoty PUŁAWY's operation in a special economic zone, and adjustment of income tax for prior years at Grupa Azoty PUŁAWY.

Note 7.3 Income tax recognised in other comprehensive income

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015	for the period Apr 1– Jun 30 2015
Tax on items that will not be reclassified to profit or loss (+/-)	**(1,582)**	**(1,582)**	**(441)**	**(441)**
Remeasurement of defined benefit obligation	(1,582)	(1,582)	(441)	(441)
Tax expense recognised in other comprehensive income	**(1,582)**	**(1,582)**	**(441)**	**(441)**

(all amounts in PLN '000 unless indicated otherwise)

Note 7.4 Deferred tax assets and liabilities

	Deferred tax assets (-)		Deferred tax liabilities (+)	
	Jun 30 2016	Dec 31 2015	Jun 30 2016	Dec 31 2015
Property, plant and equipment	(79,972)	(83,720)	413,693	411,511
Perpetual usufruct of land	(61)	(53)	47,947	46,571
Investment property	(1,099)	(1,056)	7,556	5,811
Intangible assets	(6,753)	(7,213)	80,552	81,413
Financial assets	(17,691)	(12,870)	18,340	21,315
Inventories and property rights	(11,028)	(11,362)	18,285	31,655
Trade and other receivables	(15,332)	(2,663)	1,321	2,957
Trade and other payables	(48,630)	(52,006)	1,168	301
Other current assets	(79)	(4,187)	89	89
Employee benefits	(75,948)	(75,063)	21	19
Provisions	(31,926)	(59,296)	417	-
Bank borrowings	-	-	45	-
Other financial liabilities	(3,552)	(1,101)	695	629
Hedge accounting of derivatives	(655)	-	-	-
Government grants deductible in subsequent periods	(65,724)	(80,502)	-	-
Tax losses	(30,125)	(29,310)	-	-
Other	(8,184)	(6,067)	9,059	7,297
Deferred tax assets(-)/liabilities(+)	**(396,759)**	**(426,469)**	**599,188**	**609,568**
Offsetting	**337,327**	**363,700**	**(337,327)**	**(363,700)**
Deferred tax assets(-)/liabilities(+) recognised in the statement of financial position	**(59,432)**	**(62,769)**	**261,861**	**245,868**

(all amounts in PLN '000 unless indicated otherwise)

Note 8 Earnings per share

The calculation of basic earnings per share was based on the net profit attributable to equity holders of the Parent and the weighted average number of shares outstanding at the reporting date and was made as follows:

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015	for the period Apr 1– Jun 30 2015
Net profit	**316,722**	**44,351**	**402,758**	**126,623**
Issued shares at beginning of period	99,195,484	99,195,484	99,195,484	99,195,484
Issued shares at end of period	99,195,484	99,195,484	99,195,484	99,195,484
Weighted average number of shares in the period	**99,195,484**	**99,195,484**	**99,195,484**	**99,195,484**
Earnings per share:				
Basic (PLN)	3.19	0.45	4.06	1.28
Diluted (PLN)	3.19	0.45	4.06	1.28

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

Note 9 Property, plant and equipment

Carrying amounts

	as at Jun 30 2016	as at Dec 31 2015* restated
Land	32,342	32,318
Mineral deposits	336,248	328,793
Buildings and structures	1,898,764	1,881,080
Plant and equipment	2,638,770	2,595,316
Vehicles	123,538	127,669
Other	105,880	109,451
	5,135,542	**5,074,627**
Property, plant and equipment under construction	1,096,527	870,657
	6,232,069	**5,945,284**

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Carrying amounts of property, plant and equipment

	Land	Mineral deposits	Buildings and structures	Plant and equipment	Vehicles	Other	Property, plant and equipment under construction	Total
As at Jun 30 2016								
Gross carrying amount	33,813	354,949	2,773,578	4,744,734	258,705	230,757	1,155,740	9,552,276
Accumulated depreciation (-)	(43)	(18,701)	(827,094)	(1,998,142)	(90,103)	(124,190)	-	(3,058,273)
Impairment loss (-)	(1,428)	-	(47,720)	(107,822)	(45,064)	(687)	(59,213)	(261,934)
Net carrying amount as at Jun 30 2016	**32,342**	**336,248**	**1,898,764**	**2,638,770**	**123,538**	**105,880**	**1,096,527**	**6,232,069**
as at Dec 31 2015								
Gross carrying amount	33,955	345,615	2,713,957	4,549,017	255,650	223,629	927,000	9,048,823
Accumulated depreciation (-)	-	(16,822)	(784,502)	(1,845,895)	(82,917)	(113,714)	-	(2,843,850)
Impairment loss (-)	(1,637)	-	(48,375)	(107,806)	(45,064)	(464)	(56,343)	(259,689)
Net carrying amount as at Dec 31 2015*, restated	**32,318**	**328,793**	**1,881,080**	**2,595,316**	**127,669**	**109,451**	**870,657**	**5,945,284**

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Note 10 Intangible assets

Carrying amounts

	as at Jun 30 2016	as at Dec 31 2015
Trademarks	89,772	88,788
Corporate mark	130,545	130,545
Customer base	79,564	84,729
Patents and licences	94,111	98,169
Software	32,672	33,549
Development costs	8,640	7,848
Other intangible assets	7,165	7,375
	442,469	**451,003**
Intangible assets under construction	33,545	27,212
Exploration and evaluation of mineral resources	74,690	54,583
	550,704	**532,798**

Note 11 Cash and cash equivalents

	as at Jun 30 2016	as at Dec 31 2015
Cash in hand	662	543
Cash at bank (PLN)	133,572	186,064
Cash at bank (foreign currencies translated into PLN)	131,717	112,387
Bank deposits - up to 3 months	376,942	452,637
Bank deposits - other	2,026	1,513
	644,919	**753,144**
Cash and cash equivalents in the statement of financial position	**644,919**	**753,144**
Cash and cash equivalents in the statement of cash flows	**644,919**	**753,144**

As at June 30th 2016, the Group held restricted cash of PLN 8,056 thousand (December 31st 2015: PLN 5,506 thousand).

Restricted cash comprises in particular cash at bank held as an interest-bearing security deposit securing open letters of credit, and funds blocked in bank account.

(all amounts in PLN '000 unless indicated otherwise)

Note 12 Borrowings

	as at Jun 30 2016	as at Dec 31 2015
Bank borrowings	1,087,142	1,017,375
Loans	148,086	148,955
	1,235,228	**1,166,330**
Thereof:		
Non-current	1,074,010	1,047,450
Current	161,218	118,880
	1,235,228	**1,166,330**

Maturities and currencies

As at Jun 30 2016

Currency	Reference rate	Value as at reporting date		Less than 1 year	1-2 year(s)	2-5 years	>5 years
		in original currency	in PLN				
PLN	variable	952,138	952,138	104,289	23,725	786,774	37,350
EUR	variable	73,803	283,090	56,929	-	99,719	126,442
			1,235,228	**161,218**	**23,725**	**886,493**	**163,792**

As at Dec 31 2015

Currency	Reference rate	Value as at reporting date		Less than 1 year	1-2 year(s)	2-5 years	>5 years
		in original currency	in PLN				
PLN	variable	893,368	893,368	39,699	25,641	784,210	43,818
EUR	variable	64,130	272,962	55,181	-	80,804	136,977
			1,166,330	**94,880**	**25,641**	**865,014**	**180,795**

The financing of the Group is based on variable interest rates. Depending on the currency, the rates are based on WIBOR, EURIBOR or LIBOR.

As at June 30th 2016, the Group had available credit limits of approximately PLN 1,849m (December 31st 2015: PLN 1,934m).

Note 13 Employee benefits

	as at Jun 30 2016	as at Dec 31 2015
Pension benefit obligations	117,466	110,781
Jubilee benefit obligations	209,136	209,311
Pensioner Social Fund benefit obligations	13,729	14,284
Other liabilities	26,264	25,759
	366,595	**360,135**
Thereof:		
Non-current	334,344	326,968
Current	32,251	33,167
	366,595	**360,135**

(all amounts in PLN '000 unless indicated otherwise)

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

- discount rate of 3.0% (December 31st 2015: 3.0%),
- future minimum pay increase rate of 6.0% (December 31st 2015: 4.0%),
- future average pay increase rate of 3.0% (December 31st 2015: 3.0%),

Note 14 Provisions

	as at Jun 30 2016	as at Dec 31 2015* restated
Provision for legal claims	4,339	4,313
Provision for environmental protection, including site restoration	100,121	99,849
Provision for demolition of mercury electrolysis plant	7,613	7,479
Provisions for guarantees and sureties	3,760	3,999
Other provisions, including:	31,332	30,747
Provision for property cleaning and restoration services	10,057	12,210
Provision for demolition	525	525
other	20,750	18,012
	147,165	**146,387**
Thereof:		
Non-current	102,495	100,740
Current	44,670	45,647
	147,165	**146,387**

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

Note 15 Financial instruments

Categories of financial instruments

Financial assets

	as at Jun 30 2016	as at Dec 31 2015* restated
At fair value through profit or loss	805	4,174
Loans and receivables	1,387,046	1,248,060
Cash and cash equivalents	644,919	753,144
Available-for-sale financial assets	12,818	13,204
	2,045,588	**2,018,582**
Recognised in the statement of financial position as:		
Available-for-sale financial assets	12,818	12,370
Trade and other receivables	883,437	745,837
Cash and cash equivalents	644,919	753,144
Other financial assets	503,609	503,057
Derivative financial instruments	805	4,174
	2,045,588	**2,018,582**

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Financial liabilities

	as at Jun 30 2016	as at Dec 31 2015* restated
At fair value through profit or loss	18,715	986
At amortised cost	2,234,567	2,216,749
	2,253,282	**2,217,735**
Recognised in the statement of financial position as:		
Non-current borrowings	1,074,010	1,047,450
Current borrowings	161,218	118,880
Trade and other payables	910,706	977,635
Other financial liabilities	88,633	72,784
Derivative financial instruments	18,715	986
	2,253,282	**2,217,735**

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

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

The following table presents the maximum exposure of the Group to credit risk:

	as at Jun 30 2016	as at Dec 31 2015
Assets at fair value through profit or loss	805	4,174
Loans and receivables	1,387,046	1,248,060
Cash and cash equivalents	644,919	753,144
	2,032,770	**2,005,378**

Trade receivables
The following table shows the structure of credit risk related to trade receivables by product groups in the Group:

	as at Jun 30 2016	as at Dec 31 2015
Agro Fertilizers	358,787	258,432
Plastics	161,528	188,751
Chemicals	279,283	217,604
Energy	23,486	24,957
Other Activities	24,048	35,346
	847,132	**725,090**

(all amounts in PLN '000 unless indicated otherwise)

Not impaired overdue trade receivables

	as at Jun 30 2016	as at Dec 31 2015
Past due to 60 days	26,139	55,824
Past due 60-180 days	3,593	23,523
Past due 180-360 days	2,038	741
Past due more than 360 days	923	293
	32,693	**80,381**

The Group's trade receivables are insured under trade credit insurance policies, which limit the credit risk to the amount of deductible (5% to 10% of the insured receivables). The insurance policies provide the facility for ongoing monitoring of customer's current financial position and debt recovery when required. Additionally, upon customer's real or legal insolvency, the Group receives the compensation payment amounting to 90-95% of insured receivable value.
A majority of the Group's remaining trade receivables from non-related entities are secured by letters of credit, guarantees or collateral.
Trade credit is typically granted subject to approval by an insurance company and also on the basis of a positive trading history and the partner's credit standing assessed based on business intelligence reports, financial statements and payment history.
Whenever no positive trading history exists between a trading partner and the Group or when transactions are occasional and the credit limit cannot be insured, a prepayment or security are required.
Credit risk exposure is defined as the total of unpaid receivables, monitored on an ongoing basis by the Group's internal financial staff (individually for each customer) and, if a receivable is insured, also by the insurance company analysts.

Fair value of financial instruments
Details of the fair value of financial instruments, where measurement is possible, are presented below:

- Cash and cash equivalents, short-term bank deposits and short-term bank borrowings. Carrying amounts of such instruments approximate their fair value because of the short maturities of such instruments.
- Trade and other receivables, trade payables. Carrying amounts of such instruments approximate their fair value because of the short maturities of such instruments.
- Long-term variable-rate borrowings. Carrying amounts of such instruments approximate their fair value due to the variable interest rates.
- Long-term fixed-rate borrowings. The carrying amount of these instruments is PLN 221,316 thousand, and their fair value is approximately PLN 223,075 thousand (Level 2 in fair value hierarchy).
- FX derivatives and emission allowance derivatives. Carrying amounts of such instruments are equal to their fair values,
- Available-for-sale financial assets. Carrying amounts of such instruments are equal to their fair values.

The fair values of the Group's fair value-measured financial instruments by input level in the fair value hierarchy as at June 30th 2016:

(all amounts in PLN '000 unless indicated otherwise)

Hierarchy level	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value, including:			
available-for-sale shares	-	-	12,818
currency forwards	-	799	-
emission allowance futures	-	6	-
	-	**805**	**12,818**
Financial liabilities at fair value, including:			
currency forwards	-	(7,915)	-
emission allowance futures	-	(10,800)	-
	-	**(18,715)**	**-**

The table below shows financial instruments carried at fair value as at December 31st 2015, by levels in the fair value hierarchy:

Hierarchy level	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value, including:			
available-for-sale shares	-	-	13,204
currency forwards	-	1,283	-
emission allowance futures	-	2,891	-
	-	**4,174**	**13,204**
Financial liabilities at fair value, including:			
currency forwards	-	(927)	-
FRAs	-	(59)	-
	-	**(986)**	**-**

The fair value hierarchy presented in the tables above is as follows:
Level 1 – price quoted on the active market for the same assets or liabilities,
Level 2 – the value determined based on inputs other than quoted prices included in level 1 that are directly or indirectly observable or ascertainable based on the market information,
Level 3 – the value determined on the basis of data inputs that are not based on observable market inputs.

The fair value of currency forwards and emission allowance futures presented under Level 2 is determined based on a valuation carried out by banks and financial institutions with which the relevant contracts were entered into. Such valuations are reviewed by discounting the expected cash flows from the contracts using market interest rates prevailing at the reporting date.

The Group carries an investment of PLN 12,818 thousand (December 31st 2015: PLN 13,204 thousand) in shares that are classified under Level 3 as they are not quoted on an active market and there were no transactions in the shares. The fair value of the shares was estimated by an expert using valuation techniques containing significant unobservable inputs, i.e. projected cash flows and discount rates.

(all amounts in PLN '000 unless indicated otherwise)

Derivative instruments and hedge accounting

Currency derivatives

As at June 30th 2016, the notional value of the Group's open currency derivatives (forwards) totalled EUR 90m (with EUR 10.7m maturing in July 2016, EUR 12.7m in August 2016, EUR 13.6m in September 2016, EUR 11.0m in October 2016, EUR 11.0m in November, EUR 4.2m in December 2016, EUR 5.1m in January 2017, EUR 5.6m in February 2017, EUR 5.5m in March 2017, EUR 3.8m in April 2017, EUR 3.1m in May 2017, and EUR 3.7m in June 2017) and USD 24.2m (with USD 4.3m maturing in July 2016, USD 2.3m in August 2016, USD 3.0m in August 2016, USD 1.9m in October 2016, USD 4.6m in November 2016, USD 0.9m in December 2016, USD 0.9m in January 2017, USD 1.9m in February 2017, USD 2.0m in March 2017, USD 1.1m in April 2017, USD 0.9m in May 2017, and USD 0.5m in June 2017). As at December 31st 2015, the notional value of the Group's open currency derivatives (forwards) was EUR 99.3m and USD 12.4m.

Transactions are only concluded with reliable banks and are based on framework agreements. All derivative transactions reflect the real transactions affecting the currency cash flows. The currency forwards and derivatives are entered into based on the Group's currency exposure in order to reduce the impact of currency fluctuations on profit or loss.

Hedge accounting

The Grupa Azoty Group applies cash flow hedge accounting. The hedged items are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from December 2018 to June 2025. The hedging covers currency risk. The hedge is a euro-denominated credit facility with a value of EUR 50m as at June 30th 2016, repayable from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 3,571 thousand each. As at June 30th 2016, the fair value of the facility was PLN 223,075 thousand (December 31st 2015: PLN 213,394 thousand). As at June 30th 2016, the hedging reserve included PLN (8,135) thousand on account of the effective hedge (December 31st 2015: PLN 65 thousand). In H1 2016, the Group did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

Note 16 Contingent liabilities, contingent assets and guarantees

Contingent assets

	as at Jun 30 2016	as at Dec 31 2015
Contingent receivables	27,583	22,149
Other contingent assets	407	-
	27,990	**22,149**

Contingent liabilities, sureties and guarantees

	as at Jun 30 2016	as at Dec 31 2015
Guarantees	482	987
Other contingent liabilities	20,204	26,381
	20,686	**27,368**

Contingent assets and contingent liabilities did not change relative to the information presented in the full-year consolidated financial statements.

(all amounts in PLN '000 unless indicated otherwise)

Note 17 Accounting estimates and assumptions

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

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1-Dec 31 2015* restated	for the period Jan 1- Jun 30 2015* restated	for the period Apr 1– Jun 30 2015* restated
Balance at beginning of period	**506,522**	**501,359**	**492,708**	**492,708**	**493,319**
Recognised	30,951	26,367	69,618	31,864	29,464
Reversed (-)	(3,607)	(797)	(19,370)	(2,061)	(1,303)
Used (-)	(20,106)	(13,169)	(36,434)	(12,141)	(11,110)
Balance at end of period	**513,760**	**513,760**	**506,522**	**510,370**	**510,370**

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

Changes in impairment losses of property, plant and equipment

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1-Dec 31 2015	for the period Jan 1- Jun 30 2015	for the period Apr 1– Jun 30 2015
Balance at beginning of period	**259,689**	**259,620**	**203,714**	**203,714**	**202,862**
Recognised	2,964	2,964	59,402	206	182
Reversed (-)	(616)	(571)	(734)	(38)	(38)
Used (-)	(103)	(79)	(2,693)	(1,420)	(544)
Balance at end of period	**261,934**	**261,934**	**259,689**	**202,462**	**202,462**

Changes in inventory write-downs

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1-Dec 31 2015	for the period Jan 1- Jun 30 2015	for the period Apr 1– Jun 30 2015
Balance at beginning of period	**50,432**	**49,526**	**45,163**	**45,163**	**46,232**
Recognised	31,680	20,998	50,357	22,951	12,477
Reversed (-)	(10,968)	(5,206)	(25,993)	(12,992)	(6,082)
Used (-)	(8,087)	(2,261)	(19,095)	(6,648)	(4,153)
Balance at end of period	**63,057**	**63,057**	**50,432**	**48,474**	**48,474**

Changes in impairment losses on receivables

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1-Dec 31 2015	for the period Jan 1- Jun 30 2015	for the period Apr 1– Jun 30 2015
Balance at beginning of period	**63,479**	**58,387**	**74,324**	**74,324**	**62,461**
Recognised	23,076	22,149	8,057	3,117	1,104
Reversed (-)	(2,135)	(1,131)	(10,117)	(8,597)	(1,224)
Used (-)	(5,249)	(234)	(8,785)	(7,168)	(665)
Balance at end of period	**79,171**	**79,171**	**63,479**	**61,676**	**61,676**

As at June 30th 2016, the subsidiary African Investment Group S.A. recognised:
- an impairment loss on past due trade receivables of XOF 2,877,478 thousand (PLN 19,103 thousand as at June 30th 2016),
- a work in progress inventory write-down of XOF 817,340 thousand,(PLN 5,426 thousand as at June 30th 2016).

The impairment loss and write-down were charged to the consolidated statement of profit or loss and other comprehensive income as follows:
- the impairment loss on receivables was charged to selling and distribution expenses as other costs,
- the inventory write-down was charged to cost of sales as a change in inventories of finished goods.

Receivables past due for more than 360 days resulted from the sale of fertilizers to a customer in Senegal in December 2014. As the payment has not been made, court proceedings are pending and the company seeks to satisfy its claim from the debtor's assets. The management board of the subsidiary believes that the recovery of the receivables in Senegal will be a lengthy process, and its outcome is highly uncertain. Given the existing and expected results of the process, a decision was made to recognise an impairment loss on the full amount of the receivables. The amount of the impairment loss may change in the future to reflect the outcome of the court and enforcement proceedings.

Based on available information, the management board of the subsidiary estimated that bringing the inventory of work in progress (phosphate rock) to a condition in which it may be sold is a process that requires the subsidiary to incur significant additional costs. As a result, a 50% write-down of the inventory value was found to be the most appropriate solution.

Note 18 Capital commitments

In the period ended June 30th 2016, the Group signed contracts for new investment projects and for continuation of on-going investment projects. The contracts comprise chemical, construction, mechanical, electric, design and supervision services.

The Group's largest capital commitments were as follows:
- Construction of Polyamide Plant − PLN 109,410 thousand (December 31st 2015: PLN 74,128 thousand),
- Construction of a new CHP Plant at Grupa Azoty KĘDZIERZYN – PLN 67,193 thousand (December 31st 2015: PLN 138,870 thousand),
- Construction of polypropylene plant − 50,579 thousand (December 31st 2015: PLN 0 thousand),
- Upgrade of the ammonia synthesis process − PLN 44,420 thousand (December 31st 2015: PLN 45,161 thousand),
- Production unit for granulated fertilizers based on ammonium nitrate − PLN 42,799 thousand (December 31st 2015: PLN 0 thousand).

The Company is committed to incur capital expenditure of PLN 647,097 thousand (31 December 2015: PLN 581,733 thousand).

3.2. Related-party transactions

Significant related-party transactions:

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

In the six months ended June 30th 2016, 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 six months ended June 30th 2016, 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 other agreements with them to provide benefits to the Group.

3.3. Dividends

On June 6th 2016, the Annual General Meeting of the Parent passed a resolution to distribute the dividend for 2015 in the amount of PLN 83,324 thousand, i.e. PLN 0.84 per share. The dividend record date and the dividend payment date were set for June 20th 2016 and July 11h 2016, respectively. In 2015, the Parent did not pay any dividend.

3.4. Seasonality of operations

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

Mineral fertilizers
Each year, the first half-year is a period of increased activity in the agricultural sector, preceded by a demand for agricultural materials (including mineral fertilizers). The Grupa Azoty Group mitigates seasonality through optimum volume allocation:

- in all-year supplies to the distribution network,
- and partially by placing products on geographical markets with different seasonality patterns.

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

Interim condensed separate financial statements for the six and three months ended June 30th 2016 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 six and three months ended June 30th 2016, comprising:

- Condensed separate statement of profit or loss and other comprehensive income for the period January 1st – June 30th 2016 and April 1st – June 30th 2016,
- Condensed separate statement of financial position as at June 30th 2016,
- Condensed separate statement of changes in equity for the period January 1st–June 30th 2016,
- Condensed separate statement of cash flows for the period January 1st–June 30th 2016,
- 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 assets, financial position and performance of Grupa Azoty S.A.

Signatures of the Members of the Management Board

……………………………
Mariusz Bober
President of the Management Board

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

……………………………
Tomasz Hinc
Vice President of the Management Board

……………………………
Paweł Łapiński
Vice President of the Management Board

……………………………
Józef Rojek
Vice President of the Management Board

……………………………
Artur Kopeć
Member of the Management Board

Person responsible for maintaining accounting records

……………………………
Ewa Gładysz
Head of Corporate Finance
Department

Tarnów, August 23rd 2016

(all amounts in PLN '000 unless indicated otherwise)

Condensed separate statement of profit or loss and other comprehensive income

	for the period Jan 1– Jun 30 2016	for the period Apr 1– Jun 30 2016	for the period Jan 1- Jun 30 2015* restated	for the period Apr 1– Jun 30 2015* restated
	unaudited	*unaudited*	*unaudited*	*unaudited*
Revenue	793,309	357,076	866,965	368,487
Cost of sales	(660,594)	(320,186)	(716,569)	(309,393)
Gross profit	**132,715**	**36,890**	**150,396**	**59,094**
Selling and distribution expenses	(44,607)	(20,777)	(45,920)	(20,812)
Administrative expenses	(79,089)	(43,696)	(72,460)	(39,352)
Other income	5,138	2,487	4,858	2,283
Other expenses	(11,145)	(5,123)	(12,262)	(7,604)
Operating profit/(loss)	**3,012**	**(30,219)**	**24,612**	**(6,391)**
Finance income	278,220	274,571	234,061	230,723
Finance costs	(20,015)	(11,031)	(18,075)	(8,785)
Net finance income	**258,205**	**263,540**	**215,986**	**221,938**
Profit before tax	**261,217**	**233,321**	**240,598**	**215,547**
Income tax	(3,023)	2,615	(4,222)	2,899
Net profit	**258,194**	**235,936**	**236,376**	**218,446**
Other comprehensive income				
Items that will never be reclassified to profit or loss				
Remeasurement of defined benefit obligation	(5,468)	(5,468)	(557)	(557)
Tax on items that will never be reclassified to profit or loss	1,038	1,038	106	106
	(4,430)	**(4,430)**	**(451)**	**(451)**
Items that are or may be reclassified to profit or loss				
Cash flow hedging - effective portion of change in fair-value measurement	(8,200)	(7,855)	-	-
	(8,200)	**(7,855)**	**-**	**-**
Total other comprehensive income	**(12,630)**	**(12,285)**	**(451)**	**(451)**
Total profit or loss and other comprehensive income	**245,564**	**223,651**	**235,925**	**217,995**
Earnings per share:				
Basic (PLN)	2.60	2.38	2.38	2.20
Diluted (PLN)	2.60	2.38	2.38	2.20

* Financial data restated as described in the 'Supplementary information to the interim condensed separate financial statements'.

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

(all amounts in PLN '000 unless indicated otherwise)

Condensed separate statement of financial position

	as at Jun 30 2016	as at Dec 31 2015* restated
	unaudited	*audited*
Assets		
Non-current assets		
Property, plant and equipment	1,276,736	1,106,972
Perpetual usufruct of land	376	377
Investment property	20,101	19,754
Intangible assets	49,199	50,442
Investments in subordinated entities	3,866,576	3,832,536
Available-for-sale financial assets	12,134	12,134
Other financial assets	269,429	218,115
Total non-current assets	**5,494,551**	**5,240,330**
Current assets		
Inventories	177,567	188,843
Property rights	27,673	32,272
Derivative financial instruments	-	986
Other financial assets	37,865	29,186
Trade and other receivables	289,282	252,726
Cash and cash equivalents	56,112	111,942
Assets held for sale	340	340
Total current assets	**588,839**	**616,295**
Total assets	**6,083,390**	**5,856,625**

* Financial data restated as described in the 'Supplementary information to the interim condensed separate financial statements'.

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

(all amounts in PLN '000 unless indicated otherwise)

Condensed separate statement of financial position (continued)

	as at Jun 30 2016	as at Dec 31 2015* restated
	unaudited	*audited*
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Hedging reserve	(8,135)	65
Retained earnings, including:	1,638,899	1,468,459
Profit for the period	*258,194*	*209,055*
Total equity	**4,545,011**	**4,382,771**
Liabilities		
Borrowings	944,549	935,550
Other financial liabilities	338	244
Employee benefit obligations	55,952	50,679
Provisions	24,461	24,446
Government grants	11,368	3,163
Deferred tax liabilities	31,755	29,770
Total non-current liabilities	**1,068,423**	**1,043,852**
Borrowings	49,001	48,962
Derivative financial instruments	3,949	499
Other financial liabilities	61,899	46,055
Employee benefit obligations	2,648	2,694
Trade and other payables	339,915	324,464
Provisions	3,286	5,014
Government grants	9,258	2,314
Total current liabilities	**469,956**	**430,002**
Total liabilities	**1,538,379**	**1,473,854**
Total equity and liabilities	**6,083,390**	**5,856,625**

* Financial data restated as described in the 'Supplementary information to the interim condensed separate financial statements'.

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

(all amounts in PLN '000 unless indicated otherwise)

Condensed separate statement of changes in equity

for the period ended June 30th 2016

	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Balance as at Jan 1 2016	**495,977**	**2,418,270**	**65**	**1,468,459**	**4,382,771**
Profit or loss and other comprehensive income					
Net profit	-	-	-	258,194	258,194
Other comprehensive income	-	-	(8,200)	(4,430)	(12,630)
Total profit or loss and other comprehensive income	**-**	**-**	**(8,200)**	**253,764**	**245,564**
Transactions with owners, recognised directly in equity					
Dividends	-	-	-	(83,324)	(83,324)
Total transactions with owners	**-**	**-**		**(83,324)**	**(83,324)**
Balance as at Jun 30 2016 (unaudited)	**495,977**	**2,418,270**	**(8,135)**	**1,638,899**	**4,545,011**

for the period ended June 30th 2015

	Share capital	Share premium	Retained earnings	Total equity
Balance as at Jan 1 2015	**495,977**	**2,418,270**	**1,260,094**	**4,174,341**
Profit or loss and other comprehensive income				
Net profit	-	-	236,376	236,376
Other comprehensive income	-	-	(451)	(451)
Total profit or loss and other comprehensive income	**-**	**-**	**235,925**	**235,925**
Balance as at Jun 30 2015 (unaudited)	**495,977**	**2,418,270**	**1,496,019**	**4,410,266**

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

(all amounts in PLN '000 unless indicated otherwise)

Condensed separate statement of cash flows

	for the period Jan 1– Jun 30 2016	for the period Jan 1- Jun 30 2015
	unaudited	*unaudited*
Cash flows from operating activities		
Profit before tax	**261,217**	**240,598**
Adjustments for:	*(210,767)*	*(166,970)*
Depreciation and amortisation	46,208	45,271
Impairment	27	72
Loss from investing activities	939	3,537
Loss on disposal of financial assets	11	-
Interest, foreign exchange gains or losses	10,316	15,589
Dividends	(272,704)	(230,680)
Profit/(loss) on change in fair value of financial assets at fair value through profit or loss	4,436	(759)
Cash from operating activities before changes in working capital	***50,450***	***73,628***
Change in trade and other receivables	(38,955)	7,633
Change in inventories and property rights	15,759	(15,614)
Change in trade and other payables	(45,908)	(32,518)
Change in provisions, prepayments and grants	(9,160)	(932)
Cash from operating activities	***(27,814)***	***32,197***
Income tax refund	-	1,212
Net cash from operating activities	**(27,814)**	**33,409**

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

(all amounts in PLN '000 unless indicated otherwise)

Condensed separate statement of cash flows (continued)

	for the period Jan 1– Jun 30 2016	for the period Jan 1- Jun 30 2015
	unaudited	*unaudited*
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	203	1,898
Acquisition of property, plant and equipment, intangible assets and investment property	(196,962)	(85,957)
Dividends received	257,728	221,288
Acquisition of financial assets	(34,060)	-
Proceeds from sale of financial assets	9	-
Interest received	3,544	5
Loans repaid	15,096	-
Loans advanced	(75,090)	(62,933)
Other disbursements	(1,116)	(3,040)
Net cash used in investing activities	**(30,648)**	**71,261**
Cash flows from financing activities		
Proceeds from borrowings	-	716,661
Payment of borrowings	-	(744,979)
Interest paid	(13,023)	(16,024)
Payment of finance lease liabilities	(331)	(476)
Other proceeds	15,986	4,513
Net cash from/(used in) financing activities	**2,632**	**(40,305)**
Net increase/(decrease) in cash and cash equivalents	**(55,830)**	**64,365**
Cash and cash equivalents at beginning of period	**111,942**	**27,431**
Cash and cash equivalents at end of period	**56,112**	**91,796**

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

(all amounts in PLN '000 unless indicated otherwise)

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 six and three months ended June 30th 2016, and the audited separate financial statements of Grupa Azoty S.A. for the financial year ended December 31st 2015.

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

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 2015, save for the changes in the presentation of financial statements described below.

In the reporting period the presentation of financial statements was changed to improve the presentation of information on the effect of certain transactions on the Company's assets and financial position. The comparative data have been appropriately restated.

The table below presents the impact of the changes on the statement of profit or loss and other comprehensive income:

	Before restatement	Restated			
	For the period Jan 1- Jun 30 2015	**For the period Jan 1- Jun 30 2015**	**Impact of change 1**	**Impact of change 2**	**Impact of change 3**
Revenue	870,825	866,965	(3,860)	-	-
Cost of sales	(718,615)	(716,569)	2,482	(436)	
Gross profit	**152,210**	**150,396**	**(1,378)**	**(436)**	
Selling and distribution expenses	(45,798)	(45,920)	-	-	(122)
Other income	1,005	4,858	3,860	-	(7)
Other expenses	(9,909)	(12,262)	(2,482)	-	129
Operating profit	**25,048**	**24,612**	**-**	**(436)**	**-**
Finance income	233,625	234,061	-	436	-
Net finance income	**215,550**	**215,986**	**-**	**436**	**-**

- 1 – Income from and cost of lease of investment property were reclassified from revenue and cost of sales to other income and other expenses,
- 2 – valuation of financial instruments regarding CO_2 emission allowances was reclassified from revenue or finance costs to cost of sales,
- 3 – impairment losses on trade receivables and their reversal were reclassified from other expenses or other income to cost of sales.

The table below presents the impact of the changes on the statement of financial position:

(all amounts in PLN '000 unless indicated otherwise)

	Before restatement	Restated								
	As at Dec 31 2015	As at Dec 31 2015	Impact of change 1	Impact of change 2	Impact of change 3	Impact of change 4	Impact of change 5	Impact of change 6	Impact of change 7	Impact of change 8
Assets										
Non-current assets										
Property, plant and equipment	1,114,240	1,106,972	(377)	-	-	-	-	-	-	(6,891)
Perpetual usufruct of land	-	377	377	-	-	-	-	-	-	-
Investment property	12,863	19,754	-	-	-	-	-	-	-	6,891
Current assets										
Inventories	220,437	188,843	-	(31,594)	-	-	-	-	-	-
Property rights	-	32,272	-	31,594	-	-	-	-	678	-
Derivative financial instruments	-	986	-	-	986	-	-	-	-	-
Other financial assets	30,172	29,186	-	-	(986)	-	-	-	-	-
Trade and other receivables	246,894	252,726	-	-	-	5,832	-	-	-	-
Other current assets	5,832	-	-	-	-	(5,832)	-	-	-	-
Total current assets	**615,617**	**616,295**	**-**	**-**	**-**	**-**	**-**	**-**	**678**	**-**
Total assets	**5,855,947**	**5,856,625**	**-**	**-**	**-**	**-**	**-**	**-**	**678**	**-**
Equity and liabilities										
Liabilities										
Derivative financial instruments	-	499	-	-	499	-	-	-	-	-
Other financial liabilities	46,554	46,055	-	-	(499)	-	-	-	-	-
Trade and other payables	286,630	324,464	-	-	-	-	5	37,151	678	-
Provisions	42,165	5,014	-	-	-	-	-	(37,151)	-	-
Deferred income	5	-	-	-	-	-	(5)	-	-	-
Total current liabilities	**429,324**	**430,002**	**-**	**-**	**-**	**-**	**-**	**-**	**678**	**-**
Total liabilities	**1,473,176**	**1,473,854**	**-**	**-**	**-**	**-**	**-**	**-**	**678**	**-**
Total equity and liabilities	**5,855,947**	**5,856,625**	**-**	**-**	**-**	**-**	**-**	**-**	**678**	**-**

- 1, 2 and 3 – perpetual usufruct right to land, property rights and derivatives were recognised as separate assets,
- 4 – prepayments and accrued income were reclassified from other assets to trade and other receivables,
- 5 – deferred income was included in trade and other payables,
- 6 – provisions for emission allowances were reclassified from provisions to trade and other payables,
- 7 – settlements related to energy certificates are recognised separately as property rights and trade and other payables,
- 8 – lease of investment property to related entities was reclassified from property, plant and equipment to investment property.

The above changes did not have a material impact on the presentation of the statement of cash flows.

Management's discussion and analysis: the Grupa Azoty Group in H1 2016

1. General information on the Grupa Azoty Group

The Grupa Azoty Group is one of major Central European chemical groups with a strong presence on the market of mineral fertilizers, engineering plastics, OXO products and other chemicals.
Grupa Azoty has brought together companies with different traditions and complementary business profiles, seeking to leverage their potential to deliver a common strategy. This has led to the creation of Poland's largest chemical company and a major industry player in Europe. Thanks to its carefully designed structure, the Group offers a diverse product mix, ranging from nitrogen and compound fertilizers, engineering plastics, to OXO products and melamine.
Grupa Azoty S.A., the Parent of the Grupa Azoty Group, has been listed at the Warsaw Stock Exchange since June 30th 2008. It is included in the WIG, WIG30, mWIG 40, WIG-Poland, and WIG-CHEMIA indices, as well as the Respect Index. Its shares are also a constituent of foreign indices: MSCI Emerging Markets and FTSE Emerging Markets.

As at June 30th 2016, the Grupa Azoty Group (the "Grupa Azoty Group" or "Group") comprised Grupa Azoty S.A. (the "Parent") and nine subsidiaries.

Parent

The Parent's registered office is at ul. Kwiatkowskiego 8 in Tarnów, Poland. Since April 22nd 2013, the Company has been trading under the name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).
Grupa Azoty S.A. is an integrated manufacturer of polyamide 6, obtained through polymerisation of caprolactam. It also specialises in the production of nitrogen-sulfur fertilizers.

Parent's subsidiaries

Grupa Azoty Zakłady Azotowe Puławy S.A.
The company has its registered office at Al. Tysiąclecia Państwa Polskiego 13 in Tarnów, Poland. Since April 4th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna ("Grupa Azoty PUŁAWY").
Grupa Azoty PUŁAWY specialises in the production of nitrogen fertilizers and is one of the largest melamine manufacturers in the world.

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna
The company has its registered office at ul. Mostowa 30A, Kędzierzyn-Koźle, Poland. Since January 11th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna ("Grupa Azoty ZAK" or "Grupa Azoty KĘDZIERZYN").
The company's two main business pillars are nitrogen fertilizers and OXO products (OXO alcohols and plasticisers).

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna
The company has its registered office at ul. Kuźnicka 1 in Police, Poland. Since June 3rd 2013, it has been trading under the name Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna ("Grupa Azoty POLICE").
Grupa Azoty POLICE is a major manufacturer of compound and nitrogen fertilizers, as well as titanium white.

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna
The company's registered office is located in Grzybów, Poland. Since February 11th 2014, it has been trading under the name Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna ("Grupa Azoty SIARKOPOL").
Grupa Azoty SIARKOPOL is the largest producer of liquid sulfur on the domestic market.

Grupa Azoty ATT Polymers GmbH
The company's registered office is located in Guben, Germany. Since July 10th 2013, it has been trading under the name Grupa Azoty ATT Polymers GmbH.
It is a manufacturer of polyamide 6 (PA6).

(all amounts in PLN '000, unless indicated otherwise)

Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością
The company's registered office is located at ul.Kwiatkowskiego 7 in Tarnów, Poland. Since February 28th 2013, the company has been trading under the name Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty PKCh Sp. z o.o.").
Grupa Azoty PKCh provides comprehensive design services encompassing complete design support for investment projects in the chemical industry − from study and concept works to process and construction design and working plans for services during the construction, start-up and operation of process units.

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością
The company's registered office is located in at ul. E.Kwiatkowskiego 8 in Tarnów, Poland. Since March 6th 2013, the company has been trading under the name Grupa Azoty Kotlar Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty Kotlar Sp. z o.o.").
Grupa Azoty Koltar provides railway transport services throughout the country. It is one of the few organisations in Poland to have licences required to perform comprehensive repairs of rail car chassis and tank cars suitable for transporting hazardous materials according to RID.

Grupa Azoty Folie Spółka z ograniczoną odpowiedzialnością
The company's registered office is located in Tarnów.
The company's core business is research and development in technical science.

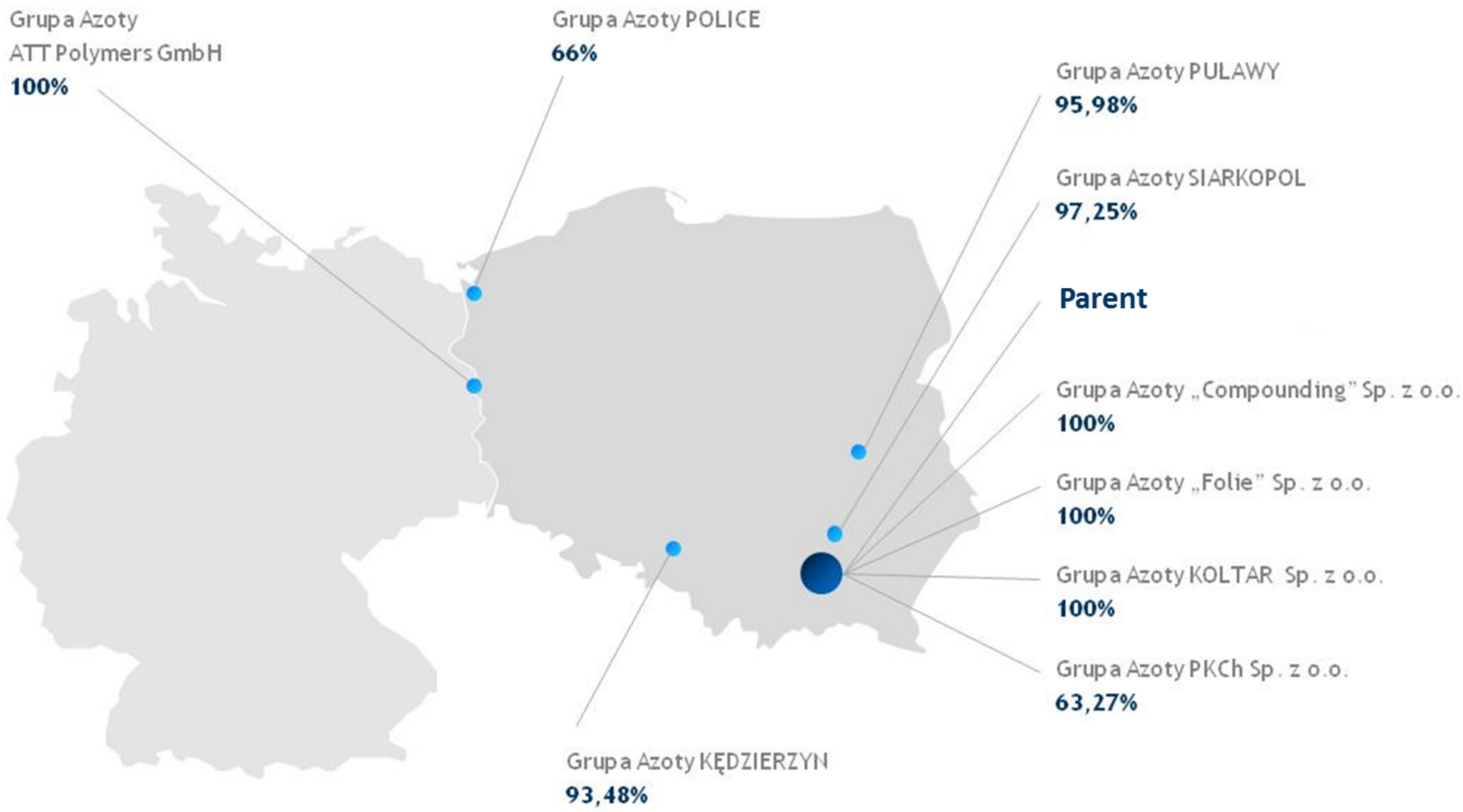
Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością
The company's registered office is located in Tarnów.
The company's business model is based on a portfolio of specialised engineering plastics made through compounding of plastics, with the use of innovative technological solutions.

Parent's shareholdings in subsidiaries as at June 30th 2016

(currency)

Company	Registered office/address	Share capital	% of shares held directly
Grupa Azoty ATT Polymers GmbH	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
Grupa Azoty Compounding Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 5,000	100.00
Grupa Azoty Folie Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 5,500,000	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 KĘDZIERZYN	ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn-Koźle, Poland	PLN 285,064,300	93.48
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów, Poland	PLN 55,000,000	97.25
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

The Parent and its subsidiaries as at June 30th 2016



2. Assets and financial position

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

Impairment losses recognised by African Investment Group S.A., a subsidiary of Grupa Azoty Police

On July 22nd 2016, the Management Board of Grupa Azoty Police resolved to recognise an impairment loss on the receivables from its subsidiary, African Investment Group S.A. The resolution was passed following an examination of African Investment Group S.A.'s financial position and after receiving information that the subsidiary recognised:

- impairment losses on receivables past due for more than one year, covering 100% of the receivables amount totalling PLN 19,103 thousand,
- a 50% write-down on phosphate rock inventories, which the company presents under work in progress, deemed slow moving for over two years, of PLN 5,426 thousand.

Based on the information concerning the effect of a one-off event on the consolidated financial information of Grupa Azoty Police, i.e. recognition of impairment losses by the subsidiary African Investment Group S.A., the Parent estimates the effect of the recognition on the consolidated EBIT at approximately PLN 24.4m.

Volatility of exchange rates

Key factors with a bearing on the Grupa Azoty Group's financial performance in H1 2016 include the downgrade of Poland's credit rating by S&P in January 2016, the slowdown in the Chinese economy, and the result of the Brexit referendum. In the first half of 2016, these events led to two waves of weakening of the Polish złoty against the euro and, to a lesser extent, against the US dollar. The depreciation trend was temporarily stopped in February-March 2016 on release of data on Poland's solid economic foundations.

During H1 2016, the Polish currency weakened by approximately 3.8% against the euro and by about 2% against the US dollar over December 31st 2015. The average PLN/EUR exchange rate in H1 2016 was approximately 3.37% lower than in H2 2015, while the average PLN/USD exchange rate slipped by approximately 2.24% over the same period.

The Group considers the current and planned net currency exposures and reduces the existing currency risk resulting from the currency exposure by using selected hedging instruments. The Group used primarily natural hedging, factoring and discounting of receivables denominated in foreign currencies, as well as currency forwards covering up to 80% of the remaining currency exposure with time horizon of less than 6 months, and up to 50% of the remaining currency exposure with time horizon of 6 to 12 months.

Pursuant to the 'Policy of Financial Risk Management (currency risk and interest rate risk)', the Group may enter into hedging transactions with horizons of up to 24 months (as long as it reduces the adverse impact of fluctuations in exchange rates on the Group's cash flows, and it is possible to secure the EUR/PLN or USD/PLN exchange rate which exceeds the exchange rate planned in the budget) and up to 3 months (if it is possible to hedge the exchange rate at which a commercial transaction was executed).

Execution of currency hedging transactions where the hedge horizon is more than 24 months or the transaction does not conform to the Financial Risk Management Policy requires approval by the Management Board based on the recommendation of the Finance Committee.

In H1 2016, the Group's hedging tools were EUR and USD swap forwards, reflecting its planned net exposure in both currencies.

The Grupa Azoty Group's result on hedging transactions realised in the first six months of 2016 was PLN (4,052) thousand. The result on revaluation of hedging instruments was negative at PLN (7,473) thousand.

On the unhedged net currency exposure, the Grupa Azoty Group reported a realised foreign exchange gain of PLN 2,782 thousand and a net gain on unrealised foreign-exchange differences of PLN 3,540 thousand.

In total, during the first six months of 2016, the Group's total result on foreign exchange differences and currency derivatives (taking into account revaluation as at the reporting date) was PLN (5,203) thousand (including PLN (1,270) thousand on realised foreign exchange differences and currency hedging transactions and PLN (3,933) thousand on unrealised items and hedging).

The weakening of the average PLN/EUR and PLN/USD exchange rates relative to H2 2015, favourable to the Grupa Azoty Group, was accompanied by highly volatile market trends in H1 2016 and, as a result, had no material effect on the Group's performance in the period. The loss on measurement and realisation of currency forwards was offset by gains on current currency transactions and foreign-exchange differences.

As at June 30th 2016, the Grupa Azoty Group did not carry any unrealised interest rate risk hedges.

Since September 28th 2015, the Grupa Azoty Group has applied cash flow hedge accounting. The hedged items are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from December 2018 to June 2025. The hedging covers currency risk. The hedge is a euro-denominated credit facility with a value of EUR 50m as at June 30th 2016, repayable from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 3,571 thousand. As at June 30th 2016, the fair value of the facility was PLN 223,075 thousand. As at June 30th 2016, the hedging reserve included PLN (8,135) thousand on account of the effective hedge. In H1 2016, the Grupa Azoty Group did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

CO_2 emission allowances

H1 2016 saw a significant decline in the prices of CO_2 emission allowances, which resulted in losses on valuation of forward contracts and remeasurement of CO_2 emission allowances held by the Group.

In the first six months of 2016, the Group reported a PLN (13,706) thousand loss on valuation of forward contracts for the purchase of CO_2 emission allowances.

2.2. Market overview

AGRO FERTILIZERS

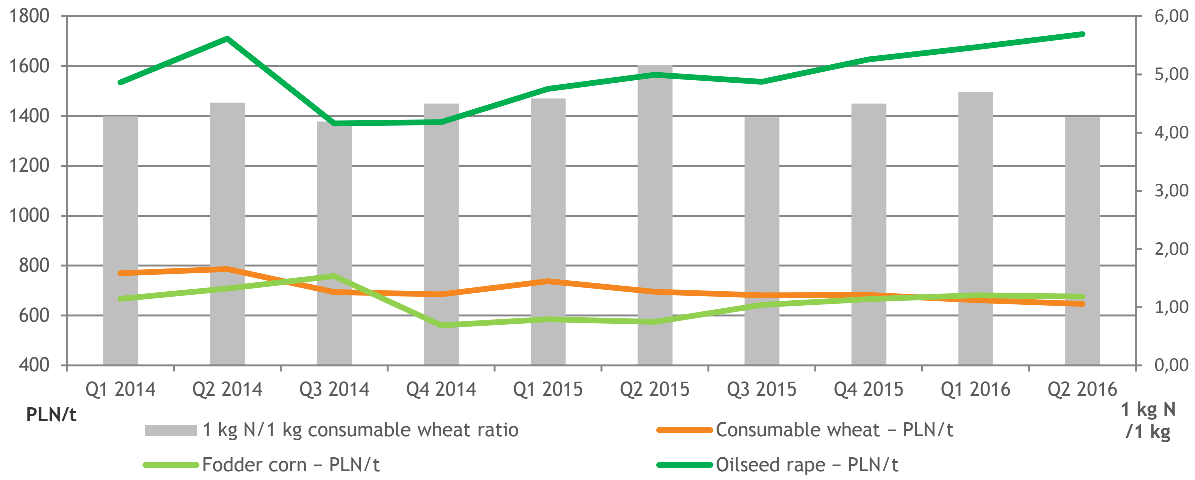
Economic conditions in agriculture

In H1 2016, the economic situation in agriculture was slightly better than in H1 2015, which had an effect on the average synthetic economic index for agricultural production. In the reporting period, it grew by 0.2pp year on year. Given the relatively low prices of agricultural produce and the related financial difficulties of farmers, no significant improvement in the economic conditions in agriculture should be expected in the near term.

Since the beginning of 2016, the situation on foreign markets has been pushing grain prices down. An increase was observed in the prices of rapeseed and corn. In 2016, the sown area of basic grains with mixed grains is 6% larger than in the previous year. The winter and spring losses on winter grains, greater than in 2015, were compensated for with a larger sown area of spring plants. Production of poultry is expected to grow relative to the previous year, which should offset the lower consumption of grains following from a decline in pig farming.

(all amounts in PLN '000, unless indicated otherwise)

Wheat, corn and oilseed rape prices



Source: Ministry of Agriculture and Rural Development.

As a result, it is likely that throughout the season the use of grains as animal feed will grow by 0.5%, while its use for food purposes will fall. Domestic grain reserves will be putting an upward pressure on grain prices, which may be countered by large supply of grains on the European and global markets. Therefore, it is expected that until the end of 2016 domestic prices of grains will remain flat or slightly lower relative to the previous year.

	Average H1 2015 PLN/t	Average H1 2016 PLN/t	H/H %	Jun 2016 PLN/t	MIN 2016 PLN/t	MAX 2016 PLN/t
Consumable wheat	716	654	-9↓	647	643	677
Fodder corn	580	678	17	702	657	702
Rapeseed	1,537	1,702	11	1,756	1,663	1,756

Source: Ministry of Agriculture and Rural Development.

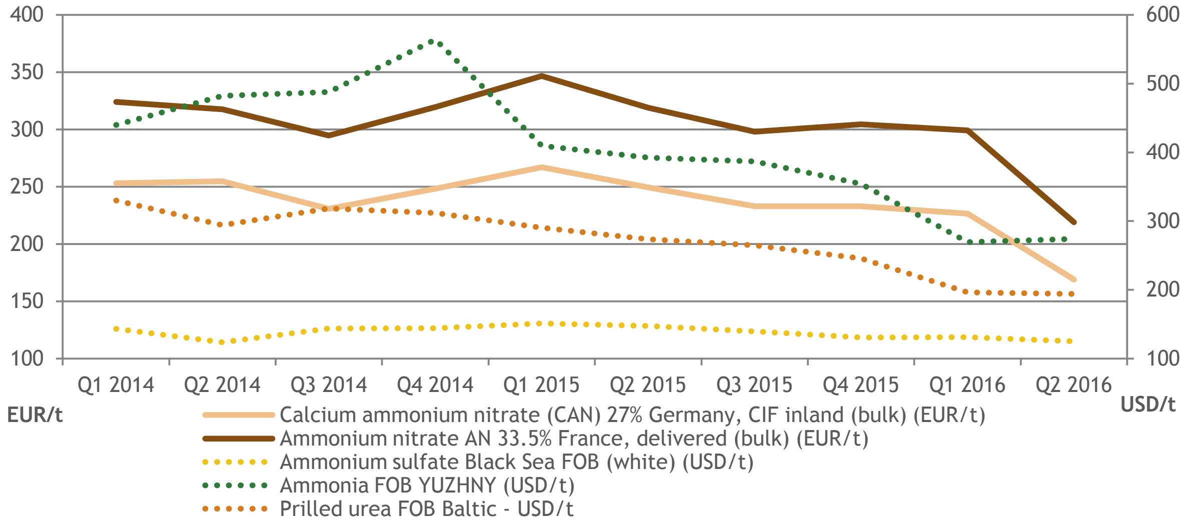
Nitrogen fertilizers

In H1 2016, domestic demand for mineral fertilizers was similar to that reported in H1 2015. This was an effect of continuing low prices of most agricultural produce, the agricultural sector's expectation of fertilizer price reductions, and delayed payments of direct subsidies by the Agency for Restructuring and Modernisation of Agriculture (ARiMR). Towards the end of the period under analysis, the usual drop in demand related to a seasonal decrease in nitrogen fertilizer consumption was recorded.

There were no constraints on the availability of nitrogen fertilizers and their prices were markedly lower than in the same period last year.

(all amounts in PLN '000, unless indicated otherwise)

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



Source: ICIS, Argus FMB, Profercy.

The year-on-year decline in global prices of mineral fertilizers came as a result of low agricultural produce prices, which dampened the demand for basic means of production, as well as falling prices of energy carriers, which reduced the costs of fertilizer production and transport. The downward trend in urea prices, observed since the end of April, continued until the end of June. Even the purchase of over 1.3m tonnes of urea by India at the end of May and production constraints of up to 70% in China failed to check the decline in urea prices until the end of June.

It is estimated that urea production capacities will increase by more than 5m tonnes per annum by the end of the year, which will add to the oversupply.

The long-term downtrend in fertilizer prices, continuing for several years, also follows from the lower than expected demand in China and India, which – as the agricultural industry experts believe – will translate into declines in nitrate fertilizer prices in Europe.

	Average H1 2015 EUR/t	Average H1 2016 EUR/t	H/H %	Jun 2016 EUR/t	MIN 2016 EUR/t	MAX 2016 EUR/t
CAN 27% Germany CIF inland (bulk)	258	198	-23 ↓	150	150	230
AN 33.5% France, delivered (bulk)	333	259	-22 ↓	211	302	209
			H/H	USD/t	USD/t	USD/t
Ammonia (FOB Yuzhny)	401	272	-32 ↓	269	279	262
Urea (FOB Baltic)	282	195	-31 ↓	186	202	186
AS (Black Sea FOB white)	149	128	-14 ↓	120	120	134

Source: ICIS, Argus FMB, Profercy.

Like all nitrogen fertilizers, ammonia prices were on a downward trend in H1 2016 compared with H1 2015. This is particularly true about urea prices, which decreased by over 30%. In H1 2016, the demand for ammonia for agricultural purposes in the US was the strongest in May. It started to go down at the end of the month, when ammonia units were put in service again after temporary shutdowns and soil application of ammonia fertilizers was discontinued.

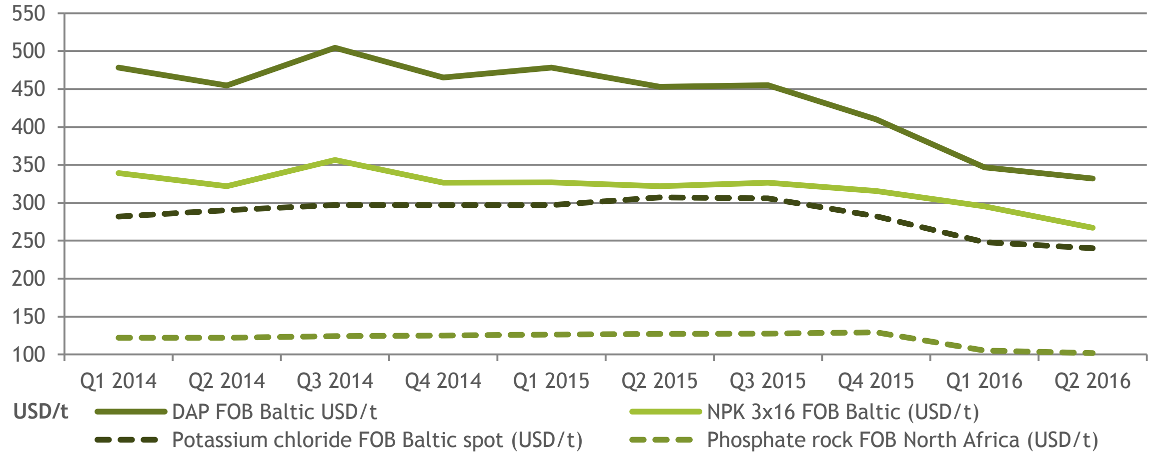
According to forecasts, ammonia prices in the coming months of 2016 will largely depend on conditions prevailing on the fertilizer market, including gas prices effectively paid in Poland, and on main currency exchange rates (mainly the USD). Over a longer term, i.e. in Q3-Q4 2016, ammonia prices are expected to decline. Turkey, which used to be a large importer of ammonia, has now become its exporter. Moreover, new ammonia production units are planned to come on stream in the US, while Russian manufacturers intend to reduce ammonia output. The considerable unpredictability of the ammonia market, following also from storage constraints, is a source of the market volatility.

(all amounts in PLN '000, unless indicated otherwise)

Market of compound fertilizers

In H1 2016, revenues from retail sales of NPK fertilizers in Poland fell down, mainly due to many farms having liquidity problems. Delays in payment of EU subsidies and falling prices of agricultural produce forced many farmers to postpone purchases of fertilizers, including in particular compound fertilizers. Compared with last year, there was a strong increase in the number of fertilizer sale transactions executed on a deferred payment basis, e.g. with payments deferred until after the 2016 harvest or till the year end.
Q1 2016 was a challenging period for European manufacturers of NPK fertilizers. Year on year, the sales volume of NPK fertilizers dropped significantly, while the stocks at producers and distribution chains remained high. Due to excessive stocks, the leading producers reduced their output. Demand for NPK fertilizers was limited also outside of Europe.
Russian manufacturers markedly reduced the prices of their basic NPK fertilizers (by ca. 10−15%), in order to sell their excess production on other, including non-European, markets. Prices of NPK fertilizers plummeted to the levels recorded in late 2009 and early 2010. With the prices of agricultural produce forecast to remain low, the prices of NPK fertilizers may be expected to stabilise at the current levels within the next 12 months.
The key markets for DAP fertilizers, namely the USA, Europe, Brazil, China and India, featured weak demand, production constraints, falling prices and high stock levels in H1 2016.

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



Source: WFM, FERTECON, Profercy.

	Average H1 2015 USD/t	Average H1 2016 USD/t	H/H %	Jun 2016 USD/t	MIN 2016 USD/t	MAX 2016 USD/t
DAP (FOB Baltic)	466	339	-27 ↓	320	320	366
NPK3x16 (FOB Baltic)	325	281	-14 ↓	265	265	307
Potassium chloride (FOB Baltic spot)	302	244	-19 ↓	242	242	265
Phosphate rock (FOB North Africa)	127	103	-19 ↓	100	100	105

Source: WFM, FERTECON, Profercy.

Demand for potassium chloride remained weak across all global markets in H1 2016 and the downtrend in its prices that started in July 2015 continued. The largest manufacturers of potassium chloride reduced their production volumes. Only in late March there was a seasonal increase in purchases of the product in the US and Brazil, which stopped the several-month long price slide on those markets.
If the current production constraints continue, the price of potassium chloride is expected to stabilise or grow only slightly during the next 12 months.

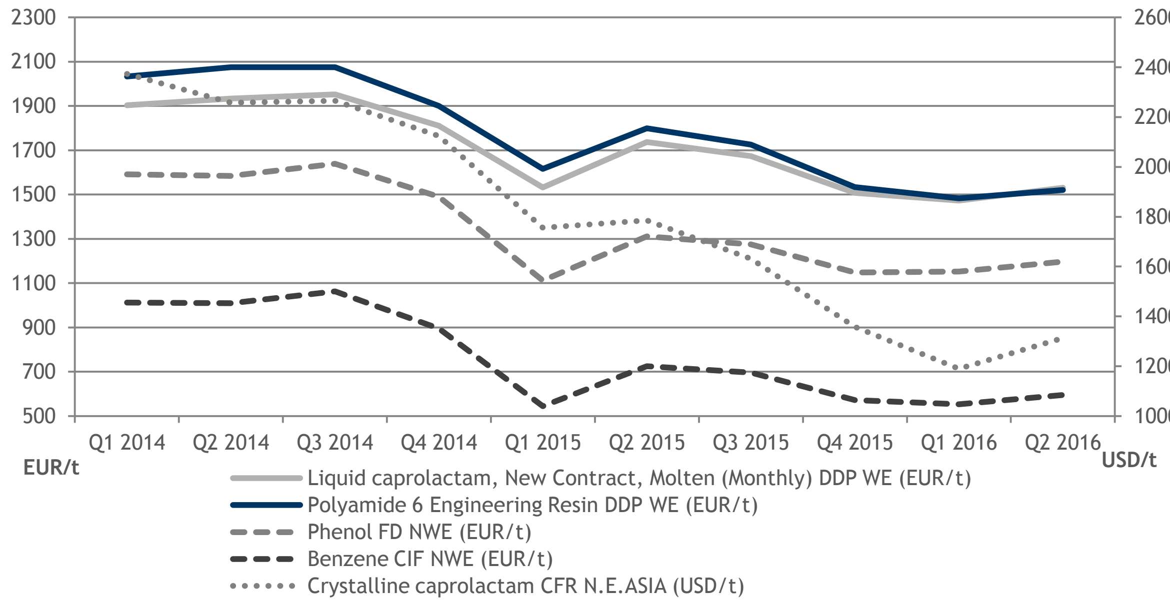
As expected, falling prices of phosphate fertilizers led to declines in the prices of raw materials for their production. In January and April 2016, the prices of phosphate rock dropped by several USD per tonne. In line with the global decline in the prices of key raw materials, a correction in phosphate rock prices is also expected in H2 2016. The prices should stabilise in H1 2017.

PLASTICS

Polyamide 6 chain

The market situation for the entire product segment was strongly correlated with the volatility of crude oil prices. However, they did not cause fluctuations in the prices of chemical feedstocks along the entire product chain.
The 32% crude oil price change was accompanied by markedly smaller declines in the prices of benzene, phenol, caprolactam and polyamide in Europe.

Prices of PA6, caprolactam, benzene and phenol



Source: TECNON, ICIS.

The change of the oil price trend and price stabilisation in H1 2016 halted to some extent the downward trends in the plastic segment. As expected, this was one of the conditions necessary to restore full market equilibrium in the sector, and thus supported the expected increase in demand for engineering plastics.
As prices in the polyamide chain partly stabilised, in H1 2016 they did not return to the average levels recorded in the corresponding period of 2015.
Geographical changes in the caprolactam market (mainly Asia), polyamide oversupply in Europe due to lower-than-expected demand for this product and the launch of new polyamide production units as well as production capacity increase lead to a situation where spread between the prices of PA6 and caprolactam was temporarily negative.
In Asia, in H1 2016, the prices of crystalline caprolactam fell sharply year on year (by about 29%) due to the rapidly rising production volumes.

(all amounts in PLN '000, unless indicated otherwise)

	Average H1 2015 EUR/t	Average H1 2016 EUR/t	H/H %	Jun 2016 EUR/t	MIN 2016 EUR/t	MAX 2016 EUR/t
Benzene (FOB, NWE)	635	574	-10 ↓	572	523	613
Phenol (FD, NWE)	1,212	1,175	-3 ↓	1,181	1,151	1,208
Caprolactam (Liq., DDP, WE)	1,634	1,502	-8 ↓	1,523	1,453	1,535
Polyamide 6 (PA 6) (DDP, WE)	1,708	1,502	-12 ↓	1,525	1,425	1,525
	USD/t	**USD/t**	**H/H**	**USD/t**	**USD/t**	**USD/t**
Caprolactam (CFR, NEAsia)	1,770	1,251	-29 ↓	1,293	1,153	1,355
	USD/bbl	**USD/bbl**	**H/H**	**USD/bbl**	**USD/bbl**	**USD/bbl**
Crude oil (BRENT)	59.3	40.51	-32 ↓	49.51	30.5	52.02

Source: ICIS, Tecnon, *Rzeczpospolita*.

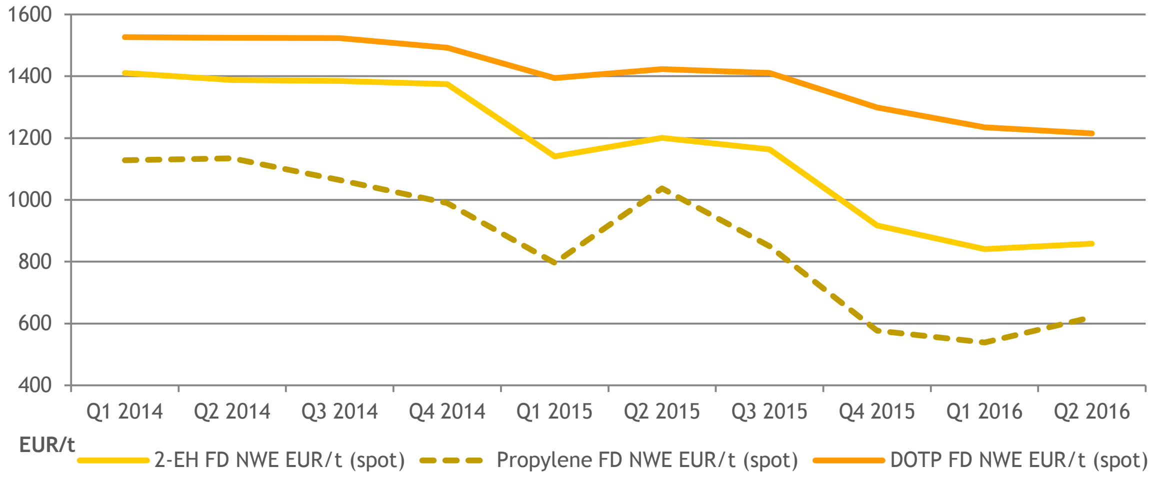
The prices on the polyamide market are stable despite the lack of implementation of profitability improvement plans on the part of producers, who are limited by structural oversupply. However, the continuing oversupply of polyamide 6 on the European market was reduced on the back of strong demand from the automotive and textile industries, markedly improving the trade balance.
In the next 12 months, the prices of PA6 and the spread between caprolactam and polyamide (caused by market volatility) are expected to moderately go up and then return to the current levels. The increases should not exceed 10%, especially in Q4 2016. It is also expected that the prices of PA6 and caprolactam, particularly in H1 2017, might be affected by declining oil prices resulting from periodic oversupply.

CHEMICALS

OXO product chain
In Europe, at the end of Q1 2016, the supply of 2-EH alcohol was matched by demand for this product given the beginning of the fertilizer application season. Q2 saw a considerable upturn in the plasticizers and acrylate processing sector. Relatively strong demand was generated by the fuel additives sector, although some markets were affected by industrial action in the petrochemical sector in France. European manufacturers seized the opportunity to export oxo alcohols, taking advantage of the competitive price of propylene in Europe. Demand rebounded on the n-butanol market relative to Q1 2016, while the market for isobutanol continued to see oversupply. The downward trend in prices of oxo alcohols in the two quarters of 2015 and 2016 under comparison was driven by lower prices of raw materials (crude oil, propylene).
The same held true for plasticizers, which were affected by lower prices of crude oil and petroleum products as well as imports of competitively priced plasticizers from South Korea and Turkey.
Demand for plasticizers, particularly in the last two months of Q2 2016, grew strongly, in contrast to Q1 2016. At the same time, the market saw strong competition from regional suppliers and importers.

(all amounts in PLN '000, unless indicated otherwise)

Prices of 2-EH, DOTP and propylene



Source: ICIS.

	Average H1 2015 EUR/t	Average H1 2016 EUR/t	H/H %	Jun 2016 EUR/t	MIN 2016 EUR/t	MAX 2016 EUR/t
2-EH (FD NWE spot)	1,170	849	-27 ↓	1,261	820	870
DOTP (FD NWE spot)	1,409	1,225	-13 ↓	1,439	1,200	1,273
Propylene (FD NWE spot)	917	579	-37 ↓	1,070	523	645

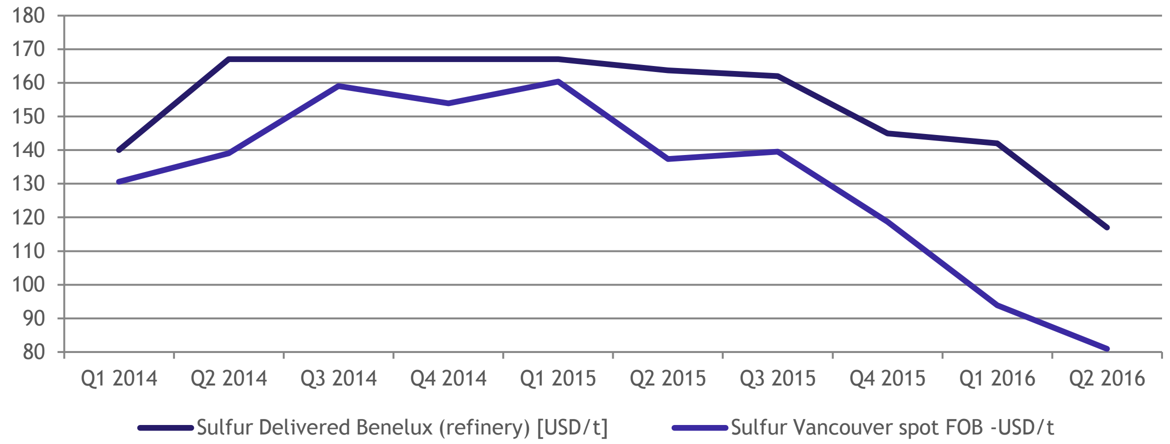
Source: ICIS.

The downward trend in the price of crude oil continuing since 2015 triggered a significant decrease in propylene prices, observed also in H1 2016. The average spot price of propylene reported in H1 2016 was 37% lower year on year.
Since the beginning of the year, the propylene market in Europe has been oversupplied due to lower demand for the product and the absence of unscheduled shut-downs of propylene production units. This trend was reversed at the end of May when major propylene shortages occurred due to overhauls and the industrial action in France, during which propylene production was reduced or stopped.
In the coming periods, the average propylene prices should remain at similar or slightly higher levels, although this will largely depend on price movements on the global oil markets. The OXO alcohol prices should remain correlated with movements in the propylene prices, with demand growth especially in Q3/Q4.

Sulfur
In H1 2016, the price of refinery sulfur in Europe fell by approximately 21% year on year. Since the beginning of Q1 2016, sulfur prices have declined significantly on the key supplier markets in the US, Canada and the Persian Gulf.

(all amounts in PLN '000, unless indicated otherwise)

Sulfur prices



Source: FERTECON.

	Average H1 2015 USD/t	Average H1 2016 USD/t	H/H %	Jun 2016 USD/t	MIN 2016 USD/t	MAX 2016 USD/t
Sulfur (Delivered Benelux refinery)	165	130	-21 ↓	116	116	142
Sulfur (Vancouver spot FOB)	152	87	-43 ↓	80	80	110

Source: FERTECON.

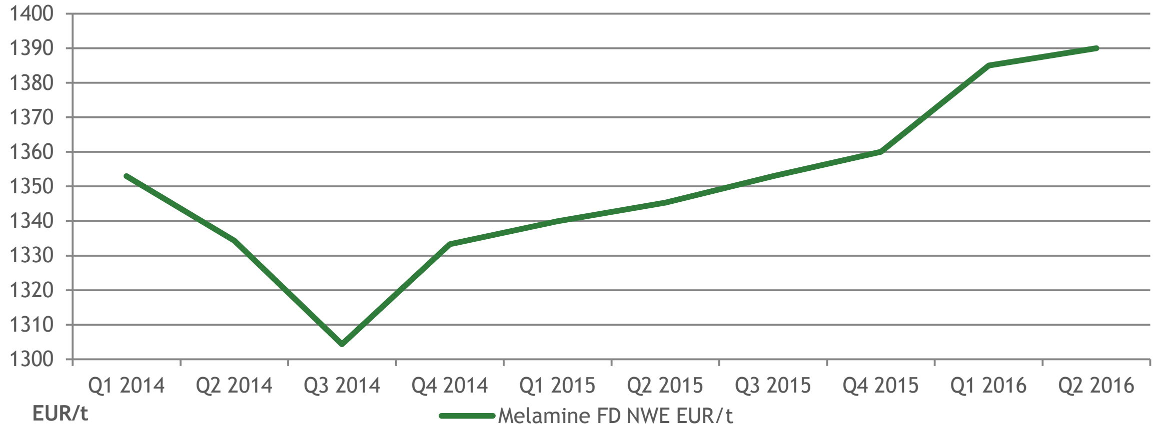
In Q2 2016, sulfur prices dropped by almost 18% on Q1. Spot prices in recent quarters changed less dynamically – down USD 5/t on the previous quarter, while relative to H1 the prices declined strongly, by 43%, chiefly on the back of high sulfur stocks and lower phosphate fertilizers output. Over the next 12 months the prices are expected to fall on the European market. As regards global mid- and long-term forecasts, analysts take a conservative approach and do not expect prices to change dramatically.

Melamine

In Q1 2016, contract prices of melamine in Europe rose in February by EUR 15/t and have not changed since. The market saw strong demand, especially from Eastern Europe, North America, South America, Russia and India. Globally, supply was reduced on the back of planned and scheduled overhauls. H2 is expected to see continued high demand for melamine from Eastern Europe. Future prices may be driven by both higher forecast demand and overhauls planned by manufacturers of melamine, which may stabilise its prices.

(all amounts in PLN '000, unless indicated otherwise)

Prices of melamine



Source: ICIS, Global Bleaching Chemicals.

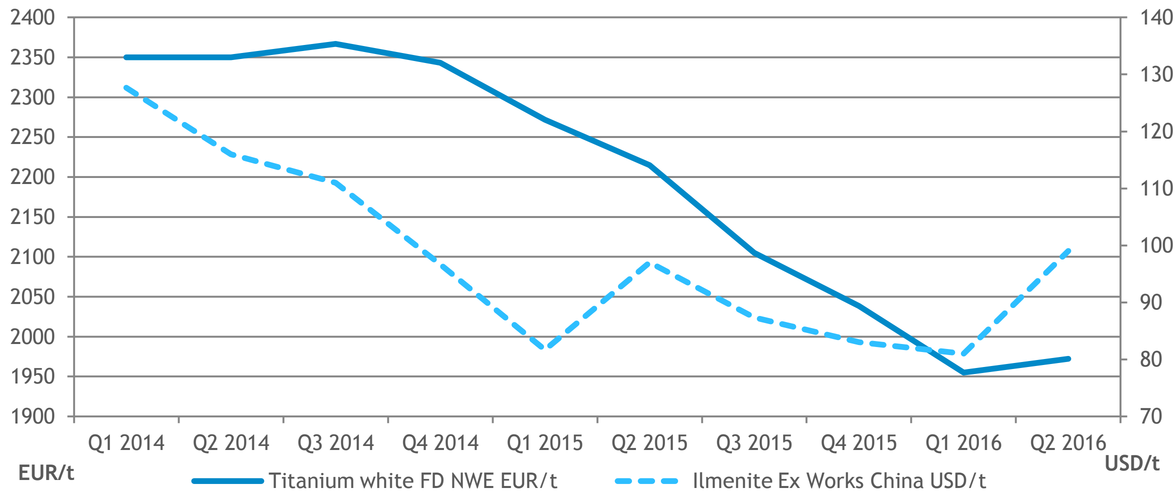
	Average H1 2015 EUR/t	Average H1 2016 EUR/t	H/H %	Jun 2016 EUR/t	MIN 2016 EUR/t	MAX 2016 EUR/t
Melamine	1,343	1,388	3.4↓	1,390	1,375	1,390

Source: ICIS, Global Bleaching Chemicals.

Pigment chain

Q1 2016 saw seasonally weaker demand for titanium white, while in Q2 the situation improved as usual. In Europe, in Q1 2016, titanium white prices hit a record low, last seen in 2001. The price slump was attributable to the persistent oversupply of the product, which made leading titanium white producers decide to shut down or limit the output of their production facilities. As a result, the oversupply was reduced, albeit only partially. Due to the economic slowdown in China and excessive titanium white production capacities, Chinese producers are looking for expansion opportunities on other markets.

Market prices of titanium white and ilmenite



Source: ICIS, CCM.

In April 2016, the largest producers of titanium white, taking advantage of a seasonal increase in demand as well as limited availability and prolonged delivery time for the product, raised its prices seeking to restore the profitability of the product.

(all amounts in PLN '000, unless indicated otherwise)

	Average H1 2015 EUR/t	Average H1 2016 EUR/t	H/H %	Jun 2016 EUR/t	MIN 2016 EUR/t	MAX 2016 EUR/t
Titanium white (FD NWE)	2,243	1,963	-12 ↓	1,980	1,955	1,980
	USD/t	USD/t	H/H	USD/t	USD/t	USD/t
Ilmenite (ex Works China)	89	90	1	110	79	110

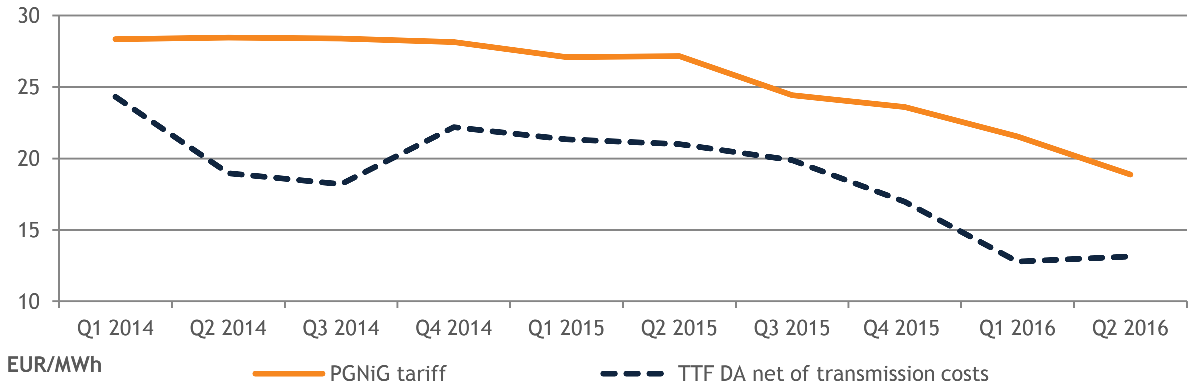
Source: ICIS, CCM.

In reaction to the expected change in titanium white prices, also the prices of raw materials for its production rose, moving up in each subsequent month to slightly exceed the price growth observed the year before. Such a trend is expected to prevail over the next 12 months.

ENERGY

Natural gas

Prices of natural gas



Source: PGNiG tariff, ICIS, EEX.

	Average H1 2015 EUR/MWh	Average H1 2016 EUR/MWh	H/H %	Jun 2016 EUR/MWh	MIN 2016 EUR/MWh	MAX 2016 EUR/MWh
PGNiG tariff	27.1	19.9	-26 ↓	18.7	18.7	21.3
TTF DA net of transmission costs	21.2	13.0	-39 ↓	14.4	12.0	14.4

Source: PGNiG tariff, ICIS. EEX.

In H1 2016, spot prices of gas at the German transition hub, located near Poland, fluctuated between EUR 11.15 and EUR 15.88 per MWh. For the first four months the gas prices fell while during the last two months they rose to reach at the end of the first half of the year their original level from the beginning of H1 2016. The change of the price trend was an outcome of the current market balancing, resulting from fluctuations in supply and demand. Other material factors include mild winter, high gas stocks and their liquidation as well as fluctuating crude oil prices. Q1 saw gas oversupply on the market and price declines, while Q2 – injection of surplus gas to gas storage facilities and price hikes.
Following the period of seasonal overhaul shutdowns of production facilities and transmission networks, gas supplies to the European market will go back to their usual levels in July. Taking into account the gas inventory levels and the current pace of injection of surplus gas, the gas market will continue to be considerably oversupplied well into the third quarter. Unless the largest gas suppliers (Russia, Norway, Algeria) to the European market decide to jointly lower the volume of their supplies (which is highly unlikely), gas prices should significantly decline. In Q4, the price changes will be driven by long-term forecasts for the upcoming winter period.

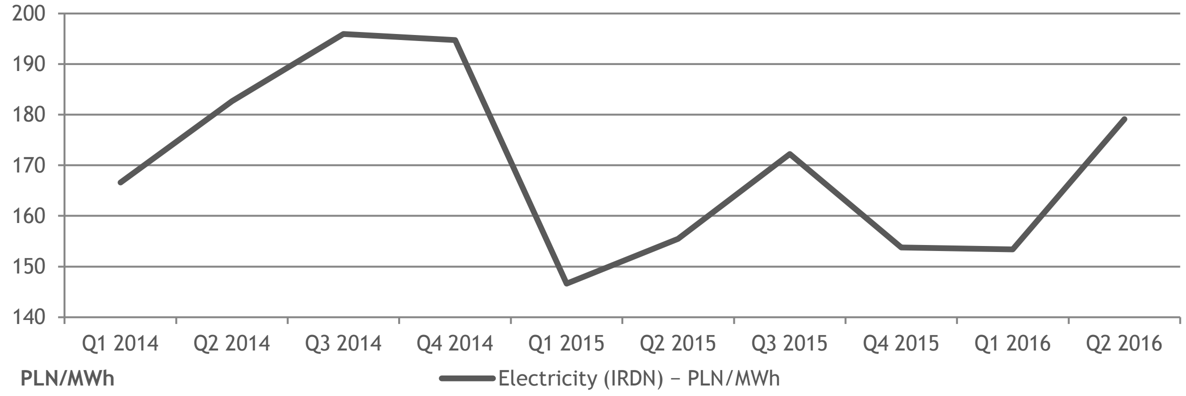
(all amounts in PLN '000, unless indicated otherwise)

Additionally, gas price growth was limited by liberalisation of access to permits for gas exports from the US, where the first terminals for gas exports have already been placed in service.
The forecast demand for gas in Europe throughout 2016 is 496 bcm (477 bcm in 2015). However, Brexit may drive demand for gas down. Despite high supply of Russian and Norwegian gas, LNG imports are expected to increase, which will in effect keep the prices low in the near future.

Electricity

Electricity prices depend on prices of coal and CO_2 emission allowances, as well as cross-border transmission capacities and demand.

Prices of electricity



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

	Average H1 2015 PLN/MWh	Average H1 2016 PLN/MWh	H/H %	Jun 2016 PLN/MWh	MIN 2016 PLN/MWh	MAX 2016 PLN/MWh
Electricity	150	166	10	216.9	95.7	412.6

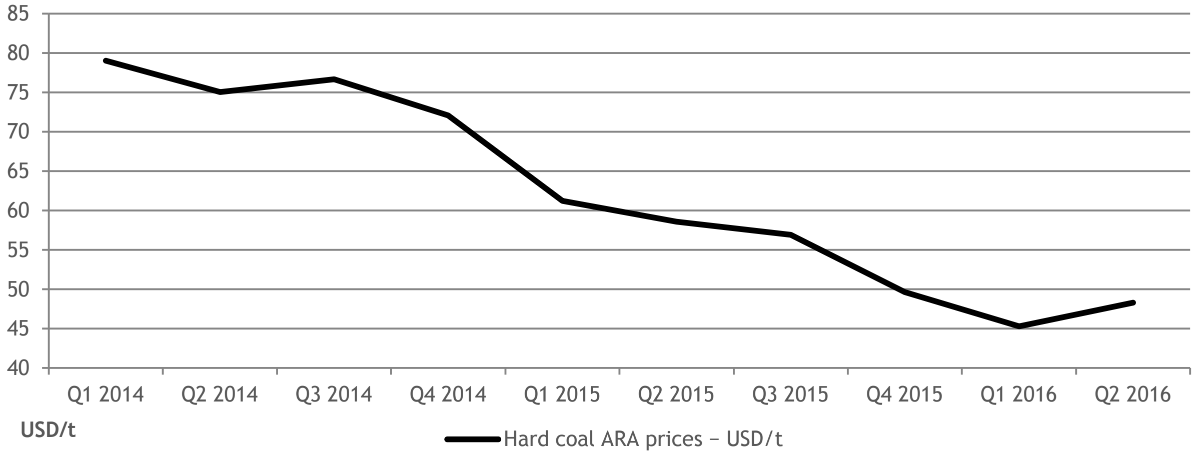
Source: Polish Power Exchange.

Average prices of electricity on the day-ahead market of the Polish Power Exchange in H1 2016 exceeded PLN 166/MWh, up more than 10% year on year. In fact, the prices went up markedly in Q2 2016, to approximately PLN 170/MWh on average, driven by disruptions in the operation and downtimes of power generation units in Poland, unstable output of wind farms, and limited access to cheaper electricity from Scandinavia. Additionally, high volatility in demand from the power system, and the Operator (PSE), by supporting the system with the Supplemental Contingency Reserve, reduced the extreme price growth.
The decline in energy consumption relative to GDP, coal prices, and the permanent increase in energy efficiency are the main factors behind the favourable movements of Polish energy prices.
Grupa Azoty expects a slight upward trend in energy prices for the year. The domestic market is largely affected by climate regulations and the need to continue upgrading generation capacities (expenditure on new production capacities and maintaining the operating capacity reserve). Despite indications of a possible reduction of electricity prices, these factors will keep the downward trend well in check.
The prices of electricity will be driven by the following factors:
- Ongoing resolution of the crisis in the Polish coal mining industry with the participation of energy companies, difficult restructuring of coal sector companies;
- New obligations imposed on electricity producers by the Act on Renewable Energy Sources;
- Falling prices of natural gas;
- Consumption of coal at sustained low prices by energy companies.

(all amounts in PLN '000, unless indicated otherwise)

Coal

Prices of hard coal



Source: ARA prices.

	Average H1 2015 USD/t	Average H1 2016 USD/t	H/H %	Jun 2016 USD/t	MIN 2016 USD/t	MAX 2016 USD/t
Coal	59.9	46.8	-21.8↓	51.7	43.1	54.9

Source: ARA prices.

In H1 2016, the downward trend in coal prices continued: they fell almost 22% year on year, and the average price of coal was over USD 46/tonne. The global and Polish coal markets continue to be oversupplied, with the persistent economic slowdown, more stringent climate and environmental protection regulations translating into depressed demand. June 2016 saw a slight adjustment to coal prices, chiefly on the back of disruptions in its supply and higher prices of other fuels.
Analysts anticipate that in 2016 the average coal price will stay largely flat compared with 2015.

2.3. Key financial and economic data

2.3.1. Consolidated financial information

In H1 2016, the Grupa Azoty Group earned a positive EBITDA of PLN 694,527 thousand and a net profit of PLN 355,505 thousand.

(all amounts in PLN '000, unless indicated otherwise)

Consolidated data

Item	H1 2016	H1 2015* restated	change	% change
Revenue	4,633,835	5,110,531	(476,696)	(9.3)
Cost of sales	(3,458,506)	(3,908,739)	450,233	(11.5)
Gross profit	**1,175,329**	**1,201,792**	**(26,463)**	**(2.2)**
Selling and distribution expenses	(344,972)	(309,873)	(35,099)	11.3
Administrative expenses	(365,844)	(355,531)	(10,313)	2.9
Profit from sales	**464,513**	**536,388**	**(71,875)**	**(13.4)**
Net other expenses	(26,613)	(1,706)	(24,907)	1.460.0
Operating profit	**437,900**	**534,682**	**(96,782)**	**(18.1)**
Net finance costs	(2,898)	(9,415)	6,517	(69.2)
Share of profit of equity-accounted associates	7,963	7,478	485	6.5
Profit before tax	**442,965**	**532,745**	**(89,780)**	**(16.9)**
Income tax	(87,460)	(75,110)	(12,350)	16.4
Net profit	**355,505**	**457,635**	**(102,130)**	**(22.3)**
EBIT	**437,900**	**534,682**	**(96,782)**	**(18.1)**
Depreciation and amortisation	256,627	242,446	14,181	5.8
EBITDA	**694,527**	**777,128**	**(82,601)**	**(10.6)**

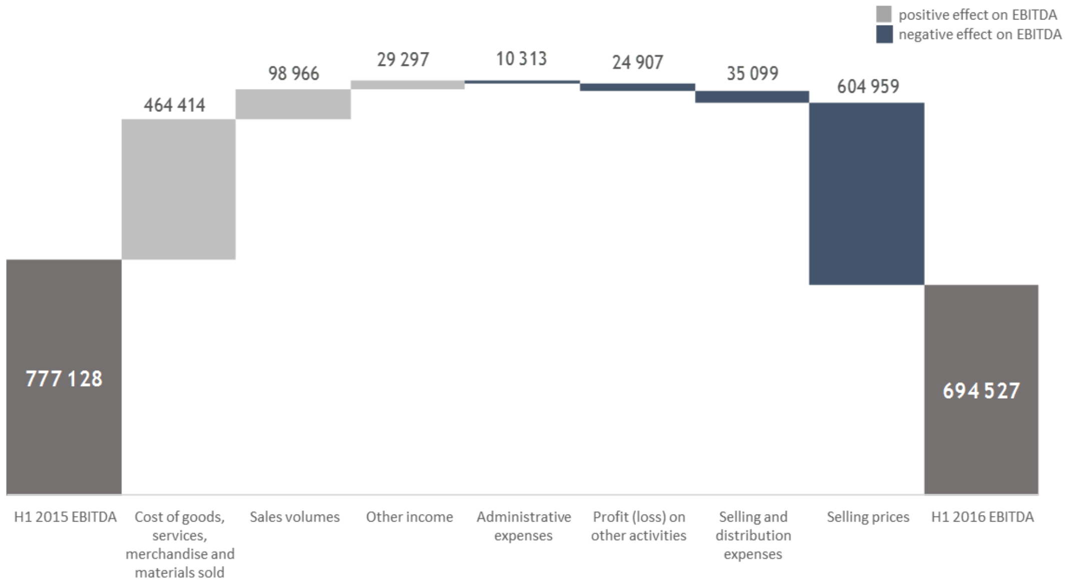
Source: Company data.

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

With revenue down 9.3% year on year and lower cost of sales (down by 11.5%), the Grupa Azoty Group reported gross profit. The gross profit figure went down by 2.2% relative to H1 2015.
Gross profit net of distribution costs and administrative expenses was PLN 464,513 thousand.
In H1 2016, the balance of other income and other expenses was negative, at PLN (26,613) thousand, and had an adverse impact on EBIT, which came in at PLN 437,900 thousand, down by PLN 96,782 thousand year on year.

(all amounts in PLN '000, unless indicated otherwise)

EBITDA – key drivers



Source: Company data.

2.3.2. Segments' results

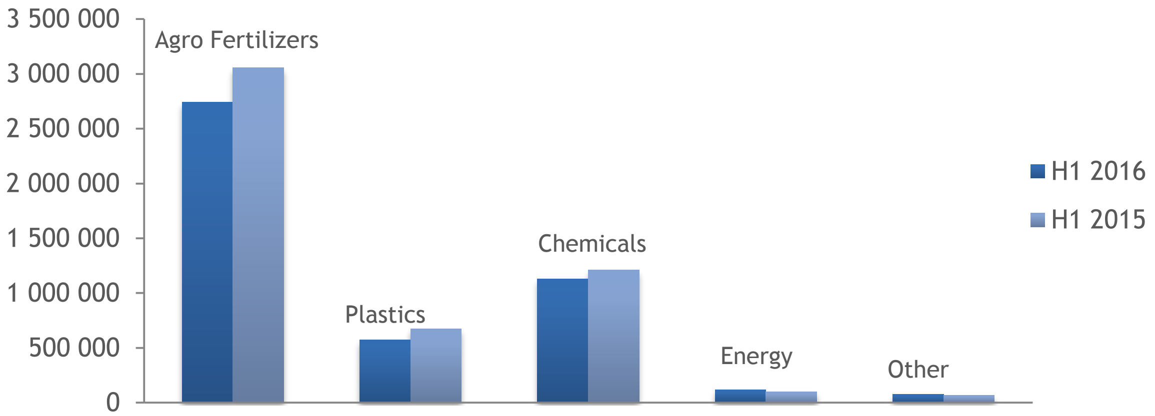
EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities
External revenue	2,742,039	571,297	1,127,530	118,804	74,165
Profit/(loss) on sales	404,497	(49,925)	112,878	120	(3,057)
EBIT	396,269	(50,324)	113,200	(46)	(21,199)

Source: Company data.

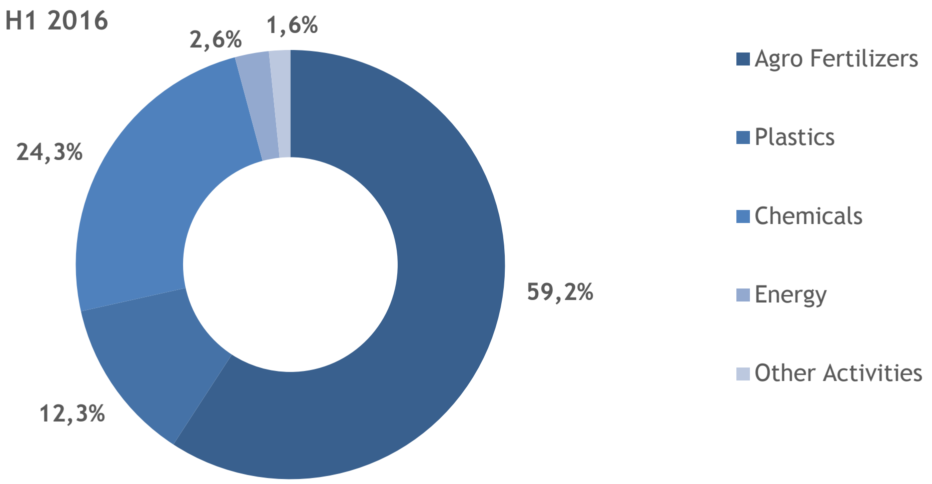
Profit on sales of the Grupa Azoty Group's products in H1 2016 was determined primarily by the market situation in the Agro Fertilizers segment. Revenue in the Agro Fertilizers segment was down 10.2% year on year. Revenue declined by 15.4% in the Plastics segment and by 6.8% in the Chemicals segment. The Energy segment reported a revenue increase of 17.3% and the revenue from Other Activities grew by 7.1%.

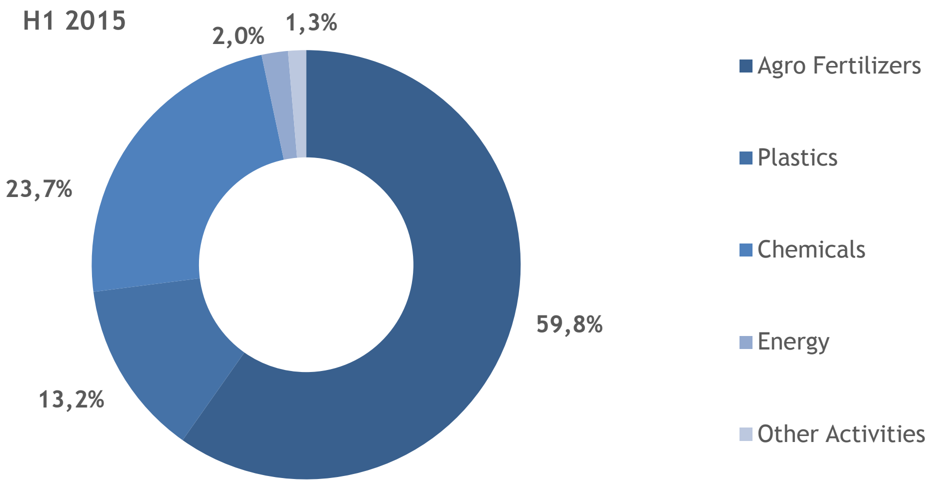
Revenue by segment



Source: Company data.

Revenue by segment





Source: Company data.

The shares of individual segments in total revenue changed slightly compared with H1 2015, with increased contributions from the Chemicals (0.6pp), Energy (0.6pp), and Other Activities (0.3pp) segments, and lower shares of the Agro Fertilizers (down 0.6pp) and Plastics segments (down 0.9pp).

Agro Fertilizers

In H1 2016, revenue in the Agro Fertilizers segment was PLN 2,742,039 thousand and accounted for 59.2% of the Group's total revenue. Relative to H1 2015, the segment's revenue fell by 10.2%.
EBIT reported by the Group in the Agro Fertilizers segment was positive.
Domestic market accounted for approximately 68.8% of the Fertilizers segment sales.

Plastics

Revenue in the Plastics segment was PLN 571,297 thousand and accounted for 12.3% of the Group's total revenue. The revenue figure was down 15.4% year on year. More than 89.0% of the segment's revenue was derived from sales on foreign markets.
EBIT reported by the Group in the Plastics segment was negative.

Chemicals

In H1 2016, revenue in the Chemicals segment amounted to PLN 1,127,530 thousand, having fallen 6.8% year on year. The segment's revenue accounted for 24.3% of the Group's total revenue. The segment's EBIT improved significantly relative to H1 2015: it was positive, at PLN 113,200 thousand.
Sales on foreign markets accounted for approximately 61.4% of the Chemicals segment's revenue.

(all amounts in PLN '000, unless indicated otherwise)

Energy

In H1 2016, revenue in the Energy segment was PLN 118,804 thousand and accounted for approximately 2.6% of the Group's total revenue. The segment's revenue grew 17.3% year on year. EBIT reported by the Group in the Energy segment was negative.

Other Activities

In H1 2016, revenue in the Other Activities segment amounted to PLN 74,165 thousand, and accounted for 1.6% of the Group's total revenue, having increased by 7.1% relative to H1 2015. EBIT reported by the Group in the Other Activities segment was negative.

2.3.3. Operating expenses

In H1 2016, operating expenses were PLN 4,251,720 thousand, down by PLN 377,104 thousand year on year. The decrease was attributable to lower amounts of costs of raw materials and consumables used, as well as taxes and charges. There was an increase in the cost of salaries and wages, including overheads, other benefits, cost of services and other costs.

Operating expenses by nature

	H1 2016	H1 2015* restated	change	% change
Depreciation and amortisation	254,431	240,866	13,565	5.6
Raw materials and consumables used	2,546,305	2,985,075	(438,770)	(14.7)
Services	501,699	499,038	2,661	0.5
Salaries and wages, including overheads, and other benefits	657,571	616,331	41,240	6.7
Taxes and charges	181,631	218,475	(36,844)	(16.9)
Other costs	110,083	69,039	41,044	59.5
Total	**4,251,720**	**4,628,824**	**(377,104)**	**(8.1)**

Source: Company data.

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

Other operating expenses

In H1 2016, other operating expenses, excluding cost of raw materials and consumables used, accounted for 41.4% of total operating expenses, up from 35.5% in the corresponding period of 2015. The structure of these expenses changed only slightly relative to the comparative period.

(all amounts in PLN '000, unless indicated otherwise)

Structure of other operating expenses [%]

	H1 2016	H1 2015* restated
Depreciation and amortisation	6.0	5.2
Services	11.8	10.8
Salaries and wages, including overheads, and other benefits	15.5	13.3
Taxes and charges	4.3	4.7
Other costs	2.6	1.5
Total	**40.1**	**35.5**

Source: Company data.

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

2.3.4. Structure of assets, equity and liabilities

In H1 2016, the Group's assets rose to PLN 10,951,807 thousand, by PLN 755,132 thousand on the end of H1 2015. As at June 30th 2016, non-current assets stood at PLN 7,518,490 thousand, and current assets were PLN 3,433,317 thousand.
The most significant year-on-year changes in assets in Q1 2016 included:

- a 12.7% increase in property, plant and equipment,
- a 297,0% increase in other financial assets,
- a 17.4% decrease in cash,
- a 13.7% decrease in inventories.

Structure of assets

	H1 2016	H1 2015* restated	change	% change
Non-current assets, including:	**7,518,490**	**6,792,539**	**725,951**	**10.7**
Property, plant and equipment	6,232,069	5,529,114	702,955	12.7
Intangible assets	550,704	502,514	48,190	9.6
Perpetual usufruct of land	481,889	483,353	(1,464)	(0.3)
Investments in subordinated entities	106,254	105,959	295	0.3
Current assets, including:	**3,433,317**	**3,404,136**	**29,181**	**0.9**
Trade and other receivables	1,194,632	1,244,883	(50,251)	(4.0)
Inventories	912,334	1,057,341	(145,007)	(13.7)
Cash and cash equivalents	644,919	780,418	(135,499)	(17.4)
Other financial assets	500,942	126,179	374,763	297.0
Property rights	169,169	188,506	(19,337)	(10.3)
Total assets	**10,951,807**	**10,196,675**	**755,132**	**7.4**

Source: Company data.

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

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

- a 6.4% increase in equity,
- a 25.7% increase in non-current liabilities under borrowings,
- a 48.4% increase in current liabilities under borrowings.

(all amounts in PLN '000, unless indicated otherwise)

Structure of equity and liabilities

Item	H1 2016	H1 2015* restated	change	% change
Equity	**7,355,121**	**6,912,429**	**442,692**	**6.4**
Non-current liabilities, including:	**1,848,551**	**1,583,201**	**265,350**	**16.8**
Borrowings	1,074,010	854,196	219,814	25.7
Employee benefit obligations	334,344	319,392	14,952	4.7
Deferred tax liabilities	261,861	236,293	25,568	10.8
Provisions	102,495	113,687	(11,192)	(9.8)
Government grants	61,147	40,273	20,874	51.8
Current liabilities, including:	**1,748,135**	**1,701,045**	**47,090**	**2.8**
Trade and other payables	1,316,411	1,338,386	(21,975)	(1.6)
Borrowings	161,218	108,656	52,562	48.4
Government grants	56,983	75,705	(18,722)	(24.7)
Other financial liabilities	74,859	82,716	(7,857)	(9.5)
Total equity and liabilities	**10,951,807**	**10,196,675**	**755,132**	**7.4**

Source: Company data.

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

2.3.5. Financial ratios

Profitability ratios

	H1 2016	H1 2015* restated
Gross profit margin	25.4%	23.5%
EBIT margin	9.5%	10.5%
EBITDA margin	15.0%	15.2%
Net profit margin	7.7%	9.0%
ROE	3.2%	4.5%
Return on capital employed	4.8%	6.3%
ROE	4.8%	6.6%
Return on non-current assets	4.7%	6.7%

Source: Company data.

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

Ratio formulas:

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

(all amounts in PLN '000, unless indicated otherwise)

Liquidity ratios

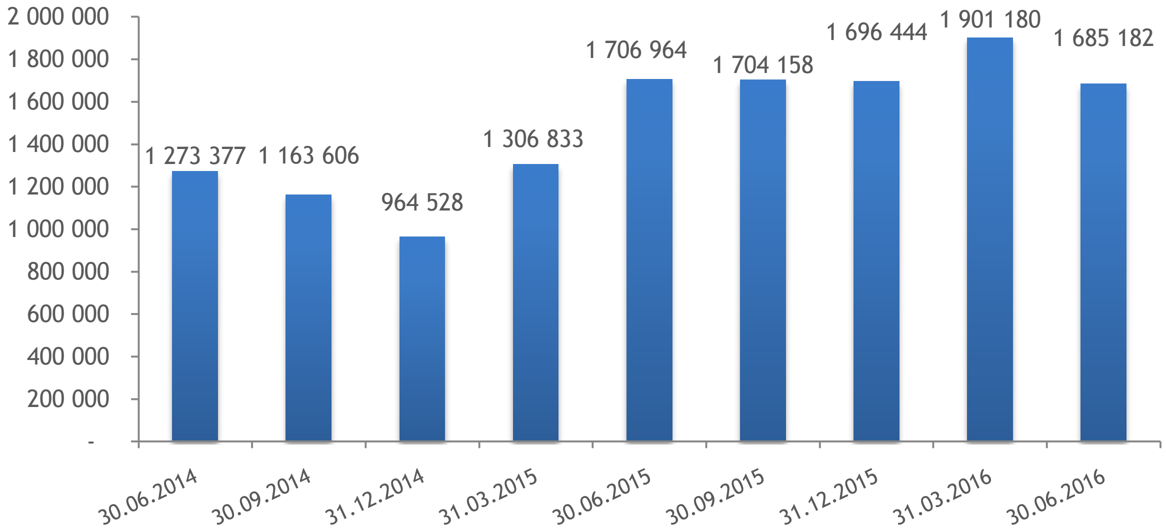
	H1 2016	H1 2015* restated
Current ratio	2.0	2.0
Quick ratio	1.4	1.4
Cash ratio	0.7	0.5

Source: Company data.

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

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

Changes in net working capital



Source: Company data.

Operating efficiency ratios

	H1 2016	H1 2015* restated
Inventory turnover	47	49
Average collection period	46	44
Average payment period	69	62
Cash conversion cycle	25	31

Source: Company data.

* Financial data restated in accordance with the information presented in Section 2.2.c) of Supplementary Information to the interim condensed consolidated financial statements.

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

(all amounts in PLN '000, unless indicated otherwise)

Debt ratios

Ratio	H1 2016	H1 2015
Total debt ratio	32.8%	32.2%
Long-term debt ratio	16.9%	15.5%
Short-term debt ratio	16.0%	16.7%
Equity-to-debt ratio	204.5%	210.5%
Interest cover ratio	2,674.2%	2,579.8%

Source: Company data.

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

2.4. Financial liquidity

The Parent and the Group's leading 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 surplus cash and available credit facilities as well as limits under the Intragroup Financing Agreement (one purpose of which is ensuring effective distribution of funds) and ensuring that their level is safe and adequate to the scale of the Group's business.

2.5. Borrowings

In H1 2016, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.
Grupa Azoty has access to umbrella overdraft limits under virtual cash pooling and under a multi-purpose credit facility, which may be used by the Parent at times of increased demand for funding by the Group companies. In addition, the Group also has access to bilateral overdraft limits and multi-purpose credit facilities that are available to the Group companies.
The aggregate value of available overdraft limits and multi-purpose credit lines available to the Group at June 30th 2016 was PLN 631m.
Furthermore, the Group has access to a syndicated revolving credit facility of PLN 1,500m. As at June 30th 2016, PLN 717m had been drawn down, and the remaining amount of PLN 783m was available to the Group to finance its general needs, including the investment projects envisaged in its strategy.
The Grupa Azoty Group is also party to long-term financing agreements: a PLN 550m credit facility from the EIB (as at June 30th 2016, the euro equivalent of PLN 221m was drawn under the facility) and a PLN 150m credit facility from the EBRD (as at June 30th 2016, PLN 10m was drawn under the facility), for the financing of certain investment projects defined in the Group's strategy. The amount available under both facilities stood at PLN 469m.
The Group also had access to investment facilities totalling PLN 18m.
As at June 30th 2016, the aggregate amount of limits available to the Group under the financing agreements was PLN 1,901m.
The Group's financial standing is sound, and there are no material threats or risks of its deterioration in the future. The Group complies with the uniform covenants of its facility agreements which provide it with an ability to significantly increase financial debt when and as needed.

(all amounts in PLN '000, unless indicated otherwise)

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

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

2.7. Other information

Co-financing of projects

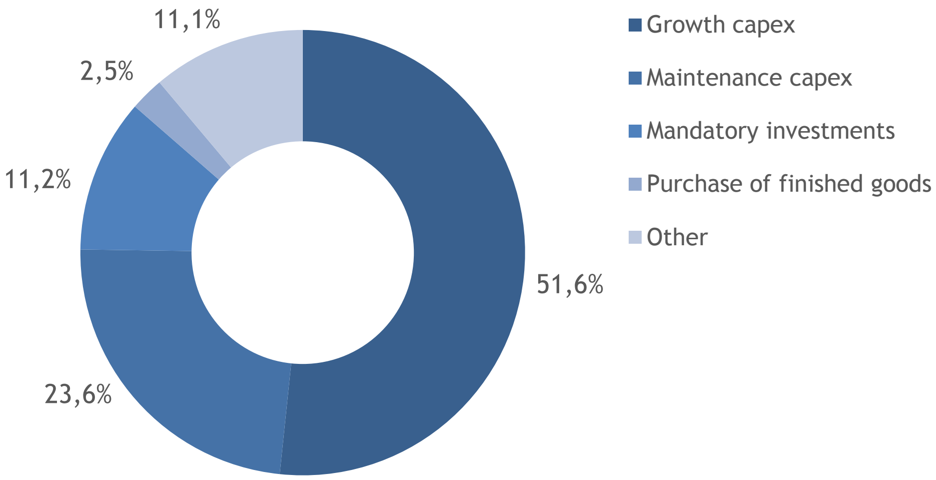
- On March 24th 2016, the Parent received PLN 222 thousand as the second tranche of financing under an agreement concluded on March 30th 2015 between the National Centre for Research and Development of Warsaw and the New Chemical Syntheses Institute of Puławy, the leader of a consortium including the Parent. The funds were granted to co-finance a project implemented as part of the Applied Research Programme, Path B: comprehensive processing of waste streams containing sodium sulfate with the use of electromembrane methods, with a view to obtaining a solution of soda lye and sulfuric acid.
- On February 2nd 2016, the account of Grupa Azoty PUŁAWY was credited with PLN 3,479 thousand received under the agreement on co-financing of the 'Construction of NOx reduction units at OP-215 boilers No. 4 and 5 of Zakłady Azotowe Puławy S.A.'.

2.8. Key investment projects

The Grupa Azoty Group's total capital expenditure in H1 2016 was PLN 551,696 thousand (including amounts spent on components, major overhaul work and improvements).
Structure of capital expenditure:

• Growth capex	PLN 284,948 thousand,
• Maintenance capex	PLN 130,088 thousand,
• Mandatory investments	PLN 61,575 thousand,
• Purchase of finished goods	PLN 13,599 thousand,
• Other (components, major overhaul work, other)	PLN 61,486 thousand,

Structure of the Grupa Azoty Group's capital expenditure in H1 2016



Source: Company data.

(all amounts in PLN '000, unless indicated otherwise)

The Grupa Azoty Group's capital expenditure in H1 2016 is presented below:

- Parent PLN 214,753 thousand
- Grupa Azoty KĘDZIERZYN Group PLN 109,778 thousand
- Grupa Azoty POLICE Group PLN 143,737 thousand
- Grupa Azoty PUŁAWY Group PLN 73,485 thousand
- Grupa Azoty SIARKOPOL PLN 2,163 thousand
- Grupa Azoty PKCh Sp. z o.o. PLN 2,901 thousand
- Grupa Azoty Koltar Sp. z o.o. PLN 4,512 thousand
- Grupa Azoty ATT Polymers GmbH PLN 367 thousand

Key investment projects implemented by the Grupa Azoty Group – Parent

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2016	Project purpose	Scheduled completion date
Polyamide plant II 80 thousand t/y	320,000	130,846	69,110	To utilise the Group's caprolactam output in a more efficient manner	2017
Granulation plant II	141,000	75,726	43,722	To optimise Grupa Azoty S.A.'s mix of fertilizer products and improve value added in ammonium sulfate	2016
20 MW pass-out and condensing turbine generator set at the CHP Plant	63,000	45,554	15,850	To increase the loads of the Lang pass-out back-pressure turbines (efficiency improvement), to increase the generation of electricity in condensing mode, and to reduce the average cost of electricity	2016
Flue gas desulfurization unit	45,400	23,949	15,667	To reduce sulfur dioxide and dust emissions from CHP Plant's Boiler No. 5 and adapt the boiler to the emission standards laid down in the IED Directive	2016
Flue gas denitrification unit	44,600	32,656	19,113	To reduce NOx emissions from CHP Plant's Boiler No. 5 and adapt the boiler to the emission standards laid down in the IED Directive	2016
Increase of ammonia production capacities	44,500	14,485	10,395	To increase the Group's output of ammonia by ca. 100 t/d and reduce the cost of mixed ammonia production	Completed
New iron-chromium catalyst plant	27,700	18,177	15,324	To scale up business growth in the catalyst segment, further improve the catalyst quality, create expansion opportunities, and increase the customer base	2016
Construction of a new technical-grade nitric acid storage unit – Phase 1	15,000	3,816	3,548	To replace the existing worn out technical-grade nitric acid storage unit with a new one	2017

(all amounts in PLN '000, unless indicated otherwise)

Key investment projects implemented by the Grupa Azoty Group – Grupa Azoty KĘDZIERZYN

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2016	Project purpose	Scheduled completion date
New CHP plant at GA ZAK S.A. – phase 1	375,059	275,441	75,791	To restore GA ZAK S.A.'s CHP plant's electricity and heat generation capacity based on solutions that comply with the growing environmental requirements	2016
Special Esters I	43,435	1,466	66	To extend the range of manufactured plasticizers To construct a new unit to produce several different esters for special applications, particularly for use as PVC softening agents	2018
Upgrade of the urea unit	30,000	10,817	8,789	To reduce the unit's environmental impact, obtain additional production capacity and increase process efficiency	2017
Upgrade of the Biological Wastewater Treatment Plant at the Wastewater Treatment and Sewage System Division	16,150	464	49	To improve the quality of treated wastewater – to meet the terms and conditions of the Water Law Decision which defined the permitted pollutant limits for the wastewater discharged to the Odra river; to improve work safety and comply with BAT requirements	2018

Key investment projects implemented by the Grupa Azoty Group – Grupa Azoty POLICE

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2016	Project purpose	Scheduled completion date
PDH propylene production unit (400 thousand tonnes/year) and related infrastructure	1,675,000	43,436	8,592	To construct a propane dehydrogenation (PDH) unit with a planned annual output of at least 400,000 tonnes of propylene; in addition to the PDH unit, a power generating unit will be constructed and a chemicals terminal will be built at the Police port facilities	2019
Exhaust gas treatment unit and upgrade of the EC II CHP plant	166,700	153,945	19,309	To bring the operation of the CHP plant's units in line with the requirements of Directive 2010/75/EU	2016
Upgrade of the ammonia unit	155,600	108,530	40,955	To reduce energy consumption of the ammonia production process and to improve the operational reliability of individual process nodes	2017
Change of the DA-HF phosphoric acid production method	67,000	5,760	3,040	To raise the efficiency of phosphoric acid production and improve the acid's quality by reducing impurities and waste generation	2017
Development of the logistics system – stage 2	29,738	18,334	10,346	To increase the number of loading bays for loading fertilizers on pallets and in big bags onto trucks, as well as to expand the available stacking space for fertilizers in both types of packaging	2016
Upgrade of the floodbank around the phosphogypsum landfill site	9,500	4,262	4,134	To increase the floodbank's leak-tightness and to better secure the phosphogypsum landfill site from external waters	2016

(all amounts in PLN '000, unless indicated otherwise)

Key investment projects implemented by the Grupa Azoty Group – Grupa Azoty PUŁAWY

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2016	Project purpose	Scheduled completion date
Construction of the Puławy Power Plant	1,125,000	6,901	1,850	The key function of the new power plant (CCGT unit) will be high-efficiency cogeneration of heat to be used for technological/heating purposes and electricity	2019
Upgrade of the existing and construction of new nitric acid units, neutralisation and production of new fertilizers based on nitric acid	695,000	418	356	To raise the efficiency of nitric acid production and to improve the economics of production of nitric acid-based fertilizers	2021
Facility for production of granulated fertilizers based on ammonium nitrate	385,000	22,180	13,274	To improve the quality of fertilizers by applying modern mechanical granulation	2020
Replacement of the TG-2 turbine generator set	99,000	3,257	2,936	To increase the efficiency of electricity and heat cogeneration by replacing the TG-2 30 MWe pass-out and condensing turbine with a new turbine with a rated input of 37 MWe	2017
Construction of a prilled sulfur handling and storage terminal (GZNF Fosfory Sp. z o.o.)	40,000	848	130	To upgrade the prilled sulfur handling operations	2017
1,900 Nm^3 hydrogen compressor	12,500	11,003	142	To improve operational stability of the units, bring down the failure rate and reduce hydrogen consumption rates	2016
Construction of a fertilizer compaction machine (GZNF Fosfory Sp. z o.o.)	12,000	5,593	5,297	To broaden the company's offering and reduce fertilizer production costs	2016

Key investment projects implemented by the Grupa Azoty Group – Grupa Azoty SIARKOPOL

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2016	Project purpose	Scheduled completion date
Upgrade of the insoluble sulfur unit SN II in accordance with working engineering documentation	19,000	895	636	To achieve the unit's design production capacity of 5,000 tonnes pa	2017

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

Exchange rates

Information that Fitch kept its rating of Poland's debt, the country's stable GDP growth rate and falling unemployment, combined with the continued quantitative easing by the ECB and Fed's decision to defer raising interest rates, indicate that there is a potential for the złoty to strengthen against the euro.
On the other hand, however, external risks related to the difficult situation of Italian banks and uncertainty as to the actual decisions and negotiations concerning Brexit and development of the situation in Turkey will continue to pose a risk of the złoty again weakening against the US dollar, especially in the wake of the potential weakening of the euro against the US dollar.
It can therefore be expected that in H2 2016 the PLN/EUR exchange rate will remain within the medium-term stability range (PLN 4.20-4.40), with limited appreciation possible if the Polish economy continues to perform well and there is no further escalation of the external risks identified above.
In the meantime, the PLN/USD exchange rate may somewhat weaken, matching the volatile EUR/USD exchange rate.
Taking into consideration the Group's currency risk exposure, the current and anticipated PLN/USD and PLN/EUR exchange rate fluctuations are unlikely to pose a risk to the Group achieving its performance objectives in H2 2016, given that the potential strengthening of the Polish złoty against the euro may entail a parallel weakening against the US dollar, and Poland's and the EU's political risk significantly limit the złoty's potential to strengthen its position.

Interest rates in Poland

In H1 2016, interest rates in Poland were kept unchanged, in line with earlier announcements of the Monetary Policy Council, which indicated that the persisting deflationary phenomena were due to a number of external factors, such as the drop in the global prices of crude oil and energy commodities. In view of the continuing satisfactory GDP growth in Poland, the current level of interest rates is favourable to keeping the Polish economy on the path of sustainable growth, whereas any lowering of the rates could result in excessive weakening of the Polish currency.
In view of the above, interest rates are expected to remain unchanged until the end of 2016. The main reference rate applicable to credit facilities contracted by the Grupa Azoty Group (1M WIBOR) should remain flat at about 1.60%. This will help stabilise the Group's borrowing costs at a relatively low level reinforcing its debt service capacity, also if the Group decides to increase debt to finance its investing activities, as planned.
Deflationary phenomena continue to persist in the eurozone countries and there may also be additional threats to economic growth related to Brexit. To counteract deflation, the European Central Bank will continue its quantitative easing programme and a policy of negative interest rates, which should remain at current levels until the end of 2017.
In turn, the US Federal Reserve Bank is also highly likely to delay further increases in interest rates for the US dollar, despite the continuing stable economic growth.
In summary, it is relatively unlikely that any adverse changes in the presently low reference rates for the Grupa Azoty Group's principal currencies (PLN, EUR) will occur by the end of 2016, so the risk of the Group's funding costs adversely affecting its financial position or performance is limited.
In terms of market rates, a relatively narrow spread between credit and deposit rates available to the Group is expected to continue, although they may increase slightly following the introduction of the tax on bank assets in Poland.
Interest income earned by the Group on free cash under cash pooling and fixed-term deposits will partially offset the cost of credit funding.

Market environment and prospects for its development

The current weak global economic environment has been a material factor restricting global economic growth. GDP growth in the United States remains lower than in the previous years, and the Chinese economy keeps decelerating. The conditions prevailing in the US and Chinese economies, combined with the prospect of the UK leaving the European Union (Brexit), may have a negative effect on economic growth both in the eurozone and globally. Global inflation continues to be very low. In most of the main developed economies, including in the eurozone, the price growth rate has been close to zero. The coming quarters will see Poland's GDP growth gradually accelerate, on the back of by higher household spending following the introduction of the 'Rodzina 500 plus' child support government programme. The scale of the recovery may, however, be limited due to slowly growing demand in the European economy. Reduced growth forecasts for the EU economy, related - among other things - to the result of the Brexit referendum, will affect investment demand in Poland and constrain the foreign trade value growth.

In Poland, economic activity has been rising at a stable pace despite volatile GDP growth over the recent quarters. Domestic demand, supported by steadily growing consumption (up by about 3% in 2016), remains the main driving force behind Poland's economic growth.

Growth in demand has been supported by the favourable situation in the labour market, positive consumer sentiment, falling unemployment rates and steadily growing salaries, which, combined with continuing deflation, increase real incomes. On the other hand, the investment growth rate has waned. This year and in the coming years, the impact of Brexit on Poland's GDP growth will be rather limited and may be felt primarily through weaker growth in the eurozone. In the opinion of NBP analysts, over a longer time horizon uncertainty should gradually disappear as arrangements for UK's exit from the EU take effect.

Factors which will affect the Group's performance over at least the next reporting period include:

- situation on the markets of natural gas, coal, electricity and petroleum products (mainly propylene, benzene and phenol),
- situation in agriculture and in the fertilizer segment,
- conditions prevailing in the main sectors which purchase the Group's products and on the markets where those sectors sell their products,

Legal regulations

Grupa Azoty actively presented its opinions on the new draft of the fertilizer regulation prepared by the European Commission, which poses a number of threats to the Polish compound fertilizer industry. The opinions, along with justifications, were sent to different decision-making bodies.

Following a 15-month long review, the European Commission decided to uphold anti-dumping duties on import of Russian ammonium nitrate. This means that import duties of up to EUR 47 per tonne of ammonium nitrate will be in force over the next five years. On September 23rd 2014, the European Commission passed an implementing regulation on this matter. The decision came as a response to a petition filed in March 2013 by Fertilizers Europe, a European association of fertilizer manufacturers of which Grupa Azoty is a member.

European Union countries entered into an agreement granting broader powers to the European Commission as part of the natural gas procurement policy. Based on the arrangements, the Commission will have the right to inspect intergovernmental agreements with external gas suppliers. EU officials will investigate the consistency of such agreements with the European law, and also with the objectives of EU energy policy. Details of the arrangement will be defined once the European Parliament has taken a position on this matter.

On May 11th 2016, the European Commission published a notice in the Official Journal of the European Union of initiation of a review of the anti-dumping measures applicable to imports of melamine originating in the People's Republic of China in connection with their impending expiry. A written request for the review was submitted on February 10th 2016 by Borealis Agrolinz Melamine GmbH, OCI Nitrogen BV and Grupa Azoty PUŁAWY ('petitioners') on behalf of manufacturers accounting for more than 25% of the total melamine production in the EU. Currently, imports of melamine originating in the People's Republic of China are subject to a definitive anti-dumping duty imposed by Council Implementing Regulation (EU) No 457/2011.

3. Risks and threats

Risk related to price and availability of natural gas

In its search for alternative and competitive sources of gas, the Group companies seek to diversify both the geographical regions and the suppliers of their gas imports, and report on these efforts in their press releases and reports. Negotiations with alternative gas suppliers are conducted at the Group level, which allows the Group to leverage its stronger bargaining position.
The Group takes steps to satisfy its overall gas demand through a combination of a long-term contract with its strategic supplier (PGNiG), annual or shorter contracts with various suppliers, and transactions on energy exchanges and the OTC market to meet its short-term demand. Currently, all of the gas purchased by the Group is priced based on the gas prices quoted on exchanges.
The gas interconnector and gas storage facility extension projects, currently being implemented in Poland, and the launch of the LNG terminal in Świnoujście have minimised the risk related to availability of natural gas.
The Group companies also focus on cutting their gas consumption costs by implementing investment projects designed to reduce gas consumption rates.

Risks associated with the planning and execution of strategic projects

The Group companies are working on investment projects begun in previous years, while embarking on new ones, important from the point of view of the Group's interests. Delivery of the strategy depends on a range of factors, including those outside of the Group's control. The risks related to the implementation of the Strategy are external factors in the Group's environment, such as macroeconomic factors, market conditions, business environment and activities of the main competitors. Their negative impact could prevent the Group from developing as planned and from achieving its strategic objectives. The risk inherent in the execution of strategic projects lies in the possibility that major growth-oriented initiatives and projects will not be completed according to plan or will not deliver the expected results, and that the goals they are intended to achieve will not be adequately translated into the project planning, monitoring or execution processes. In order to minimise the risks related to the execution of strategic projects at the Grupa Azoty Group, internal procedures have been put in place to define and govern the preparation and execution of investment projects. Oversight has been introduced over strategic projects and their reviewed assumptions (business effects, budgets, KPIs, schedules, division of responsibilities), and regular updates are provided on projects status. The execution of investment projects includes change management, where special attention is given to changes in foreign exchange rates, commodity prices, as well as the requirements to be met by newly constructed units. As a result, execution timetables and expenditure budgets can be updated on an ongoing basis. In addition, controlling officers monitor the execution of projects to identify potential threats. These policies also take into account the requirements related to the obligations imposed on beneficiaries of public funding.

Risk associated with new legal requirements relating to production processes, including environmental regulations

Risk associated with the implementation of the Industrial Emissions Directive (IED)

Following the implementation of the Industrial Emissions Directive (IED) in January 2014, the Grupa Azoty Group will be required to bring its production facilities to compliance with the new regulations. The companies will have to undertake specific adaptation work, and bear its costs. To ensure that there is sufficient time for taking appropriate steps to adapt the Company's facilities to the changing regulations, the Company continuously monitors all planned and implemented changes in the legal environment which could affect the Company's operations. Investments necessary in the light of new regulations are included in the investment plans of the Group companies.

Risk associated with greenhouse gas emissions

Greenhouse gas emissions are covered by legal regulations related to the European Union's emissions trading scheme (EU ETS). The system is based on the allocation of free greenhouse gas emission allowances for emitting installations and, if free allowances are not sufficient, on the purchase thereof in an auction-based system. Each year, the number of the allotted allowances decreases by several percent. If the actual CO_2 emissions are not covered by the free allowances, the Grupa Azoty Group may need to incur additional capital expenditure on projects designed to reduce the emissions of nitrous oxide and carbon dioxide. The volume of carbon dioxide emissions is related to the energy intensity of production processes. In order to mitigate this risk, the companies have been taking steps to reduce the energy intensity of processes, and thus greenhouse gas emissions. In the case of the nitric acid unit of Grupa Azoty KĘDZIERZYN, it means reducing nitrous oxide emissions.

Risk associated with BAT conclusions
Following the scheduled review of the regulations on the Best Available Techniques for the Manufacture of Large Volume Inorganic Chemicals: Ammonia, Acids & Fertilisers, there is a risk of implementing stricter and broader requirements relating to the air pollution emissions standards. Similarly, there is a risk that new BATs will be defined for the installations for which so far no Best Available Techniques have been specified. The period for adapting production installations to the emission requirements specified in the BAT conclusions is four years.
In order to meet the BAT requirements, companies should monitor on an on-going basis any drafts of new laws and regulations and actively present their opinions on the proposed legislation. The measures taken by the Group companies in this respect include:

- analysing the effectiveness of the technologies used in the context of development trends prevailing in the competitive environment,
- planning and implementing projects designed to bring the production installations in line with the BAT/BREF standards,
- searching for new solutions used in the processes, in particular to improve efficiency and reduce energy intensity in the context of regulations currently in place and the current level of technology,
- developing and extending the product range by adding new fertilizers based on components produced in the existing installations.

Risk of deteriorated supply-demand balance

In the Agro Fertilizers segment, the Group identifies risks related to:

- Higher imports of nitrogen and compound fertilizers manufactured from cheaper raw materials;
- Putting in operation significant new fertilizer production capacities, urea production capacities in particular (China, USA, Algeria), whose oversupply periodically causes changes in the prices of other nitrogen fertilizers;
- Maintenance of low and stable export duties on fertilizers from China − a slump in demand in China triggers large inflows of Chinese fertilizers to other markets. With the Indian government withdrawing its subsidies and other Asian countries which are buffer markets for Chinese exports reducing their purchases, the flow of Chinese products is re-directed to other markets, including Europe;
- Potential risk of sanctions on Iran being lifted, which might trigger an inflow of Iranian urea to the EU markets;
- Ban on trade in nitrate and CAN in Turkey, introduced for an indefinite period in response to terrorist attacks in this country − search for EU markets to sell products made in or imported by Turkey;
- Mergers and acquisitions of chemical companies, which might translate into their being able to exert more pressure on the EU fertilizer market;
- Competition growing stronger as new products are marketed and more effective technologies applied.

In order to mitigate the identified risks and to strengthen and consolidate its leadership in the segment, the Grupa Azoty Group has been taking steps to optimise the production costs and broaden the portfolio of products and services offered.
Measures taken by the Group to strengthen its competitive advantages in the fertilizer segment include:

- implementation of the Group's updated distribution strategy,
- implementation of projects designed to improve the efficiency of production processes,
- search for more competitively priced sources of natural gas supplies,
- strengthening the Group's market position through acquisitions and placement of new products in the market,
- taking active part in the process of consolidation of the chemical industry,
- initiation of anti-dumping proceedings,
- active participation in the work of Fertilizers Europe,
- cooperation with universities and research institutes,

- supporting agricultural producers by providing them with access to state-of-the-art fertilizing and production solutions.

In the Plastics segment, the Group identifies risks related to:
- Global oversupply of caprolactam and polyamide − the excess volume from the Far East may be directed to Europe, which will cause the export markets to shrink and prices to decline to unsatisfactory levels,
- Mergers and acquisitions of chemical companies, which might increase their ability to influence the EU market,

To minimise the effect of projected market trends, the Group has undertaken a number of initiatives to strengthen its competitive position:
- Construction of a new PA6 production unit in Tarnów, which will fully balance caprolactam production within the Grupa Azoty Group;
- The Parent is finalising the details of the project to construct a new Modified Plastics Facility in Tarnów, within the Kraków Special Economic Zone, that will help further expand the product chain;
- Continuation of the policy to diversify sales of caprolactam;
- Preparation of a long-term caprolactam manufacturing cost reduction programme;
- Leveraging the synergies between Tarnów's and Puławy's installations following from the integration of the companies' production and sales potentials;
- Meeting customer expectations by offering products tailored to specific customer needs;
- Efforts to optimise the portfolio of raw material suppliers, with particular emphasis on direct partnerships with producers under long-term strategic contracts, and to develop an optimum procurement logistics model;
- Active monitoring of the situation for any possible threats to be able to take necessary steps and mitigate adverse effects of such negative developments.

In the Chemicals segment, the Group identifies risks related to:
- Excessive titanium white global production capacities in the face of lower demand caused by the economic slowdown;
- Higher supply of OXO alcohols on balanced European markets, driven by heavy inflows of cheaper alcohols, especially from the Russian market;
- Import of plasticisers to the balanced and highly competitive EU market on which a wide range of plasticisers are available − the risk related to imports of non-phthalate plasticizers from the Korean and Turkish markets is particularly significant.

Grupa Azoty protects its business against those risks:
- By adapting its product mix to market requirements and needs, for instance by introducing non-phthalate plasticisers, ensuring high purity of OXO alcohols and identifying market niches − e.g. improving the DEHP plasticizer for medical applications or arranging deliveries tailored to the needs of end users (flexitanks for deep-sea freight of small volumes of products);
- Through initiatives designed to minimise production costs of individual products;
- Through active participation in public affairs marketing and trade associations.

Currency risk
The Grupa Azoty Group has a positive exposure to the euro and the US dollar which is hedged based on on-going monitoring of movements in the euro and US dollar exchange rates. The Group companies hedge their currency exposures using currency forwards and natural hedging.
In connection with the implementation in 2015 of a new centralised financing system, Grupa Azoty extends its hedge time horizon by using long-term currency hedging in the form of a euro-denominated facility for a part of its long-term financing. In line with its accounting policy, for such currency instruments, maturing in more than one year, the Group uses hedging relationships with future revenue planned to be generated in foreign currencies.
The Grupa Azoty Group has established the Risk Committee, which analyses and determines the consolidated currency exposure of the Group and its leading companies and recommends target levels and horizons of hedges, type of currency instruments and exchange rates for hedge transactions. Hedging transactions are executed by those Group companies in which the exposure actually occurs.

The methods the Group applies enable it to limit the existing risk by using selected hedging instruments and strategies, based on long-term and one-year currency exposure plans and their updates to account for quarterly operational plans and short-term projection of currency flows and currency expenditures, and based on the transactions already registered in the financial and accounting system. However, these methods do not eliminate that risk completely. In addition, currency risk may affect the domestic nitrate fertilizer market in the context of bilateral trade with other EU countries. Strong fluctuations in exchange rates may affect the Group's business, financial standing or performance.

Risk of a negative effect of CO_2 trading prices on financial performance

The Group has in place a monitoring system for emissions covered by the EU ETS. It also performs ongoing balancing of greenhouse gas emissions. The Group monitors on an ongoing basis its actual emissions and the market prices of emission allowances and takes appropriate steps in response to their fluctuations. The Group may be forced to incur higher-than-expected costs if it reports a deficit in emission allowances as at the end of the year and faces an increased demand for EUAs on the market.

The Group mitigates the risk of an adverse effect of EUA prices on the carbon market by averaging the price of emission units purchased on the SPOT market and by purchasing CO_2 emission allowances in financial derivatives with physical delivery in the future in accordance with the Purchase Strategy in force from time to time. The Group effectively implements its strategy of rolling purchases of emission allowances, which is designed to ensure full coverage of any deficit of emission allowances that should be allocated for a given year and subsequently redeemed, with exercise prices not higher than projected. The Group has appointed the EU ETS Management Committee, with representatives of all key Group companies. Its main objective is to supervise a joint model for managing CO_2 emission allowances at the Group companies, in particular the CO_2 Emissions Trading Strategy, and subsequently the implementation of the Emissions Trading Strategy binding on all Group companies.

Risk of major industrial accidents or technical failures disrupting the continuity of processes and operation of key production units

The Group has reliable safety systems and preventive measures in place at all organisational and technological levels, including occupational health and safety as well as protection against industrial accidents, however there is no assurance that these will completely eliminate the risk of such accidents and ensure the continuity of production processes. Their relevance is assessed by external and internal inspection authorities, as well as accreditation/certification bodies.

Prevention of industrial accidents at the Group companies is achieved through a range of activities, including:

- identification of hazards inherent in technological processes, storage and transport, and implementation of technical solutions and organisational measures to minimize the risk of an accident,
- ongoing monitoring of operations of machinery and equipment and evaluation of their technical condition,
- fitting of plants and units with safety and protection systems to minimise the risk of major accidents and environmental contamination, as well as risks to life and health,
- implementation of new projects and upgrades based on technical and organisational solutions designed to ensure occupational health and safety (the Group's facilities are compliant with the Best Available Techniques (BAT) reference documents for safety, including environmental impact),
- carrying out scheduled technical stopovers and maintenance shutdowns to ensure that the units and installations are kept in a proper working order,
- continuous improvement of the employees' qualifications through training courses, etc.
- introduction of corporate rules within the Group on how to report industrial accidents and failures, as well as how to investigate them and take preventive measures to mitigate the risk of their recurrence in the future,
- analysis and periodic update of technical and technological risks at the Grupa Azoty Group,
- implementation of an operational excellence programme,
- implementation of the Product Stewardship standard, covering all stages of the fertilizer lifecycle, which has been confirmed by the issuing of a certificate.

4. Other information

4.1. Other material events

Placement in service of a new fertilizer storage facility

In Tarnów, a new bulk storage facility, which was an important investment project in the fertilizer segment, was completed. The facility is not only a part of the fertilizer production line, but will also enable the Parent to season and store its fertilizer products in appropriate conditions.

Agreement with the Office of Technical Inspection

On March 9th 2016, the Parent and the Office of Technical Inspection (UDT) signed a cooperation agreement. The steps to be taken under the agreement will improve safety levels of the Parent's process units and equipment subject to technical inspections.

Grupa Azoty named the Champion of Change of Polish Industry

On January 20th 2016, during the 'We Change Polish Industry' Forum, Grupa Azoty was distinguished for its 'unprecedented investment projects' and the wide-ranging investment programme currently implemented. During the presentation of the award, the organisers emphasized that all of the 68 investment projects of Grupa Azoty will elevate the Polish chemical industry to an even higher technological level within the next four years and the projects under way in all Grupa Azoty plants will ensure its stable development and improve its competitive edge on foreign markets.

Establishment of the Polish National Foundation

In July 2016, 17 of the largest Polish companies, including Grupa Azoty, set up the Polish National Foundation to promote the Polish economy and create a positive image of state-owned companies and their projects in Poland and abroad.

The founders are Poland's leading players in the key sectors of economy: power, transport, logistics, mining, steel, fuels, insurance, chemicals, finance, property, as well as games of chance.

The Foundation, which is to serve as a platform for cooperation between these largest state-owned companies, will start in Q3 2016. It will provide opportunities to carry out projects previously out of reach, in Poland, Europe and the world, while guaranteeing strong synergies. 10 out of the 17 companies are included in WIG20, the blue-chip index of the Warsaw Stock Exchange, and two other are WIG40 companies.

Among the companies which set up the Foundation are four power groups delivering electricity to more than 90% of customers in Poland, namely PGE Polska Grupa Energetyczna, Enea, Energa, and Tauron, as well as Poland's largest gas and fuel companies – Polskie Górnictwo Naftowe i Gazownictwo, PKN Orlen and Grupa Lotos. Other founders are leading providers of insurance and financial services, i.e. PZU, PKO BP and the Warsaw Stock Exchange, and the leader in the market of games of chance, Totalizator Sportowy.

The Foundation's key task is to promote and protect the image of Poland and Polish economy, as well as to build a positive social reception of projects carried out by state-owned companies. The organization is to work with local communities, social institutions and economic entities as well as to undertake and finance social initiatives.

Funds necessary to pursue these objectives will be provided by the founders. The Polish National Foundation is to pursue these long-term aims with the highest efficiency and effectiveness. Therefore, it will use state-of-the-art tools while minimising its own costs. Its operations will be open and transparent, and its governing bodies will be obliged to submit full-year financial statements to the supervisory board.

Events after the end of the reporting period

End of negotiations on potential consolidation of the chemicals and fertilizers sector -- delayed disclosure of inside information

On July 26th 2016, the Parent received from Polski Koncern Naftowy ORLEN S.A. and Anwil S.A. a notice of termination of the Non-Disclosure Agreement executed in January 2015 by and between the Parent, the State Treasury, Polski Koncern Naftowy ORLEN S.A. and Anwil S.A.

The agreement concerned negotiations aimed at concluding an agreement between its parties to set a framework for a potential integration of the chemicals and fertilizers sector. In January 2015, the Parent delayed the disclosure of inside information about the negotiations and their circumstances, as immediate disclosure was likely to adversely affect the negotiations or their outcome. The disclosure was delayed pursuant to Art. 57 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005.

Exploration licences of African Investment Group S.A.

On August 4th 2016, the Management Board of Grupa Azoty POLICE was notified of the following decisions taken by the Ministry of Industry and Mining of Senegal:

- A decision to extend the licence for exploration for phosphates and related substances in the KEBEMER area (Louga region, Senegal), granted to the company's subsidiary African Investment Group S.A., for another three years starting from July 9th 2016. Formerly, the exploration licence was granted to African Investment Group S.A. for the period from July 10th 2013 to July 9th 2016. The extended licence covers an area of approximately 472 km^2. During the new licence term (three years), African Investment Group S.A. is required to make exploration spending of USD 3m.

  Concurrently, African Investment Group S.A. is taking steps to acquire a production licence in the KEBEMER area.
- A decision to refuse to extend the licence for exploration for heavy minerals and related substances in the KAYAR OFFSHORE field (Dakar region, Senegal), held by African Investment Group S.A. The expired exploration licence covered ilmenite as the main mineral, as well as rutile and zirconium. An estimate of mineral resources by African Investment Group S.A. showed that incurring high costs of exploration is too risky. Thus African Investment Group S.A. did not meet the minimum expenditure requirement defined in the exploration licence, which resulted in the negative decision of the Senegal's Ministry of Industry and Mining.

4.2. Significant agreements

The agreements are presented in chronological order.

Significant agreements

Framework agreement for gas fuel supply and bilateral individual contracts

On April 13th 2016, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN, Grupa Azoty SIARKOPOL (jointly the "Customers" and separately the "Customer") concluded a framework agreement for gas fuel supply and bilateral individual contracts with Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG S.A.").

The framework agreement defines the procedures, the same for all the Customers, for the execution and termination of individual contracts, placing orders and making payments, suspension and reduction of supplies, renegotiation, and terms of joint settlement of supplies.

An individual contract is a fixed-term contract executed under the framework agreement in the form of a sale agreement (in the case of gas sold at a virtual trading point) or master agreement (in the case of gas sold at a physical trading point), specifying the volumes, schedule, pricing formulas based on exchange indices, and detailed commercial parameters of gas fuel supplies to a given Customer.

The framework agreement has been concluded for an indefinite term and its provisions apply to supplies made as of April 1st 2016. The individual contracts have been made for various supply periods, with the longest one ending on September 30th 2019.
Unless provided otherwise in the individual contracts, each Customer may terminate the framework agreement and one or more individual contracts providing for the sale of gas at a physical point at one month's notice with effect from the end of a gas month, or at six months' notice in the case of an individual contract for the sale of gas at a virtual gas trading point.
The framework agreement contains general provisions on contractual penalties and refers the parties to the individual contracts for details. The individual contracts provide for contractual fees and penalties for the non-performance or improper performance either by PGNiG S.A. or the Customer(s), depending on current and periodic execution of supplies, including for failure to deliver or accept the minimum contracted volume of gas fuel and for termination of an individual contract. The maximum amount of contractual penalties should not exceed 10% of the value of each individual contract in force in the first period when such penalties can be charged, but given the value of the individual contracts, it may exceed EUR 200,000. Payment of the contractual penalties precludes the right to seek compensation in excess of penalty amounts.
Any disputes that may arise will be resolved by the court of general jurisdiction competent for the registered office of the defendant except where a dispute concerns price renegotiation, in which case it will be resolved by the Arbitration Court selected by the parties to the framework agreement in line with the procedure set out therein.
The other terms of the framework agreement do not differ from standard terms used in agreements of such type.
Together with the individual contracts, the framework agreement meets the criteria of a significant agreement, which means that its estimated VAT-exclusive value under current market conditions during the life of the individual contracts is approximately PLN 3.3bn, thus exceeding 10% of the Parent Group's total revenue generated in the last four financial quarters. Concurrently, it is the highest-value agreement concluded by the Parent and PGNiG S.A. (as well as the Grupa Azoty Group and the PGNiG Group) in the period from August 18th 2015 to the date of issue of this report. The total value of transactions between the Grupa Azoty Group and the PGNiG Group in this period, including the estimated value of the framework agreement, is approximately PLN 3,790m, which also is the threshold for a significant reportable agreement.
The framework agreement and the individual contracts provide for gas fuel supplies satisfying over 50% of the demand for gas from the Grupa Azoty Group Customers.

Material agreements

Agreements and annexes to agreements of financial nature

Annex to the credit facility agreement between Remzap Sp. z o.o. and Bank Millennium S.A.

On January 25th 2016, Remzap Sp. z o.o. signed an annex to the PLN 2m credit facility agreement of January 27th 2012 concluded with Bank Millennium S.A. Under the annex, the agreement's term was extended until January 26th 2017.

Annex to the credit facility agreement between Agrochem Sp. z o.o. and Bank Pekao S.A.

On January 29th 2016, Agrochem Sp. z o.o. and Bank Pekao S.A. signed an annex to the overdraft facility agreement, increasing the limit from PLN 5m to PLN 10m. The agreement is effective until January 31st 2017.

Factoring agreement between the Parent and BGŻ BNP Paribas Faktoring Sp. z o.o.

On February 12th 2016, the Parent and BGŻ BNP Paribas Faktoring Sp. z o.o. executed a factoring agreement with a PLN 25m limit, effective until October 12th 2016, to be used to finance deferred payment receivables from selected domestic trading partners.

Amendment to the credit facility agreement between AFRIG S.A. and BGŻ BNP Paribas S.A.
On February 25th 2016, AFRIG S.A. executed an amendment to a multi-purpose credit facility agreement signed with BGŻ BNP PARIBAS S.A. on February 18th 2014, extending the credit facility's availability until February 17th 2017 and bringing security for the bank's claims in line with the Group's standards in respect of credit facility agreements.

Annex to receivables discounting agreement with mBank
On May 25th 2016, the Parent and mBank S.A. signed an annex to the receivables discounting agreement of July 30th 2010, extending its term until June 30th 2017.

Annex to the agreement for electronic purchase of receivables with mBank
On May 25th 2016, the Parent and mBank signed an annex to the agreement for electronic purchase of receivables (from non-Group companies) of September 24th 2014, extending its term until June 30th 2017.

Credit facility agreement between Agrochem Sp. z o.o. and Bank Pekao S.A.
On April 21st 2016, Agrochem Puławy Sp. z o.o. and Bank Pekao S.A. signed a PLN 10m working capital facility agreement valid until December 31st 2016.

Insurance agreements
Trade credit insurance at Grupa Azoty PUŁAWY
In January 2016, the existing trade credit insurance policy with Towarzystwo Ubezpieczeń Euler Hermes S.A. was renewed for a period from January 1st 2016 to December 31st 2016. The insurance policy covers domestic and export sales of caprolactam and melamine, as well as sales of other products to customers buying caprolactam, melamine, PUC-C (cyclohexane oxidation product), and alcohol foreshots.
Also in January 2016, a new trade credit insurance policy was executed with Towarzystwo Ubezpieczeń Euler Hermes S.A. for a period from January 1st 2016 to December 31st 2016. The insurance policy covers Grupa Azoty PUŁAWY's receivables from fertilizer exports.

The Group's construction and assembly risk insurance
In February 2016, the Parent entered into a master agreement concerning all risk construction and assembly insurance under an insurance pool set up by WARTA/PZU/Ergo HESTIA. The agreement, effective from February 6th 2016 until June 30th 2018, defines the terms and conditions of insurance of construction and assembly work performed as part of new investments as well as overhaul projects under contracts entered into by Grupa Azoty Group companies. The insurance also covers construction and assembly work performed by the companies. Contracts benefit from the insurance cover provided that they are notified during the agreement term.

Consolidated Group Insurance Programme
On June 30th 2016, PZU issued insurance policies for four leading companies of the Grupa Azoty Group, i.e. the Parent, Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE and Grupa Azoty PUŁAWY, covering:
- all-risk property insurance (ALLR),
- all-risk electronic equipment insurance (EEI),
- loss of profit insurance ALLR (BI),
- all-risk machinery insurance (MB).

Moreover, on June 30th 2016, the HESTIA/PZU/WARTA insurance pool issued annual property insurance policies for the Group companies covering:
- third-party liability for businesses and property owners (OC),
- property in domestic and international transport.

The insurance policies cover the period from July 1st 2016 to June 30th 2017 and were issued under the second annual settlement period of the three-year master agreements signed by the four leading companies of the Group, effective from July 1st 2015 to June 30th 2018, which provide the Group with comprehensive insurance against disaster and material risks.

Commercial contracts

Contract with PGNiG Supply & Trading GmbH

On March 11th 2016, Grupa Azoty POLICE entered into a gas supply contract with PGNiG Supply & Trading GmbH of Munich, Germany (a subsidiary of Polskie Górnictwo Naftowe i Gazownictwo S.A.).
The estimated value of deliveries to be made under the contract totals approximately PLN 151,600,000. The contract defines the terms and conditions on which gas will be sold to the company between October 1st 2016 and October 1st 2017.

Contract with Nitron Group Corporation

On April 18th 2016, Grupa Azoty POLICE concluded a potassium chloride purchase contract with Nitron Group Corporation of Greenwich, USA (as the seller).
The contract has an estimated value of PLN 176,000,000 and was concluded for a definite term from April 1st 2016 to December 31st 2016. Under the contract, potassium chloride is delivered according to an agreed delivery schedule, in shipments of 3,000–15,000 tonnes each.

Contract with PKP Cargo

On June 23rd 2016, Grupa Azoty and PKP Cargo entered into a two-year contract for transport of more than 4 million tonnes of fertilizer and chemical products and raw materials for companies of the Grupa Azoty Group.
The contract's total value is estimated at nearly PLN 200m. Cooperation between PKP CARGO and the Grupa Azoty Group is regulated by a framework agreement and separate volume agreements with five companies of the Group. It is a continuation of cooperation between the entities.
Under the new contract, PKP CARGO will provide comprehensive transport services to the Grupa Azoty Group. This largest railway carrier in Poland will transport fertilizers, chemical products and other cargo in special containers to customers in Poland and will handle international shipments. Some shipments will also involve transport of products between companies of the Grupa Azoty Group. Under the new contract, for two years PKP CARGO will provide services to the Parent, Grupa Azoty PUŁAWY, Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE and Grupa Azoty SIARKOPOL.
Under a separate contract with Grupa Azoty, PKP CARGO will also transport coal from coal mines in Silesia and from the Bogdanka mine in the Lublin region. The contract was signed in March 2016 and provides for transport of nearly 900,000 tonnes of coal.

4.3. Sureties for borrowings, guarantees granted

In H1 2016, the Grupa Azoty Group did not issue any guarantees with the total value exceeding 10% of the Parent's equity.
In H1 2016, the Group did not sign any annexes to amend its guarantees with the total value exceeding 10% of the Parent's equity.
In H1 2016, companies of the Grupa Azoty Group did not grant any sureties.

Letters of credit issued

Letters of credit issued at the request of Grupa Azoty PUŁAWY

On February 4th 2016, at the request of Grupa Azoty PUŁAWY, PKO BP S.A. issued an import letter of credit for EUR 1,496 thousand, expiring on August 19th 2016, for the benefit of an equipment supplier. The letter of credit was issued under a multi-purpose credit facility agreement.

Letters of credit issued at the request of Grupa Azoty POLICE

On May 4th 2016, at the request of Grupa Azoty POLICE, PKO BP S.A. issued a standby letter of credit for USD 1,300 thousand, expiring on December 31st 2016, as payment bond for the contract for the construction of a flue gas treatment unit at the EC II CHP plant.

Loans advanced within the Group in H1 2016

Under an intra-Group financing agreement of April 23rd 2015, on January 25th 2016 Grupa Azoty KĘDZIERZYN's request for a loan of PLN 2,770 thousand was accepted. The loan is to be used to finance the investment project 'Launch of continuous production of OXOPLAST® OT'. The loan was disbursed on January 29th 2016.

(all amounts in PLN '000, unless indicated otherwise)

Under the intra-Group financing agreement of April 23rd 2015, following Grupa Azoty KĘDZIERZYN's request for a loan of PLN 209,920 thousand for the financing of the investment project 'New CHP plant at GA ZAK S.A. – Phase 1', the loan's next tranches were disbursed, including:

- on March 31st 2016 – PLN 40,320 thousand,
- on June 30th 2016 – PLN 32,000 thousand.

4.4. Shareholding structure

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

Shareholding structure as at May 11th 2016 (issue date of the most recent report)

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,841,700 shares, i.e. 20.0026%)	571,348	0.57	571,348	0.57
Rainbee Holdings Limited*)	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited*)	9,450,000	9.53	9,450,000	9.53
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
EBRD	5,700,000	5.75	5,700,000	5.75
Other	22,505,763	22.69	22,505,763	22.69
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

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

including:

- Series AA and Series B shares 39,116,421,
- Series C shares 24,999,023,
- Series D shares 35,080,040.

On May 23rd 2016, the Management Board of the Parent received a notification from Norica Holding S.à r.l., of Luxembourg ("Norica"), given under Art. 69.1.2 and Art. 87.5.1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005 (the Public Offering Act).
Following the execution of a share sale agreement by Norica, on May 19th 2016 Norica directly and indirectly (through its subsidiaries) reduced its share in total voting rights at the Parent's General Meeting. As a result, Norica holds (directly and indirectly through its subsidiaries) approximately 19.70% of total voting rights at the Parent's General Meeting.
Transaction details were announced by the Parent in Current Report No. 30/2016 of May 24th 2016.

(all amounts in PLN '000, unless indicated otherwise)

Shareholding structure as at May 23rd 2016

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,541,700 shares, i.e. 19.7002%)	271,348	0.27	271,348	0.27
Rainbee Holdings Limited*)	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited*)	9,450,000	9.53	9,450,000	9.53
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
EBRD	5,700,000	5.75	5,700,000	5.75
Other	22,805,763	22.99	22,805,763	22.99
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

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

including:
- Series AA and Series B shares 39,116,421,
- Series C shares 24,999,023,
- Series D shares 35,080,040.

On June 9th 2016, the Management Board of the Parent received a notification from proxies to escrow accounts of Norica's subsidiaries – Opansa Enterprises Limited and Rainbee Holdings Limited, pursuant to Art. 69.1.1 in conjunction with Art. 87.1.7 of the Public Offering Act.
According to the notification, Opansa Enterprises Limited of Nicosia, Norica's subsidiary, reduced its share in total voting rights at the Parent's General Meeting from 9.53% to 9.50%. Thus, Norica (directly and indirectly through its subsidiaries) reduced its share in total voting rights at the Parent's general meeting from approximately 19.70% to 19.68% of total voting rights at the Parent's General Meeting.
The text of the notification was published by the Parent in Current Reports No. 38/2016 and No. 39/2016 of June 9th 2016.

Shareholding structure as at June 9th 2016

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,521,700 shares, i.e. 19.68%)	271,348	0.27	271,348	0.27
Rainbee Holdings Limited*)	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited*)	9,430,000	9.50	9,430,000	9.50
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
EBRD	5,700,000	5.75	5,700,000	5.75
Other	22,825,763	23.02	22,825,763	23.02
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

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

(all amounts in PLN '000, unless indicated otherwise)

including:
- Series AA and Series B shares 39,116,421,
- Series C shares 24,999,023,
- Series D shares 35,080,040.

On June 10th 2016, the Management Board of the Parent received a notification from Norica, prepared pursuant to Art. 69.1.2, Art. 69a.3 and Art. 87.5.1 of the Public Offering Act.
According to the notification, following the execution of three intra-group transactions on June 8th, resulting in the disposal, directly and indirectly, of shares in the Parent, Norica reduced (directly and indirectly through its subsidiaries) its share in total voting rights at the Parent's General Meeting from 19.68% to approximately 19.47%.
Transaction details were announced by the Parent in Current Report No. 40/2016 of June 10th 2016.

Shareholding structure as at June 10th 2016

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,321,700 shares, i.e. 19.47%)	71,348	0.072	71,348	0.072
Rainbee Holdings Limited*)	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited*)	9,430,000	9.50	9,430,000	9.50
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
EBRD	5,700,000	5.75	5,700,000	5.75
Other	23,025,763	23.22	23,025,763	23.22
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

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

including:
- Series AA and Series B shares 39,116,421,
- Series C shares 24,999,023,
- Series D shares 35,080,040.

In the period from June 10th 2016 to the date of this report, the Parent was not notified of any changes in large holdings of its shares.

4.5. Parent shares held by its management and supervisory personnel

As at the end of the reporting period (June 30th 2016) and as at the date of this report, none of the members of the Parent's Management Board held any shares in the Parent.
Since the date of issue of the previous report, there have been no changes in holdings of Parent shares by the management personnel.

(all amounts in PLN '000, unless indicated otherwise)

Grupa Azoty shares held by supervisory personnel

	Number of shares/voting rights*		
	as at Jan 1 2016	as at Jun 30 2016	as at Jul 5 2016**
Tomasz Klikowicz	190	190	190

* Par value is PLN 5.

** Member of the Supervisory Board of the 9th term of office. Held the position until July 5th 2016. On July 5th 2016, pursuant to resolutions of the Company's Annual General Meeting, the Company's Supervisory Board was appointed for the 10th term of office.

The remaining members of the Parent's supervisory personnel held no Grupa Azoty shares.
Since the date of issue of the previous report, there have been no changes in holdings of Parent shares by the supervisory personnel.

4.6. Composition of the Management Board and the Supervisory Board

Parent's Management Board
Composition of the Management Board as at January 1st 2016:
- Paweł Jarczewski – President of the Management Board,
- Krzysztof Jałosiński – Vice President of the Management Board,
- Marek Kapłucha – Vice President of the Management Board,
- Marian Rybak – Vice President of the Management Board,
- Andrzej Skolmowski – Vice President of the Management Board,
- Witold Szczypiński – Vice President of the Management Board,
- Artur Kopeć – Member of the Management Board elected by employees.

At its meeting held on February 19th 2016, the Company's Supervisory Board passed the resolution whereby the Management Board of the 10th term of office is to be composed of three to seven members and made the following changes to the composition of the Management Board:
- Paweł Jarczewski, President of the Management Board, was removed from the Management Board,
- Krzysztof Jałosiński, Vice President of the Management Board, was removed from the Management Board,
- Marek Kapłucha, Vice President of the Management Board, was removed from the Management Board,
- Marian Rybak, Vice President of the Management Board, was removed from the Management Board,
- Mariusz Bober was appointed President of the Management Board of Grupa Azoty S.A. of the 10th term of office.

On March 14th 2016, the Supervisory Board passed resolutions to appoint Józef Rojek and Tomasz Hinc as members of the Management Board.

At its meeting held on May 20th 2016, the Company's Supervisory Board made the following changes to the composition of the Company's Management Board:
- Andrzej Skolmowski, Vice President of the Management Board, was removed from the Management Board. The resolution became effective as of its date.
- Paweł Andrzej Łapiński was appointed to the Company's Management Board as its Vice President. The resolution became effective as of its date.
- Tomasz Hinc, Member of the Company's Management Board, was appointed as its Vice President. The resolution became effective as of its date.
- Józef Rojek, Member of the Company's Management Board, was appointed as its Vice President. The resolution became effective as of its date.

As at the date of this report, the Company's Management Board consisted of:
- Mariusz Bober – President of the Management Board,
- Tomasz Hinc – Vice President of the Management Board,
- Paweł Łapiński – Vice President of the Management Board,

- Józef Rojek – Vice President of the Management Board,
- Witold Szczypiński – Vice President of the Management Board,
- Artur Kopeć – Member of the Management Board.

Powers and responsibilities of the Parent's Management Board and Supervisory Board members:
At its meeting held on May 24th 2016, the Company's Management Board passed Resolution No. 358/X/2016 on the division of powers and responsibilities between the members of the Management Board. The Resolution sets out the current powers and responsibilities of the Management Board members in individual business areas within the Company and the Group.
As at the date of this report, the division of powers and responsibilities of members of the Parent's Management Board was as follows:

- Mariusz Bober − President of the Management Board, responsible for overall supervision and management of the Group, as well as for the strategy and corporate governance, including exercise of majority shareholder power, human resources management, communication and corporate image (which also covers public relations and CSR),
- Witold Szczypiński – Vice President of the Management Board, Director General of the Parent, responsible for integration of production processes, the Agro Segment, and the Plastics Segment,
- Tomasz Hinc – Vice President of the Management Board, responsible for procurement and logistics,
- Paweł Łapiński – Vice President of the Management Board, responsible for finance, controlling, IT and investor relations,
- Józef Rojek – Vice President of the Management Board, responsible for investment projects and for R&D programmes,
- Artur Kopeć – Member of the Management Board, responsible for production assets, plant safety, environmental protection, infrastructure and social dialogue.

The Company's Management 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 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,
- the Company's Articles of Association,
- Rules of Procedure for the Company's Management Board,
- Resolution on the division of powers and responsibilities of May 24th 2016 (Resolution No. 358/X/2016).

Supervisory Board
Composition of the Supervisory Board as at January 1st 2016:

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

On January 15th 2016, Zbigniew Paprocki was appointed Secretary of the Supervisory Board.
On January 29th 2016, by virtue of a letter from the Minister of State Treasury, Przemysław Lis was removed from the Supervisory Board, and Marek Grzelaczyk was appointed in his place.
On February 1st 2016, by way of resolutions of the Company's Extraordinary General Meeting, Monika Kacprzyk-Wojdyga and Marek Mroczkowski, Jacek Obłękowski and Ryszard Trepczyński were removed from the Company's Supervisory Board, while Maciej Baranowski, Tomasz Karusewicz, Przemysław Lis and Bartłomiej Litwińczuk were appointed as the new members (Przemysław Lis was appointed as the Chairman of the Supervisory Board).

On February 19th 2016, the Supervisory Board appointed Marek Grzelaczyk as Deputy Chairman of the Supervisory Board of the 9th term of office.
As a result of the above changes, as at February 19th 2016 the composition of the Supervisory Board was as follows:
- Przemysław Lis – Chairman,
- Marek Grzelaczyk – Deputy Chairman,
- Zbigniew Paprocki – Secretary,
- Maciej Baranowski – Member,
- Robert Kapka – Member,
- Tomasz Karusewicz – Member,
- Tomasz Klikowicz – Member,
- Artur Kucharski – Member,
- Bartłomiej Litwińczuk – Member.

On March 31st 2016, Marek Grzelaczyk tendered his resignation as Deputy Chairman. On April 15th 2016, the Supervisory Board appointed Tomasz Karusewicz as Deputy Chairman of the Supervisory Board of the 9th term of office.

As a result, the composition of the Parent's Supervisory Board as at April 15th 2016 was as follows:
- Przemysław Lis – Chairman,
- Tomasz Karusewicz – Deputy Chairman,
- Zbigniew Paprocki – Secretary,
- Maciej Baranowski – Member,
- Marek Grzelaczyk – Member,
- Robert Kapka – Member,
- Tomasz Klikowicz – Member,
- Artur Kucharski – Member,
- Bartłomiej Litwińczuk – Member.

As 2015 was the last full year of operation of the Supervisory Board of the 9th term of office, the Supervisory Board, by Resolution No. 223/IX/2016 of February 19th 2016, called the election of candidates for Supervisory Board members elected by employees, for the 10th term of office.
After the election held on March 11th–23rd 2016 (1st round) and on March 30th–April 14th 2016 (2nd round), the following persons were appointed to the Supervisory Board:
- in the 1st round: Robert Kapka and Zbigniew Paprocki,
- in the 2nd round: Roman Romaniszyn.

Moreover, acting pursuant to Art. 16.2 of the Articles of Association of Grupa Azoty S.A., the Minister of State Treasury, by letter of June 30th 2016, appointed Marek Grzelaczyk to the Company's Supervisory Board of the 10th term of office, effective from July 5th 2016.
On July 5th 2016, pursuant to resolutions of the Company's Annual General Meeting, the following persons were appointed as members to the Company's Supervisory Board of the 10th joint term of office:
- Przemysław Lis – as Chairman,
- Maciej Baranowski,
- Marek Grzelaczyk,
- Robert Kapka,
- Tomasz Karusewicz,
- Artur Kucharski,
- Bartłomiej Litwińczuk,
- Zbigniew Paprocki,
- Roman Romaniszyn.

The new members of the Company's Supervisory Board were appointed pursuant to Art. 385.1 of the Polish Commercial Companies Code, as well as Art. 36.1 and Art. 51.6 of the Company's Articles of Association, following elections held among the Company's employees.
The resolutions on appointment of Members of the Supervisory Board of the 10th term of office became effective as of their dates.

At the meeting held on July 18th 2016, the Supervisory Board of the 10th term of office was constituted, and the Deputy Chairperson, Secretary and members of the Audit Committee were appointed.
As a result, the composition of the Parent's Supervisory Board as at the date of this report was as follows:

- Przemysław Lis – Chairman,
- Tomasz Karusewicz – Deputy Chairman,
- Zbigniew Paprocki – Secretary,
- Maciej Baranowski – Member,
- Marek Grzelaczyk – Member,
- Robert Kapka – Member,
- Bartłomiej Litwińczuk – Member,
- Roman Romaniszyn – Member,
- Artur Kucharski – 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 (in particular Art. 33 of the Company's Articles of Association),
- the Rules of Procedure for the Parent's Supervisory Board.

Changes in the composition of the Supervisory Board's Audit Committee
The composition of the Audit Committee as at January 1st 2016:

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

Following the removal of Jacek Obłękowski and Marek Mroczkowski from the Supervisory Board by virtue of resolutions of the Company's General Meeting of February 1st 2016, on February 19th 2016 the Supervisory Board appointed the following persons to the Audit Committee: Tomasz Karusewicz, Maciej Baranowski and Artur Kucharski (as Chairman of the Audit Committee). In connection with Tomasz Karusewicz's resignation from the Audit Committee made on March 8th 2016, on March 14th 2016 the Supervisory Board resolved to appoint Marek Grzelaczyk to the Committee.
As a result, from March 14th 2016 to July 5th 2016 the composition of the Audit Committee was as follows:

- Artur Kucharski – Chairman,
- Maciej Baranowski,
- Marek Grzelaczyk,
- Tomasz Klikowicz.

At the meeting held on July 18th 2016, the Supervisory Board of the 10th term of office was constituted, and the following members of the Audit Committee were appointed:

- Artur Kucharski – Chairman,
- Maciej Baranowski,
- Marek Grzelaczyk,
- Robert Kapka.

5. Additional information

Management Board's position on the achievement of forecasts
As no forecasts for 2016 have been published, the position of the Parent's Management Board concerning achievement of such forecasts is not presented.

Litigation

There are no pending proceedings concerning liabilities or debt claims of or against the Grupa Azoty Group companies whose value would represent 10% of Grupa Azoty'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, as amended).
The total value of all proceedings involving the Group companies does not exceed 10% of Grupa Azoty S.A.'s equity.

Parent's branches

The Company does not operate non-local branches or facilities.

Shares, share issues

In H1 2016, the Parent did not issue, redeem or repay any debt or equity securities. The Company had spent the proceeds from Public Offerings by the end of 2013. The proceeds were used in line with the original issue objectives.
There are no agreements known to the Company which may cause future changes in the percentages of shares held by the existing shareholders and bondholders
The Company does not operate any control system for employee share ownership plan.

The consolidated interim report of the Grupa Azoty Group for H1 2016 contains 111 pages.

Signatures of Members of the Management Board

……………………………….
Mariusz Bober
President of the Management Board

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

……………………………….
Tomasz Hinc
Vice President of the Management Board

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

……………………………….
Józef Rojek
Vice President of the Management Board

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

Tarnów, August 23rd 2016