Consolidated financial statements for the 12 months ended December 31st 2017 prepared in accordance with International Financial Reporting Standards as endorsed by the European Union

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(all amounts in PLN thousand unless indicated otherwise)

Consolidated statement of profit or loss and other comprehensive income

	Note	for the period Jan 1– Dec 31 2017	for the period Jan 1– Dec 31 2016* restated
Profit/loss			
Revenue	1	9,617,495	8,966,804
Cost of sales	2	(7,457,734)	(7,004,483)
Gross profit		**2,159,761**	**1,962,321**
Selling and distribution expenses	2	(673,555)	(669,315)
Administrative expenses	2	(757,767)	(727,412)
Other income	3	50,200	48,138
Other expenses	4	(181,425)	(186,128)
Operating profit		**597,214**	**427,604**
Finance income	5	32,107	33,745
Finance costs	6	(68,931)	(44,443)
Net finance costs		**(36,824)**	**(10,698)**
Share of profit of equity-accounted investees		16,015	15,170
Profit before tax		**576,405**	**432,076**
Income tax	7	(87,579)	(116,833)
Net profit		**488,826**	**315,243**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains from defined benefit plans		(7,991)	(10,333)
Tax on items that will not be reclassified to profit or loss	7.3	1,510	1,937
		(6,481)	**(8,396)**
Items that are or may be reclassified to profit or loss			
Cash flow hedging – effective portion of change in fair value		27,808	(8,852)
Exchange differences on translating foreign operations		1,157	978
Tax on items that are or may be reclassified to profit or loss	7.3	(5,296)	1,682
		23,669	**(6,192)**
Total other comprehensive income		**17,188**	**(14,588)**
Comprehensive income for the year		**506,014**	**300,655**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

The consolidated statement of profit or loss and other comprehensive income should be analysed together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

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

	Note	for the period Jan 1– Dec 31 2017	for the period Jan 1– Dec 31 2016* restated
Net profit attributable to:			
Owners of the Parent		456,663	301,870
Non-controlling interests	20.5	32,163	13,373
Comprehensive income for the year attributable to:			
Owners of the Parent		470,204	289,475
Non-controlling interests	20.4	35,810	11,180
Earnings per share:	9		
Basic (PLN)		4.60	3.04
Diluted (PLN)		4.60	3.04

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

The consolidated statement of profit or loss and other comprehensive income should be analysed together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Consolidated statement of financial position

	Note	as at Dec 31 2017	as at Dec 31 2016* restated	as at Jan 1 2016* restated
Assets				
Non-current assets				
Property, plant and equipment	10	6,779,748	6,360,626	5,640,815
Perpetual usufruct of land	11	476,616	487,171	493,871
Investment property	13	49,649	66,054	58,496
Intangible assets	12	395,755	476,683	496,897
Goodwill	12.1	32,468	30,748	33,241
Shares	14.1	14,690	13,346	14,730
Equity-accounted investees	14.1	111,059	110,411	107,603
Other financial assets	14.3	2,226	1,953	1,827
Other receivables	17	137,850	57,445	59,524
Deferred tax assets	7.4	69,583	50,402	68,978
Other assets	19	337	199	-
Total non-current assets		**8,069,981**	**7,655,038**	**6,975,982**
Current assets				
Inventories	15	1,003,214	858,043	958,769
Property rights	16	188,887	214,675	226,931
Derivative financial instruments	28.5	2,284	8,435	4,174
Other financial assets	14.3	253,684	580,849	492,587
Current tax assets		24,248	3,750	2,156
Trade and other receivables	17	1,088,424	1,022,127	1,043,749
Cash and cash equivalents	18	1,085,885	641,895	754,289
Other assets	19	10,882	8,092	9,117
Assets held for sale	10.1	10,555	691	3,123
Total current assets		**3,668,063**	**3,338,557**	**3,494,895**
Total assets		**11,738,044**	**10,993,595**	**10,470,877**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

The consolidated statement of financial position should be analysed together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Consolidated statement of financial position (continued)

	Note	as at Dec 31 2017	as at Dec 31 2016* restated	as at Jan 1 2016* restated
Equity and liabilities				
Equity				
Share capital	20.1	495,977	495,977	495,977
Share premium	20.2	2,418,270	2,418,270	2,418,270
Hedging reserve	20.3	15,407	(7,105)	65
Exchange differences on translating foreign operations		(233)	2,319	(39)
Retained earnings, including:		3,926,338	3,553,237	3,341,794
Net profit for the year		*456,663*	*301,870*	-
Equity attributable to owners of the Parent		**6,855,759**	**6,462,698**	**6,256,067**
Non-controlling interests	20.4	**587,648**	**576,774**	**625,722**
Total equity		**7,443,407**	**7,039,472**	**6,881,789**
Liabilities				
Borrowings	21	1,564,879	1,372,047	1,047,450
Other financial liabilities	22	39,592	43,172	16,112
Employee benefit obligations	24	336,781	321,209	326,968
Trade and other payables	26	4,456	1,082	972
Provisions	25	122,740	106,092	109,684
Government grants received	27	90,585	68,431	47,036
Deferred tax liabilities	7.4	177,588	191,291	181,998
Total non-current liabilities		**2,336,621**	**2,103,324**	**1,730,220**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

The consolidated statement of financial position should be analysed together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Consolidated statement of financial position (continued)

	Note	as at Dec 31 2017	as at Dec 31 2016* restated	as at Jan 1 2016* restated
Borrowings	21	70,209	52,034	118,880
Derivative financial instruments	28.5	-	8,213	986
Other financial liabilities	22	31,484	75,678	58,876
Employee benefit obligations	24	42,316	39,917	33,167
Current tax liabilities		8,916	30,553	18,986
Trade and other payables	26	1,769,199	1,595,231	1,577,196
Provisions	25	29,805	39,341	45,686
Government grants received	27	6,087	9,832	5,091
Total current liabilities		**1,958,016**	**1,850,799**	**1,858,868**
Total liabilities		**4,294,637**	**3,954,123**	**3,589,088**
Total equity and liabilities		**11,738,044**	**10,993,595**	**10,470,877**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

The consolidated statement of financial position should be analysed
together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Consolidated statement of changes in equity
for the period ended December 31st 2017

	Share capital	Share premium	Hedging reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Balance as at January 1st 2017	**495,977**	**2,418,270**	**(7,105)**	**2,401**	**3,624,334**	**6,533,877**	**595,388**	**7,129,265**
Correction of errors	-	-	-	(82)	(71,097)	(71,179)	(18,614)	(89,793)
Balance as at January 1st 2017, adjusted*	**495,977**	**2,418,270**	**(7,105)**	**2,319**	**3,553,237**	**6,462,698**	**576,774**	**7,039,472**
Profit or loss and other comprehensive income								
Net profit/(loss)	-	-	-	-	456,663	456,663	32,163	488,826
Other comprehensive income	-	-	22,512	(2,552)	(6,419)	13,541	3,647	17,188
Comprehensive income for the year	**-**	**-**	**22,512**	**(2,552)**	**450,244**	**470,204**	**35,810**	**506,014**
Transactions with owners, recognised directly in equity								
Dividends	-	-	-	-	(78,364)	(78,364)	(21,949)	(100,313)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(78,364)**	**(78,364)**	**(21,949)**	**(100,313)**
Acquisition of non-controlling interests without change of control	-	-	-	-	1,555	1,555	(3,467)	(1,912)
Total transactions with owners	**-**	**-**	**-**	**-**	**(76,809)**	**(76,809)**	**(25,416)**	**(102,225)**
Other	-	-	-	-	(334)	(334)	480	146
Balance as at December 31st 2017	**495,977**	**2,418,270**	**15,407**	**(233)**	**3,926,338**	**6,855,759**	**587,648**	**7,443,407**

*Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

Additional information on equity is presented in Note 20.

The consolidated statement of changes in equity should be analysed
together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Consolidated statement of changes in equity (continued)
for the year ended December 31st 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 January 1st 2016	**495,977**	**2,418,270**	**65**	**(39)**	**3,371,422**	**6,285,695**	**625,753**	**6,911,448**
Correction of errors	-	-	-	-	(29,628)	(29,628)	(31)	(29,659)
Balance as at January 1st 2016, adjusted*	**495,977**	**2,418,270**	**65**	**(39)**	**3,341,794**	**6,256,067**	**625,722**	**6,881,789**
Profit or loss and other comprehensive income								
Net profit	-	-	-	-	301,870	301,870	13,373	315,243
Other comprehensive income	-	-	(7,170)	2,358	(7,583)	(12,395)	(2,193)	(14,588)
Comprehensive income for the year	**-**	**-**	**(7,170)**	**2,358**	**294,287**	**289,475**	**11,180**	**300,655**
Transactions with owners, recognised directly in equity								
Dividends	-	-	-	-	(83,324)	(83,324)	(13,198)	(96,522)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(83,324)**	**(83,324)**	**(13,198)**	**(96,522)**
Acquisition of non-controlling interests without change of control	-	-	-	-	480	480	(39,671)	(39,191)
Reclassification to liabilities	-	-	-	-	-	-	(7,259)	(7,259)
Total transactions with owners	-	-	-	-	(82,844)	(82,844)	(60,128)	(142,972)
Balance as at December 31st 2016	**495,977**	**2,418,270**	**(7,105)**	**2,319**	**3,553,237**	**6,462,698**	**576,774**	**7,039,472**

*Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

Additional information on equity is presented in Note 20.

The consolidated statement of changes in equity should be analysed
together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Consolidated statement of cash flows

	Note	for the period Jan 1– Dec 31 2017	for the period Jan 1– Dec 31 2016* restated
Cash flows from operating activities			
Profit before tax		**576,405**	**432,076**
Adjustments for:		**703,765**	**596,498**
Depreciation and amortisation		589,672	520,364
Impairment losses	4, 10	77,981	60,368
Loss on investing activities		10,860	13,438
Loss on disposal of financial assets		-	11
Share of profit of equity-accounted investees		(16,015)	(15,170)
Interest, foreign exchange gains or losses		41,802	16,244
Dividends		(677)	(1,266)
Fair value loss on financial assets at fair value		142	2,509
		1,280,170	**1,028,574**
(Increase)/Decrease in trade and other receivables	33	(80,423)	19,255
(Increase)/Decrease in inventories	33	(121,063)	112,587
Decrease in trade and other payables	33	172,253	103,998
Decrease/(Increase) in provisions, prepayments and grants	33	41,808	(72,771)
Other adjustments		(7,119)	(1,540)
Cash generated from operating activities		***1,285,626***	***1,190,103***
Income tax paid/(refunded)		(171,401)	(74,723)
Net cash from operating activities		**1,114,225**	**1,115,380**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

The consolidated statement of cash flows should be analysed
together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Consolidated statement of cash flows (continued)

	Note	for the period Jan 1– Dec 31 2017	for the period Jan 1– Dec 31 2016* restated
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment, intangible assets and investment property		6,624	4,155
Acquisition of property, plant and equipment, intangible assets and investment property		(1,069,140)	(1,241,667)
Dividend received		13,720	13,716
Acquisition of other financial assets		(689,496)	(1,528,329)
Proceeds from sale of other financial assets		1,002,100	1,427,693
Interest received		22,218	17,486
Government grants received		1,120	350
Loans advanced		(1,225)	(352)
Repayments of loans advanced		1,446	3,255
Other proceeds		9,000	11,425
Other disbursements		(5,589)	(10,705)
Net cash from investing activities		**(709,222)**	**(1,302,973)**
Cash flows from financing activities			
Dividends paid		(100,313)	(96,522)
Proceeds from borrowings		332,634	268,864
Payment of borrowings		(90,133)	(23,486)
Acquisition of non-controlling interests		-	(41,345)
Interest paid		(52,369)	(44,063)
Payment of finance lease liabilities		(13,238)	(15,469)
Other proceeds/(disbursements)		(22,091)	25,664
Net cash from financing activities		**54,490**	**73,643**
Total net cash flows		**459,493**	**(113,950)**
Cash and cash equivalents at beginning of period		**641,895**	**754,289**
Effect of exchange rate fluctuations on cash held		(15,503)	1,556
Cash and cash equivalents at end of period, including:		**1,085,885**	**641,895**
Restricted cash		1,115	4,024

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

The consolidated statement of cash flows should be analysed together with explanatory notes, which constitute an integral part of the full-year consolidated financial statements.

Supplementary information to the consolidated financial statements

1. Information about Grupa Azoty Group

1.1. General information about Grupa Azoty Group

As at December 31st 2017, the Grupa Azoty Group (the "Group" or "Grupa Azoty") comprised: Grupa Azoty S.A. (the Parent) as well as its subsidiaries and affiliates presented in the chart on the next page.

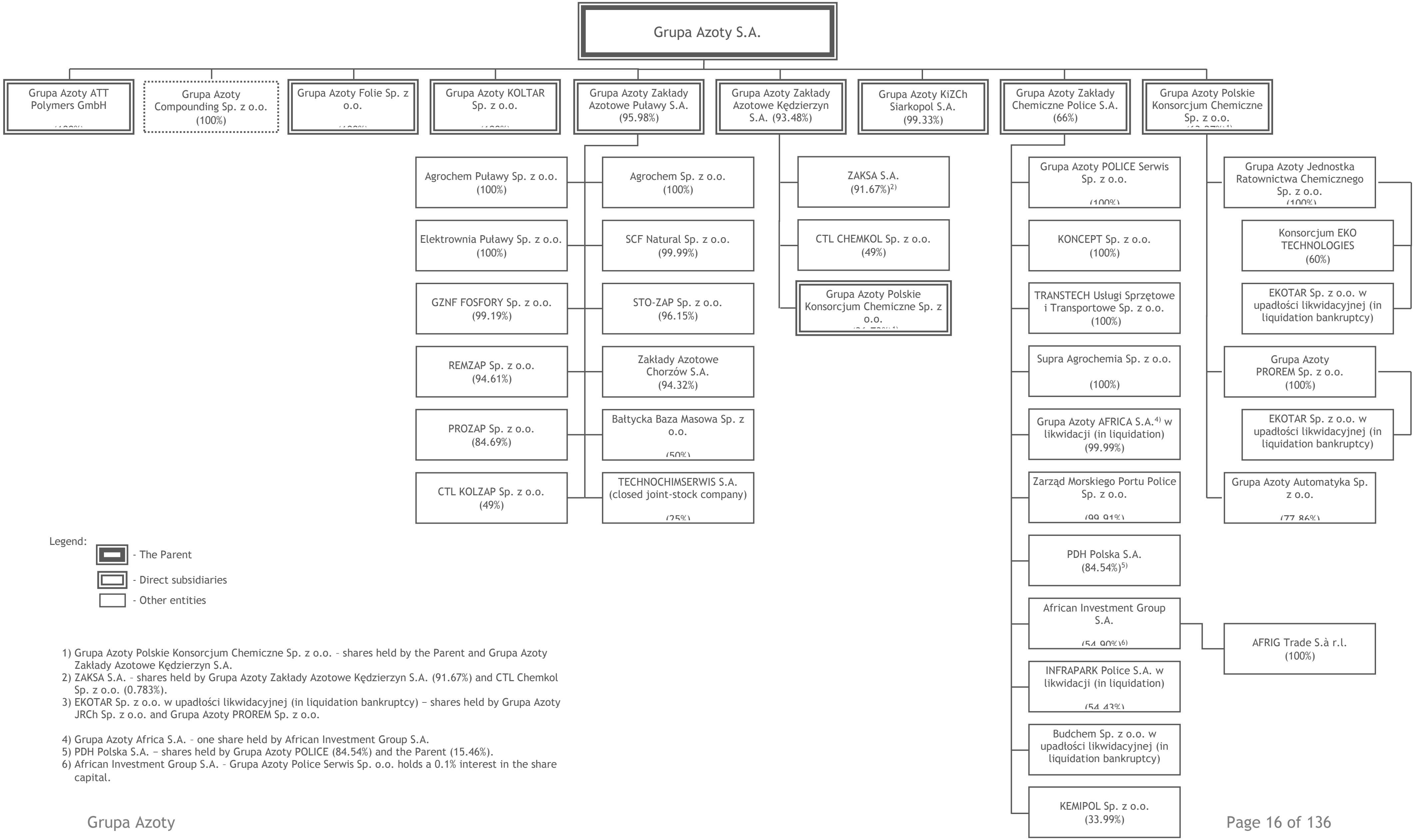
The Parent was entered in the Register of Businesses in the National Court Register (entry No. KRS 0000075450) on December 28th 2001, pursuant to a ruling of the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register, dated December 28th 2001. The Parent's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

The Group's business includes in particular:
- processing of nitrogen products,
- manufacture and sale of fertilizers,
- manufacture and sale of plastics,
- manufacture and sale of OXO alcohols,
- manufacture and sale of titanium white,
- manufacture and sale of melamine,
- production of sulfur and processing of sulfur-based products.

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

The consolidated financial statements were authorised for issue by the Parent's Management Board on April 18th 2018.

Structure of the Group as at December 31st 2017:



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 Africa S.A. – one share held by African Investment Group S.A.
5) PDH Polska S.A. – shares held by Grupa Azoty POLICE (84.54%) and the Parent (15.46%).
6) African Investment Group S.A. – Grupa Azoty Police Serwis Sp. o.o. holds a 0.1% interest in the share capital.

1.2. Changes in the Group's structure

Purchase of shares in Grupa Azoty SIARKOPOL
Since November 2015, in accordance with the provisions of the agreement for the sale of shares in Grupa Azoty SIARKOPOL of September 25th 2013 and the terms of the Social Package, the Parent has been buying back the shares held by employees of Grupa Azoty SIARKOPOL and their heirs. The buy-out programme covers up to 825,000 shares.
In 2017, the Parent acquired 50,157 shares in Grupa Azoty SIARKOPOL, representing 0.91% of that company's share capital, for PLN 3,377 thousand. Following the transaction, the Parent holds 99.33% of Grupa Azoty SIARKOPOL's share capital.

Liquidation of Grupa Azoty AFRICA S.A.
On May 12th 2017, the Annual General Meeting of Grupa Azoty AFRICA S.A. passed a resolution to liquidate the company.

Share capital increase at PDH Polska S.A.
On July 11th 2017, the management board of PDH Polska S.A. allotted in a private placement 2,282,125 Series C shares to the Parent and 2,917,875 these shares to Grupa Azoty Police (the issue price and par value per share was PLN 10). On July 14th 2017, the share capital increase at PDH Polska S.A. was registered with the National Court Register. Following the registration, the company's share capital is PLN 180,000 thousand, comprising 18,000,000 shares.
As a result of the private placement, Grupa Azoty S.A. came to hold 2,782,125 shares in the company, representing 15.46% of its share capital. The remaining PDH Polska shares are held by Grupa Azoty POLICE.
On October 18th 2017, the management boards of the Parent and Grupa Azoty POLICE resolved to acquire new registered shares in PDH Polska S.A.
Pursuant to the adopted resolutions, the Parent decided to acquire 9,400,000 shares for PLN 94,400 thousand, and Grupa Azoty POLICE decided to acquire 3,000,000 shares for PLN 30,000 thousand, in each case by way of subscription for shares in PDH Polska S.A.'s increased share capital.
It was agreed that payments for the new shares will be made as follows:

- the Parent and Grupa Azoty POLICE would pay, respectively, PLN 23,500,000 and PLN 7,500,000 by March 1st 2018 (the payments have been made),
- the Parent and Grupa Azoty POLICE would pay, respectively, PLN 70,500 thousand and PLN 22,500 thousand by September 1st 2018.

Capital increase at Grupa Azoty Compounding Sp. z o.o.
On September 28th 2017, the Extraordinary General Meeting of Grupa Azoty Compounding Sp. z o.o. resolved to increase the company's capital from PLN 5 thousand to PLN 1,100 thousand.
The increase was effected by way of an issue of 11,000 new, equal and indivisible shares with a par value of PLN 100 per share.
All new shares were subscribed for by the Parent.
On October 6th 2017, the Parent made a cash payment for the new shares.
The capital increase was registered with the National Court Register on December 20th 2017.
On December 28th 2017, the Extraordinary General Meeting of Grupa Azoty Compounding Sp. z o.o. resolved to increase the company's share capital by PLN 4,895 thousand, from PLN 1,105 thousand.
The increase was effected by way of an issue of 48,950 new, equal and indivisible shares with a par value of PLN 100 per share, i.e. from 11,050 to 60,000 shares.
All new shares were subscribed for by the Parent.
The capital increase was registered with the National Court Register on January 11th 2018.

Capital increase at Zakłady Azotowe Chorzów S.A.
On December 4th 2017, the Extraordinary General Meeting of Zakłady Azotowe Chorzów S.A. resolved to increase the company's share capital from PLN 58,700 thousand to PLN 94,700 thousand, through an issue of 3,600,000 Series C registered shares, by way of a private placement with Grupa Azoty PUŁAWY.
All new shares were acquired by Grupa Azoty PUŁAWY for cash.
The capital increase was registered with the National Court Register on January 3rd 2018. As a result, Grupa Azoty Puławy's equity interest in Zakłady Azotowe Chorzów S.A. increased to 96.48%.

Capital increase at Zarząd Morskiego Portu Police Sp. z o.o.
On December 21st 2017, the District Court for Szczecin-Centrum in Szczecin, 13th Commercial Division of the National Court Register, registered an increase of Zarząd Morskiego Portu Police Sp. z o.o.'s share capital, following which Grupa Azoty POLICE's equity interest in Zarząd Morskiego Portu Police Sp. z o.o. fell to 99.91%.

1.3. Management and Supervisory Boards of the Parent

Management Board
Composition of the Parent's Management Board as at December 31st 2017:
- Wojciech Wardacki – President of the Management Board,
- Witold Szczypiński – Vice President of the Management Board,
- Tomasz Hinc – Vice President of the Management Board,
- Grzegorz Kądzielawski - 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.

During the reporting period, Grzegorz Kądzielawski, PhD, was appointed Vice President of the Management Board. On March 4th 2018, Tomasz Hinc, Vice President of the Management Board, tendered his resignation in a letter to the Parent's Supervisory Board.

Supervisory Board
Composition of the Parent's Supervisory Board as at December 31st 2017:
- Tomasz Karusewicz – Chairman,
- Michał Gabryel – Deputy Chairman,
- Zbigniew Paprocki – Secretary,
- Piotr Czajkowski – Member,
- Monika Fill – Member,
- Robert Kapka – Member,
- Bartłomiej Litwińczuk – Member,
- Ireneusz Purgacz – Member,
- Roman Romaniszyn – Member.

During the reporting period, Mr Marek Grzelaczyk was dismissed as Chairman of the Supervisory Board, and was replaced by Tomasz Karusewicz, who previously held the position of Deputy Chairman. Michał Gabryel replaced Tomasz Karusewicz as Deputy Chairman. Also during the reporting period, Artur Kucharski was dismissed as Member of the Supervisory Board. There were no changes in the composition of the Supervisory Board in the period from December 31st 2017 to the date of authorisation of these financial statements for issue.

Audit Committee
As at December 31st 2017, an Audit Committee operated as a collective advisory body within the Supervisory Board. Its composition is presented below.
The Audit Committee's key responsibilities include:
- monitoring of the financial reporting process,
- monitoring of the effectiveness of internal controls,
- monitoring of financial audit,
- monitoring of the independence of the auditor and the entity qualified to audit the Parent's and the Group's financial statements.

Composition of the Audit Committee:
- Ireneusz Purgacz – Chairman,
- Piotr Czajkowski,
- Michał Gabryel,
- Tomasz Karusewicz.

2. Significant accounting policies

2.1. Compliance statement

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the EU ("IFRS EU"). As at the date of authorisation of these financial statements for issue, given the ongoing process of implementing IFRS in the EU, the IFRS applicable to these financial statements did not differ from the EU IFRS.

The EU IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB").

2.2. Changes in applied accounting policies

The accounting policies applied to prepare these consolidated financial statements are consistent with those applied to draw up the Group's full-year consolidated financial statements for the year ended December 31st 2016, except to the extent described below and the changes described in Section 2.4.
The amendments to the IFRSs presented below have been applied in these consolidated financial statements as of their effective dates, however, they either had no material effect on the disclosed financial information or did not apply to transactions carried out by the Group.

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
  The changes clarify issues related to the formation of negative temporary differences the amendments clarify the requirements on recognition of deferred tax assets related to debt instruments measured at fair value, estimating probable future taxable profit and assessing whether sufficient profit will be generated against which deductible temporary differences can be utilised. The amendments apply retrospectively.
- Amendments to IAS 7 *Disclosure Initiative*
  The amendments require an entity to disclose information that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. Comparative information for previous periods is not required.
- Amendments to IFRS 12 *Disclosure of Interests in Other Entities*, introduced as part of the *Annual Improvements to IFRS 2014–2016 Cycle*
  The amendments clarify the scope of the standard by specifying that the disclosure requirements in the standard apply also to an entity's interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates or unconsolidated structured entities that are classified (or are included in a disposal group that is classified) as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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

2.3. New standards and interpretations which have been issued but are not yet effective

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

- IFRS 9 *Financial Instruments* (issued on July 24th 2014) – effective for annual periods beginning on or after January 1st 2018;
- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) − pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version (not endorsed by the EU by the date of

authorisation of these financial statements for issue) – effective for annual periods beginning on or after January 1st 2016;

- IFRS 15 *Revenue from Contracts with Customers* (issued on May 28th 2014), including amendments to IFRS 15 *Effective Date of IFRS 15* (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) − work leading to endorsement of the amendments was deferred by the EU for an indefinite period − effective date was deferred by the IASB for an indefinite period;
- IFRS 16 *Leases* (issued on January 13th 2016) − effective for annual periods beginning on or after January 1st 2019;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued on September 12th 2016) − effective for annual periods beginning on or after January 1st 2018;
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (issued on April 12th 2016) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (issued on June 20th 2016) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* introduced as part of the Annual Improvements to IFRS 2014–2016 Cycle (issued on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* introduced as part of the Annual Improvements to IFRS 2014–2016 Cycle (issued on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (issued on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IAS 40 *Transfer of Investment Property* (issued on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018;
- IFRS 17 *Insurance Contracts* (issued on May 18th 2017) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2021;
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on June 7th 2017) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2019;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued on October 12th 2017) – effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued on October 12th 2017) – not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2019;
- *Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2015–2017 Cycle* (issued on December 12th 2017) − not endorsed by the EU by the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2019;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on February 7th 2018) – not endorsed by the EU as at the date of authorisation of these financial statements – effective for annual periods beginning on or after January 1st 2019.
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (issued on March 29th 2018) − not endorsed by the EU as at the date of authorisation of these financial statements for issue – effective for annual periods beginning on or after January 1st 2020.

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

2.3.1. Implementation of IFRS 15

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

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

In accordance with IFRS 15, the Group will recognise revenue when (or as) a performance obligation is satisfied, i.e. when (or as) control of the goods or services is passed to the customer, either over time or at a point in time.
The Group has decided to implement IFRS 15 using the modified retrospective method (i.e. with the cumulative effect of first-time adoption of IFRS 15, recognised as at January 1st 2018, only to contracts that were not yet complete as at that date).
Based on the work on the implementation of IFRS 15 performed by the Group so far, the identified areas, affected by IFRS 15, will not have a material impact on the results presented in the financial statements, save for changes in the presentation of marketing bonuses, which were previously recognised as selling and distribution expenses and from January 1st 2018 will be recognised as a reduction of revenue. In 2017, marketing bonuses amounted to PLN 32,377 thousand.

Disclosures in the financial statements

Following the application of the modified retrospective method, in 2018 the Group will disclose the amount affecting each item of the financial statements as a result of the application of IFRS 15 compared with IAS 11, IAS 18 and the related Interpretations that were in effect prior to the amendment.
Included in the Standard are new qualitative and quantitative disclosure requirements to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts concluded by the Group with customers. Following the implementation of IFRS 15, the Group will modify the disclosures required by IFRS 15 to meet the above objective.

2.3.2. Implementation of IFRS 9

IFRS 9 *Financial Instruments* was issued in July 2014 and endorsed by the European Union on November 22nd 2016 by Commission Regulation (EU) 2016/2067. The standard mandatorily applies to financial statements prepared for periods beginning on or after January 1st 2018, and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces amendments to the classification and measurement of financial assets, their impairment, and (as an option) hedge accounting. The Group has performed qualitative and quantitative analyses of the effect of the first-time adoption of IFRS 9 as of January 1st 2018. The analyses were based on financial assets and economic conditions as at December 31st 2017, and therefore the actual impact of the implementation of IFRS 9, as will be reflected in future financial statements, may differ from the Group's expectations presented below. However, the Group does not expect any material discrepancies to occur in this respect.

The Group decided to implement the standard as of January 1st 2018 without restating the comparative data.

Classification and measurement of financial assets

General approach

IFRS 9 replaces the four categories of financial assets defined in IAS 39 with three categories. Under IFRS 9, the categories of financial assets will include:
- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income (FVTOCI),
- financial assets measured at fair value through profit or loss (FVTPL).

It is not possible to directly transfer individual financial assets between the categories defined in IAS 39 and the categories defined in IFRS 9. In accordance with IFRS 9, financial assets are classified on initial recognition on the basis of:

- Cash flow characteristics
  To determine the cash flow characteristics, it is necessary to assess whether the cash flows from a given asset represent solely payments of principal and interest. Satisfying this condition is one of the criteria for classifying a financial asset as measured at amortised cost. Financial assets that fail to meet this condition are, as a rule, classified as measured at fair value through profit or loss.
- Business model based on which a given financial asset is managed
  In accordance with IFRS 9, the Group distinguishes:
  - A business model whose sole purpose is to collect cash flows generated by a given financial asset. This model is one of the criteria for classifying a financial asset as measured at amortised cost.
  - A business model whose purpose is both to collect cash flows generated by a given financial asset, and to sell the financial asset. Under this model, it is not possible to classify a given financial asset as measured at amortised cost.
  - A business model other than those described above (e.g. management based on the fair value of financial instruments). Under this model, financial assets are classified as measured at fair value through profit or loss.

Under its factoring agreements and discounting agreements, the Group sells trade receivables which, based on the business models required under IFRS 9, have been classified as the model whose objective is achieved by both collecting cash flows and selling financial assets. Accordingly, trade receivables covered by the factoring or discounting agreements have been classified as financial assets measured at fair value through other comprehensive income. With respect to the above group of trade receivables, of PLN 52.9m, which as at December 31st 2017 were not transferred to factoring or discounting, it was determined that – due to the short period between the reporting date and the date of transferring the trade receivables to factoring or discounting – their value fair value is equal to their carrying amount.
In addition, IFRS 9 requires that equity instruments which were within the scope of IAS 39 as at the date of transition to IFRS 9 be measured to fair value. This requirement also applies to those shares which, for example, due to the limited availability of data, have so far been recognised at cost less impairment, if any.

Impact on the consolidated financial statements

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

The analysis showed that except for trade receivables – factoring and discounting, the Group's other financial assets give rise to cash flows that are payments of principal and interest, and are held as part of a business model whose sole objective is to collect cash flows from assets, and are therefore classified as financial assets measured at amortised cost. For assets that were measured at amortised cost in accordance with IAS 39 and are required to be measured at fair value in accordance with IFRS 9, any difference between the previous carrying amount and fair value are recognised in the opening balance of retained earnings (equity) in the reporting period that includes the date of initial application of IFRS 9. However, given that the assets may be sold and the short period between initial recognition and maturity, their fair value is equal to their carrying amount.

The analysis showed that the fair value measurement of the shares will differ from the historical cost of the acquired shares. The Group plans to irrevocably apply the option to measure those shares at fair value through other comprehensive income. Differences between the previous carrying amount and fair value are recognised in the opening balance of retained earnings (equity) in the reporting period that includes the date of initial application of IFRS 9.

Impairment of financial assets

General approach

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

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

Impact on the consolidated financial statements

The Group has identified the following classes of financial assets for which, in accordance with IFRS 9, it has estimated the impact of the expected credit losses on the consolidated financial statements:
- trade receivables,
- loans advanced,
- deposits with banks,
- cash.

With respect to trade receivables, it is expected that historical payment data may reflect credit risk that will be incurred in future periods. Expected credit losses for this group of counterparties have been estimated using a provision matrix and percentage ratios assigned to specific aging ranges of trade receivables (e.g. receivables claimed in court, receivables from insolvent counterparties) that make it possible to estimate the value of trade receivables that are not expected to be repaid.
Based on the analyses performed as at December 31st 2017, the Group expects that the total impairment related to expected credit losses on trade receivables following the application of IFRS 9 will increase by approximately PLN 3,289 thousand relative to the impairment calculated in accordance with previously applicable principles.
For financial assets included in the estimation of expected losses other than trade receivables, the Group measures the risk of default of the counterparties based on ratings assigned by credit rating agencies (e.g. to financial institutions) or ratings assigned using an internal credit rating model that is appropriately converted to reflect the probability of default. In accordance with IFRS 9, the expected credit loss will be calculated taking into account estimates of potential recoveries from collateral provided and the time value of money.
The Group estimates that following the application of IFRS 9 the write-downs for expected credit losses on financial assets other than trade receivables (loans) for which expected losses are calculated will remain unchanged relative to the write-downs calculated under IAS 39.
As for deposits with commercial banks or cash, following the application of IFRS 9 the write-downs for expected credit losses will increase by approximately PLN 545 thousand relative to the write-downs calculated as required under IAS 39.
Differences between the previous net carrying amount of financial assets covered by the impairment estimates and the net carrying amount under IFRS 9 are recognised in the opening balance of retained earnings (equity) in the reporting period that includes the date of initial application of IFRS 9.

Hedge accounting

General approach

Since work is in progress to amend the portfolio hedge accounting provisions of the standard, entities are free to choose the date of application of the hedge accounting provisions. Until the standard is issued, entities may continue to apply hedge accounting policies compliant with IAS 39 requirements.

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

(all amounts in PLN thousand unless indicated otherwise)

Impact on the consolidated financial statements

The Group expects that IFRS 9 will have no material impact on the consolidated financial statements as far as hedge accounting is concerned.

Expected impact of IFRS 9 on equity as at December 31st 2017

I. Expected loss on financial assets at amortised cost or at fair value through other comprehensive income*	(3,831)
1. Trade receivables	(3,286)
2. Investments, bank deposits and cash	(545)
II. Adjustment to deferred tax	728
Total	**(3,103)**

* Excluding equity instruments classified by the Group as measured at fair value through other comprehensive income.

2.3.3. Implementation of other standards and interpretations

At the date of authorisation of these financial statements for issue, the Management Board had not completed its assessment of the impact of the other standards and interpretations on the accounting policies applied by the Group with respect to its operations or financial results.

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

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

Correction of prior period errors and changes in the presentation of financial statements include:

- Change 1 – Revaluation of the exploration and evaluation assets of African Investment Group S.A., of XOF 4,241,955 thousand (the equivalent of PLN 28,349 thousand translated at the average exchange rate for 12 months ended December 31st 2016). Following analyses of the documentation held by the subsidiary, it was found that no clear relationship could be established between the expenditure incurred and discovery of any specific mineral resources, therefore the expenditure could not be accounted for in the initial value of exploration and evaluation assets. Therefore, it was found that this expenditure had not generated and would not generate in the future any economic benefits. At the same time, in view of the information available in December 2016, including that potential abuses relating to this area were reported to the prosecutor's office, it was determined that the revaluation should be reflected already in the 2016 results;
- Change 2 – Change in the presentation of investments in subordinates and available-for-sale investments;
- Change 3 – Consolidation of Supra Agrochemia Sp. z o.o., which was already controlled by the Parent in previous years;
- Change 4 – Following an analysis of the intangible assets recognised on acquisition of control of Grupa Azoty Zakłady Chemiczne Police ("ZCh Police") it was found that the corporate brand which was then recognised with a specific value for the most part represented economic benefits arising from other, not separately identifiable assets, acquired as part of the acquisition of ZCh Police, which in essence met the definition of goodwill under IAS 38.
- Change 5 – Reclassification of lease contracts concluded in previous periods, under which Transtech Usługi Sprzętowe i Transportowe Sp. z o.o., a subsidiary, uses construction and transport equipment;
- Change 6 – Adjustment of annual bonus provision for 2016;

- Change 7 – Adjustment related to the recognition of an expense and a liability to reflect the signing of a deed of incorporation of the Polish National Foundation, under which the Parent is required to co-fund the Foundation's activities for ten years from 2017;
- Change 8 – Change in the presentation of prepaid delivery of property, plant and equipment;
- Change 9 – Impairment loss on the asset (sulfur deposits) recognised in the process of allocating the purchase price related to the subsidiary Grupa Azoty Siarkopol as a result of the identified discrepancy between the actual availability of that company's deposits and their availability assumed in the process of purchase price allocation (for details, see Note 10);
- Change 10 – Adjustment to the provision for site restoration at Grupa Azoty Siarkopol;
- Change 11 – Change in the presentation of the extraction facility decommissioning fund at Grupa Azoty Siarkopol and of funds earmarked for that purpose;
- Change 12 – Adjustment to the elimination of intra-group transactions.

(all amounts in PLN thousand unless indicated otherwise)

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

	Previously reported	Restated								
	for the period Jan 1– Dec 31 2016	**for the period Jan 1– Dec 31 2016**	**Impact of change 1**	**Impact of change 3**	**Impact of change 5**	**Impact of change 6**	**Impact of change 7**	**Impact of change 9**	**Impact of change 10**	**Impact of change 12**
Revenue	8,955,690	8,966,804	-	389	-	-	-	-	-	10,725
Cost of sales	(6,997,921)	(7,004,483)	-	(1,650)	281	5,532	-	-	-	(10,725)
Gross profit	**1,957,769**	**1,962,321**	**-**	**(1,261)**	**281**	**5,532**	**-**	**-**	**-**	**-**
Selling and distribution expenses	(669,315)	(669,315)	-	-	-	-	-	-	-	-
Administrative expenses	(729,629)	(727,412)	-	-	-	2,217	-	-	-	-
Other income	47,379	48,138	-	74	-	-	-	-	685	-
Other expenses	(120,142)	(186,128)	(28,124)	(3)	-	-	(33,999)	(3,860)	-	-
Operating profit	**486,062**	**427,604**	**(28,124)**	**(1,190)**	**281**	**7,749**	**(33,999)**	**(3,860)**	**685**	**-**
Finance income	34,227	33,745	-	(482)	-	-	-	-	-	-
Finance costs	(44,343)	(44,443)	-	-	(100)	-	-	-	-	-
Profit before tax	**491,116**	**432,076**	**(28,124)**	**(1,672)**	**181**	**7,749**	**(33,999)**	**(3,860)**	**685**	**-**
Income tax	(115,964)	(116,833)	-	-	-	(1,472)	-	733	(130)	-
Net profit	**375,152**	**315,243**	**(28,124)**	**(1,672)**	**181**	**6,277**	**(33,999)**	**(3,127)**	**555**	**-**
Other comprehensive income										
Items that are or may be reclassified to profit or loss	**(5,967)**	**(6,192)**	**(225)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Exchange differences on translating subordinates	1,203	978	(225)	-	-	-	-	-	-	-
Total other comprehensive income	**(14,363)**	**(14,588)**	**(225)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Comprehensive income for the year	**360,789**	**300,655**	**(28,349)**	**(1,672)**	**181**	**6,277**	**(33,999)**	**(3,127)**	**555**	**-**
Net profit attributable to:										
Owners of the Parent	343,339	301,870	(10,190)	(1,104)	119	6,277	(33,999)	(3,127)	555	-
Non-controlling interests	31,813	13,373	(17,934)	(568)	62	-	-	-	-	-
Comprehensive income for the year attributable to:										
Owners of the Parent	331,026	289,475	(10,272)	(1,104)	119	6,277	(33,999)	(3,127)	555	-
Non-controlling interests	29,763	11,180	(18,077)	(568)	62	-	-	-	-	-

(all amounts in PLN thousand unless indicated otherwise)

The table below presents the impact of the changes on the consolidated statement of financial position as at December 31st 2016:

	Previously reported as at Dec 31 2016	Restated as at Dec 31 2016	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	Impact of change 9	Impact of change 10	Impact of change 11
Assets													
Non-current assets													
Property, plant and equipment	6,387,823	6,360,626	-	-	441	-	2,800	-	-	-	(30,438)	-	-
Perpetual usufruct of land	485,396	487,171	-	-	1,775	-	-	-	-	-	-	-	-
Investment property	59,504	66,054	-	-	6,550	-	-	-	-	-	-	-	-
Intangible assets	530,577	476,683	(28,349)	-	-	(25,545)	-	-	-	-	-	-	-
Goodwill	10,057	30,748	-	-	-	20,691	-	-	-	-	-	-	-
Shares	-	13,346	-	13,346	-	-	-	-	-	-	-	-	-
Equity-accounted investees	-	110,411	-	110,411	-	-	-	-	-	-	-	-	-
Investments in subordinated entities	112,935	-	-	(110,578)	(2,357)	-	-	-	-	-	-	-	-
Available-for-sale financial assets	12,345	-	-	(12,345)	-	-	-	-	-	-	-	-	-
Other financial assets	837	1,953	-	(834)	-	-	-	-	-	-	-	-	1,950
Other receivables	6,259	57,445	-	-	-	-	-	-	-	51,186	-	-	-
Deferred tax assets	45,548	50,402	-	-	-	4,854	-	-	-	-	-	-	-
Total non-current assets	**7,651,480**	**7,655,038**	**(28,349)**	**-**	**6,409**	**-**	**2,800**	**-**	**-**	**51,186**	**(30,438)**	**-**	**1,950**
Current assets													
Inventories	858,029	858,043	-	-	14	-	-	-	-	-	-	-	-
Other financial assets	591,661	580,849	-	-	(10,812)	-	-	-	-	-	-	-	
Trade and other receivables	1,073,396	1,022,127	-	-	81	-	(164)	-	-	(51,186)	-	-	-
Cash and cash equivalents	641,711	641,895	-	-	184	-	-	-	-	-	-	-	-
Total current assets	**3,400,440**	**3,338,557**	**-**	**-**	**(10,533)**	**-**	**(164)**	**-**	**-**	**(51,186)**	**-**	**-**	**-**
Total assets	**11,051,920**	**10,993,595**	**(28,349)**	**-**	**(4,124)**	**-**	**2,636**	**-**	**-**	**-**	**(30,438)**	**-**	**1,950**

(all amounts in PLN thousand unless indicated otherwise)

	Previously reported	Restated											
	as at Dec 31 2016	**as at Dec 31 2016**	**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**	**Impact of change 9**	**Impact of change 10**	**Impact of change 11**
Equity and liabilities													
Equity													
Exchange differences on translating subordinates	2,401	2,319	(82)	-	-	-	-	-	-	-	-	-	-
Retained earnings, including:	3,624,334	3,553,237	(10,190)	-	(3,650)	-	246	6,277	(33,999)	-	(24,655)	(5,126)	-
Net profit for the year	343,339	301,870	(10,190)	-	(1,104)	-	119	6,277	(33,999)	-	(3,127)	555	-
Equity attributable to owners of the Parent	**6,533,877**	**6,462,698**	**(10,272)**	**-**	**(3,650)**	**-**	**246**	**6,277**	**(33,999)**	**-**	**(24,655)**	**(5,126)**	**-**
Non-controlling interests	**595,388**	**576,774**	**(18,077)**	**-**	**(663)**	**-**	**126**	**-**	**-**	**-**	**-**	**-**	**-**
Total equity	**7,129,265**	**7,039,472**	**(28,349)**	**-**	**(4,313)**	**-**	**372**	**6,277**	**(33,999)**	**-**	**(24,655)**	**(5,126)**	**-**
Liabilities													
Provisions	97,692	106,092	-	-	-	-	-	-	-	-	-	6,329	2,071
Other financial liabilities	15,102	43,172	-	-	-	-	1,071	-	26,999	-	-	-	-
Deferred tax liability	196,805	191,291	-	-	-	-	-	1,472	-	-	(5,783)	(1,203)	-
Total non-current liabilities	**2,072,368**	**2,103,324**	**-**	**-**	**-**	**-**	**1,071**	**1,472**	**26,999**	**-**	**(5,783)**	**5,126**	**2,071**
Borrowings	52,034	52,034	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	67,485	75,678	-	-	-	-	1,193	-	7,000	-	-	-	-
Trade and other payables	1,602,929	1,595,231	-	-	172	-	-	(7,749)	-	-	-	-	(121)
Provisions	39,324	39,341	-	-	17	-	-	-	-	-	-	-	-
Total current liabilities	**1,850,287**	**1,850,799**	**-**	**-**	**189**	**-**	**1,193**	**(7,749)**	**7,000**	**-**	**-**	**-**	**(121)**
Total liabilities	**3,922,655**	**3,954,123**	**-**	**-**	**189**	**-**	**2,264**	**(6,277)**	**33,999**	**-**	**(5,783)**	**5,126**	**1,950**
Total equity and liabilities	**11,051,920**	**10,993,595**	**(28,349)**	**-**	**(4,124)**	**-**	**2,636**	**-**	**-**	**-**	**(30,438)**	**-**	**1,950**

(all amounts in PLN thousand unless indicated otherwise)

The table below presents the impact of the changes on the consolidated statement of financial position as at January 1st 2016:

	Previously reported	Restated								
	as at Jan 1 2016	**as at Jan 1 2016**	**Impact of change 2**	**Impact of change 3**	**Impact of change 4**	**Impact of change 5**	**Impact of change 8**	**Impact of change 9**	**Impact of change 10**	**Impact of change 11**
Assets										
Non-current assets										
Property, plant and equipment	5,664,447	5,640,815	-	336	-	2,610	-	(26,578)	-	-
Perpetual usufruct of land	492,061	493,871	-	1,810	-	-	-	-	-	-
Investment property	52,204	58,496	-	6,292	-	-	-	-	-	-
Intangible assets	522,442	496,897	-	-	(25,545)	-	-	-	-	-
Goodwill	12,550	33,241	-	-	20,691	-	-	-	-	-
Shares	-	14,730	14,730	-	-	-	-	-	-	-
Equity-accounted investees	-	107,603	107,603	-	-	-	-	-	-	-
Investments in subordinated entities	111,095	-	(108,738)	(2,357)	-	-	-	-	-	-
Available-for-sale financial assets	12,370	-	(12,370)	-	-	-	-	-	-	-
Other financial assets	4,347	1,827	(1,225)	(3,122)	-	-	-	-	-	1,827
Deferred tax assets	64,124	68,978	-	-	4,854	-	-	-	-	-
Other receivables	7,023	59,524	-	-	-	(105)	52,606	-	-	-
Total non-current assets	**6,942,663**	**6,975,982**	**-**	**2,959**	**-**	**2,505**	**52,606**	**(26,578)**	**-**	**1,827**
Current assets	-	-	-	-	-	-	-	-	-	-
Other financial assets	498,711	492,587	-	(6,124)	-	-	-	-	-	-
Trade and other receivables	1,096,286	1,043,749	-	179	-	(110)	(52,606)	-	-	-
Cash and cash equivalents	753,144	754,289	-	1,145	-	-	-	-	-	-
Total current assets	**3,552,411**	**3,494,895**	**-**	**(4,800)**	**-**	**(110)**	**(52,606)**	**-**	**-**	**-**
Total assets	**10,495,074**	**10,470,877**	**-**	**(1,841)**	**-**	**2,395**	**-**	**(26,578)**	**-**	**1,827**

(all amounts in PLN thousand unless indicated otherwise)

	Previously reported as at Jan 1 2016	Restated as at Jan 1 2016	Impact of change 2	Impact of change 3	Impact of change 4	Impact of change 5	Impact of change 8	Impact of change 9	Impact of change 10	Impact of change 11
Equity and liabilities										
Equity										
Retained earnings	3,371,422	3,341,794	-	(2,546)	-	127	-	(21,528)	(5,681)	-
Equity attributable to owners of the Parent	**6,285,695**	**6,256,067**	-	**(2,546)**	-	**127**	-	**(21,528)**	**(5,681)**	-
Non-controlling interests	**625,753**	**625,722**	-	**(95)**	-	**64**	-	-	-	-
Total equity	**6,911,448**	**6,881,789**	**-**	**(2,641)**	**-**	**191**	-	**(21,528)**	**(5,681)**	**-**
Liabilities	-	-	-	-	-	-	-	-	-	-
Provisions	100,740	109,684	-	-	-	-	-	-	7,014	1,930
Deferred tax liability	188,381	181,998	-	-	-	-	-	(5,050)	(1,333)	-
Total non-current liabilities	**1,727,659**	**1,730,220**	**-**	**-**	**-**	**-**	-	**(5,050)**	**5,681**	**1,930**
Other financial liabilities	56,672	58,876	-	-	-	2,204	-	-	-	-
Trade and other payables	1,576,538	1,577,196	-	761	-	-	-	-	-	(103)
Provisions	45,647	45,686	-	39	-	-	-	-	-	-
Total current liabilities	**1,855,967**	**1,858,868**	**-**	**800**	**-**	**2,204**	-	**-**	**-**	**(103)**
Total liabilities	**3,583,626**	**3,589,088**	**-**	**800**	**-**	**2,204**	-	**(5,050)**	**5,681**	**1,827**
Total equity and liabilities	**10,495,074**	**10,470,877**	**-**	**(1,841)**	**-**	**2,395**	-	**(26,578)**	**-**	**1,827**

(all amounts in PLN thousand unless indicated otherwise)

The table below presents the impact of the changes on the consolidated statement of cash flows:

	Previously reported for the period Jan 1– Dec 31 2016	Restated for the period Jan 1– Dec 31 2016	Impact of change 1	Impact of change 3	Impact of change 5	Impact of change 6	Impact of change 7	Impact of change 9
Cash flows from operating activities								
Profit before tax	**491,116**	**432,076**	**(28,124)**	**(1,672)**	**181**	**7,749**	**(33,999)**	**(3,175)**
Adjustments for:	**563,373**	**568,374**	**28,124**	**580**	**561**	**-**	**-**	**3,860**
Depreciation and amortisation	519,721	520,364	-	82	561	-	-	-
Impairment losses	28,384	60,368	28,124	-	-	-	-	3,860
Loss on investing activities	13,428	13,438	-	10	-	-	-	-
Interest, foreign exchange gains or losses	15,756	16,244	-	488	-	-	-	-
	1,054,489	**1,028,574**	**-**	**(1,092)**	**742**	**7,749**	**(33,999)**	**685**
(Increase)/Decrease in trade and other receivables	19,156	19,255	-	99	-	-	-	-
(Increase)/Decrease in inventories	112,601	112,587	-	(14)	-	-	-	-
Decrease in trade and other payables	69,250	103,998	-	(146)	895	-	33,999	-
Decrease/(Increase) in provisions, prepayments and grants	(64,155)	(72,771)	-	(22)	(160)	(7,749)	-	(685)
Other adjustments	(812)	(1,540)	-	(3)	(725)	-	-	-
Cash generated from operating activities	**1,190,529**	**1,190,103**	**-**	**(1,178)**	**752**	**-**	**-**	**-**
Net cash from operating activities	**1,115,806**	**1,115,380**		**(1,178)**	**752**	**-**	**-**	**-**

	Previously reported for the period Jan 1– Dec 31 2016	Restated for the period Jan 1– Dec 31 2016	Impact of change 1	Impact of change 3	Impact of change 5	Impact of change 6	Impact of change 7	Impact of change 12
Cash flows from investing activities								

	Previously reported	Restated						
	for the period Jan 1– Dec 31 2016	for the period Jan 1– Dec 31 2016	Impact of change 1	Impact of change 3	Impact of change 5	Impact of change 6	Impact of change 7	Impact of change 12
Proceeds from sale of property, plant and equipment, intangible assets and investment property	4,148	4,155	-	7	-	-	-	-
Acquisition of property, plant and equipment, intangible assets and investment property	(1,241,240)	(1,241,667)	-	(427)	-	-	-	-
Loans repaid	2,618	3,255	-	637	-			
Net cash from investing activities	**(1,303,190)**	**(1,302,973)**	**-**	**217**	**-**	**-**	**-**	**-**
Cash flows from financing activities								
Interest paid	(43,963)	(44,063)	-	-	(100)	-	-	-
Payment of finance lease liabilities	(14,817)	(15,469)	-	-	(652)	-	-	-
Net cash from financing activities	**74,395**	**73,643**	**-**	**-**	**(752)**	**-**	**-**	**-**
Total net cash flows	**(112,989)**	**(113,950)**	**-**	**(961)**	**-**	**-**	**-**	**-**
Cash and cash equivalents at beginning of period	**753,144**	**754,289**	**-**	**1,145**	**-**	**-**	**-**	**-**
Cash and cash equivalents at end of period	**641,711**	**641,895**	**-**	**184**	**-**	**-**	**-**	**-**

(all amounts in PLN thousand unless indicated otherwise)

Impact of changes in accounting policies and correction of errors on earnings per share:

	for the period Jan 1– Dec 31 2016
Earnings per share:	
Earnings per share before correction of	3.46
Earnings per share after correction of	3.04
Diluted earnings per share before correction of error	3.46
Diluted earnings per share after correction of error	3.04

2.5. Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for assets and liabilities measured at fair value, i.e.:

- derivative financial instruments,
- financial instruments at fair value through profit or loss,
- financial assets available for sale.

2.6. Functional currency and presentation currency

These consolidated financial statements are presented in the Polish złoty, rounded off to the nearest thousand. The Polish złoty is the Parent's functional currency.

2.7. Professional judgement and estimates

The preparation of the financial statements in conformity with IFRS EU requires management 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 the related assumptions are based on historical experience and other factors that are considered reasonable under the circumstances, and their results provide the basis for judgement as to the carrying amount of the assets and liabilities that does not arise directly from other sources. Actual results may differ from these estimates.
Estimates and the underlying assumptions are subject to ongoing verification. A change in accounting estimates is recognised in the period in which the estimate is revised, or in the current and future periods if the revised estimate relates to both the current and future periods.
The Group's lease contracts are classified as either finance or operating leases depending on whether the risks and rewards incidental to ownership of the leased asset are retained by the lessor or transferred to the leaseholder. Such assessment is based on the economic substance of each transaction.
The main accounting estimates and assumptions are also presented in the relevant notes to the financial statements:

- estimates and assumptions concerning the possibility of realisation of deferred tax assets due to tax losses are presented in Note 7.4,
- estimates concerning useful lives of property, plant and equipment, perpetual usufruct right, intangible assets and investment property are presented in Notes 10, 11, 12, 13,
- estimates of impairment losses on property, plant and equipment are presented in Note 10,
- estimates of recoverable amounts of goodwill and intangible assets with indefinite useful lives are presented in Note 12,
- estimates concerning the impairment of intangible assets related to the exploration for and evaluation of mineral deposits are presented in Note 12,
- estimates of write-downs of inventories to net realisable value are presented in Note 15,
- estimates and assumptions regarding impairment losses on receivables are presented in Note 17,
- estimates of employee benefits are presented in Note 24,
- estimates of recognised provisions for liabilities are presented in Note 25.

Uncertainty related to tax settlements

The regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes and amendments, with a resulting lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents to follow. Furthermore, the applicable tax laws lack clarity, which leads to differing opinions and diverse interpretations, both between various public authorities and between public authorities and businesses.

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, the tax risk in Poland is higher than in countries with more mature tax systems.

The amounts presented and disclosed in the financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

On July 15th 2016, the tax legislation was amended to reflect the provisions of the General Anti-Abuse Rule (“GAAR”). GAAR is intended to prevent the creation and use of artificial legal structures designed to avoid paying taxes in Poland. GAAR defines tax avoidance as an act performed primarily for the purpose of obtaining a tax advantage which, in given circumstances, is contrary to the objective and purpose of the tax law. Under GAAR, such an activity does not result in a tax advantage if the legal structure used was artificial. Any arrangements involving (i) separation of transactions or operations without sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements operating in a similar way, may be viewed as an indication of the existence of an artificial scheme subject to GAAR. The new regulations will require much more judgement when assessing the tax consequences of particular transactions.

The GAAR clause should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but the benefit of the tax advantage obtained through the arrangement continued or still continues after that date. Implementation of the above regulations will provide Polish tax inspection authorities with grounds to challenge certain legal arrangements made by taxpayers, including restructuring or reorganisation of corporate groups.

The Group recognises and measures current and deferred tax assets and liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration the assessed uncertainty related to tax settlements.
When there is uncertainty as to whether and to what extent the tax authorities will accept individual tax settlements of transactions, the Group recognises these settlements taking into account the uncertainty assessment.

2.8. Going concern assumption

The consolidated full-year financial statements were prepared under the assumption that the Group will continue as a going concern in the foreseeable future.

There are no circumstances indicating a threat to the Group's ability to continue as a going concern.

2.9. Basis of consolidation

2.9.1. Subsidiaries

Subsidiaries are entities controlled by the Parent. The Parent controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the subsidiary. The degree of control is assessed based on existing and potential voting rights that are exercisable or convertible as at the reporting date.

Subsidiaries are consolidated starting from the date when the Parent obtains control and cease to be consolidated when that control is lost.

2.9.2. Associates and joint ventures

Associates are entities whose operational and financial policies are significantly influenced, but not controlled, by the Parent.

Joint ventures are arrangements under which two or more parties undertake a jointly controlled economic activity.

These consolidated financial statements disclose the Group's share in equity-accounted associates' aggregate profits or losses and other comprehensive income from the moment of obtaining significant influence to its loss or reclassification of an associate to assets held for sale.

Where the Group's share in the loss of an associate exceeds the carrying amount of the investment, it is assumed that the share in aggregate profit or loss and other comprehensive income of associates is zero, and the Group recognises other losses up to the amount of contracted liabilities, if any.

2.9.3. Consolidation procedures

The following consolidation procedures are applied in preparing consolidated financial statements:

- elimination, as at the acquisition date, of the carrying amount of the Parent's investment in each subsidiary and of that portion of equity of each subsidiary which represents the Parent's interest,
- identification of non-controlling interests in the equity of subsidiaries and the profit or loss of individual subsidiaries attributable to non-controlling interests, as such profit or loss is disclosed in the consolidated financial statements for a given reporting period,
- elimination of intra-Group settlements,
- elimination of any unrealised profits on intra-Group transactions,
- elimination of unrealised losses on intra-Group transactions, but only in the absence of impairment indicators,
- elimination of income from and expenses relating to intra-Group transactions.

2.9.4. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which the Group obtains control of the acquiree. The Group recognises goodwill at the acquisition date as:

- the fair value of consideration transferred, plus
  - the recognised value of the non-controlling interest in the acquiree, plus
  - if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree, less
  - the recognised net amount (fair value) of the identifiable assets acquired and the liabilities and contingent liabilities assumed.

Where the difference is negative, gain on a bargain purchase is recognised in the statement of profit or loss as at the acquisition date, under other income.

The fair value of the transferred payment does not include amounts related to the settlement of previously existing relationships. As a rule, such amounts are recognised in the statement of profit or loss for the current period.

Acquisition costs (other than costs of issuing debt or equity instruments) which the Group incurs in connection with a business combination are accounted for as costs of the period in which the costs are incurred, and are disclosed under administrative expenses.

Contingent consideration is recognised at fair value as at the acquisition date. If contingent consideration is classified as equity, it is not subject to remeasurement and its settlement is recognised in equity. Otherwise, subsequent changes in the fair value of contingent consideration are recognised in profit or loss for the period.

(all amounts in PLN thousand unless indicated otherwise)

2.9.5. Acquisition of non-controlling interests

Acquisition of non-controlling interests is disclosed as a transaction with owners. Accordingly, no goodwill is recognised for such transaction. Adjustments to non-controlling interests are made pro-rata to the carrying amount of acquired net assets of the subsidiary.

2.9.6. Loss of control

Upon loss of control, the Group derecognises the subsidiary's assets and liabilities, the non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising from loss of control is recognised in the statement of profit or loss for the current period. If the Group retains any interest in the subsidiary, such interest is measured at fair value at the date of losing control of the subsidiary. Subsequently such retained interest is accounted for as an equity-accounted investee or available-for-sale financial asset, depending on the level of influence retained.

2.10. Foreign currencies

2.10.1. Transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated into the Polish złoty using the exchange rate from the transaction date.

At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the Polish złoty at the average exchange rate published for a given currency on the reporting date by the National Bank of Poland. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated at the exchange rate from the transaction date. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate from the date on which the fair value was determined.

Foreign exchange gains/(losses) are recognised in the statement of profit or loss as finance income or costs, except for differences arising on translation of available-for-sale equity instruments and qualifying cash flow hedges, which are recognised as other comprehensive income.

The following exchange rates were used for measurement purposes:

	Dec 31 2017	**Dec 31 2016**
EUR	4.1709	4.4240
USD	3.4813	4.1793
GBP	4.7001	5.1445

2.10.2. Translation of financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and consolidation adjustments to the fair value as at the acquisition date, are translated at the average exchange rate quoted by the National Bank of Poland at the end of the reporting period. Income and expenses of foreign operations are translated at the average exchange rate quoted by the National Bank of Poland in the reporting period.

Any translation differences are recognised as other comprehensive income and presented as exchange differences on translating foreign operations. However, if the Group does not hold all the shares in a foreign operation, the proportional part of exchange differences on translating the operation is recognised under non-controlling interests. Where significant influence on or control or joint control of a foreign operation is lost, accumulated translation differences are recognised in gain or loss on the sale of that operation. If the Group only partially disinvests from a foreign operation but retains control of the entity, the relevant portion of accumulated value is recognised as non-controlling interest.

2.11. Property, plant and equipment

2.11.1. Own property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes purchase price of an asset and costs directly attributable to bringing the asset to a condition necessary for it to be capable of use, including expenses relating to transport, loading, unloading, and storage. Discounts, rebates and other similar reductions and recoveries reduce the cost of an asset. The cost of an item of property, plant and equipment under construction comprises all costs incurred by the Group during its construction, installation, adaptation and improvement until the date of its acceptance for use (or, if the item has not yet been commissioned for use, until the reporting date). The cost also includes, where required, a preliminary estimate of the costs of dismantling and removing items of property, plant and equipment and restoring them to their original condition. Purchased software which is necessary for the proper functioning of the related equipment is capitalised as part of the equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (significant parts) of property, plant and equipment.

An item of property, plant and equipment may be derecognised from the statement of financial position upon its disposal or when no economic benefits are expected from further use of the asset. Gains or losses arising from the derecognition of property, plant and equipment are determined as the difference between the net proceeds from disposal and the carrying amount of the item and are recognised as other income or other expenses in the statement of profit or loss.

Property, plant and equipment under construction are tangible assets under construction or in the course of assembly, and are stated at cost less impairment losses. Property, plant and equipment under construction are not depreciated until their construction is completed and they are available for use.

Prepayments for property, plant and equipment are presented under other receivables in non-current assets.

2.11.2. Leased property, plant and equipment

Leases under which substantially all the risks and rewards incidental to ownership of a leased asset are transferred to the Group are classified as finance leases. On initial recognition a leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Lease payments are apportioned between the finance cost and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the outstanding balance of the liability.

Leased items of proprerty, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses in accordance with the accounting policies applicable to own property, plant and equipment. If it is not certain that the Group will obtain ownership upon expiry of the lease contract, the assets are depreciated over the shorter of the lease term and their useful lives.
Leases under which substantially all the risks and rewards incidental to ownership of a leased asset are retained by the lessor are classified as operating leases. Lease payments under operating leases are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term.

2.11.3. Mineral deposits

Mineral deposits include rights to extract mineral resources acquired by the Group and costs incurred in connection with making deposits available for production, as well as rights to explore for resources acquired as a result of acquisition of business entities, for which the probability of commencing profitable production was assessed as high.

Mineral deposits acquired by the Group are recognised as property, plant and equipment and carried at cost less depletion and impairment losses.

(all amounts in PLN thousand unless indicated otherwise)

2.11.4. Subsequent expenditure

Subsequent expenditure is capitalised only when it can be measured reliably and it is probable that the future economic benefits associated with the expenditure will flow to the Group. Other expenditure are recognised in the statement of profit or loss as an expense.

2.11.5. Depreciation

Depreciation, except for mineral deposits, is calculated on a straight-line basis over the estimated useful life of an item of property, plant and equipment or its significant and separate parts. Mineral deposits are depreciated using a unit of production method based on the quantity of tons of resources extracted compared to the estimated reserves. The useful lives of individual groups of property, plant and equipment are as follows:

Type	Depreciation rate	Period
Land	none	-
Mineral deposits	unit of production	6–72 years
Buildings and structures	1% - 33%	3–100 years
Plant and equipment	2% - 100%	1–50 years
Office equipment	10% - 100%	1–10 years
Vehicles	7% - 100%	1–7 years
Computers	20% - 100%	1–6 years

Depreciation begins when an item of property, plant and equipment is at the location and in condition necessary for it to be capable of operating in the manner intended by the entity's management. Depreciation ends no later than when accumulated depreciation equals the cost of the asset, or the asset is derecognised following its liquidation or sale, or when the asset is found to be deficient. The depreciable amount is determined after deducting its residual value.
Assets under construction are not depreciated.
The Group allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant components (if the component's value is significant compared to the total cost of the asset) and depreciates separately each such component over its useful life.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

2.12. Perpetual usufruct of land

Land perpetual usufruct right received by the Group free of charge on the basis of an administrative decision is a form of an operating lease. This right is excluded from the assets of the Group and recorded in off-balance sheet accounts.

The perpetual usufruct right acquired by the Group is recognised as property, plant and equipment. It is measured at cost less depreciation and impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of a given right of perpetual usufruct of land. The estimated useful life is up to 99 years.

2.13. Investment property

Investment property is land, structures and buildings held by the Group for capital appreciation or other benefits, e.g. to earn rental income.

Investment property is measured in accordance with the measurement policies applicable to property, plant and equipment.

Income from leases of investment property is presented in other income and related expenses are presented in other expenses.

2.14. Intangible assets

2.14.1. Research and development

Research costs are recognised as an expense in the statement of profit or loss when incurred.

Development costs whose effects are used in design or production of new or substantially improved products and processes are capitalised only if the product or process is technically and commercially feasible and the Group has sufficient technical, financial and other resources to complete development.

Expenditure on development activities is measured at cost less accumulated amortisation and impairment losses, if any. Completed development work is amortised over the expected period when the benefits from the development project will be obtained.

Capitalised development costs are tested for impairment at each reporting date if the asset has not yet been brought into use or if the impairment indicators have been identified and indicate that the carrying amount may not be recoverable.

2.14.2. REACH costs

The Group capitalises costs of registrations in the REACH system. When registering a product in the REACH system, the Group obtains the right to manufacture and sell products that generate economic benefits. Additionally, an asset resulting from registration cannot be separated from the entity but arises from legal right. The asset is non-monetary and has no physical form.

The Group capitalises costs that can be directly attributed to a specific registration. Such costs include, but are not limited to, the costs of registration fees, costs of test results, information on possible applications, costs incurred for the benefit of another registrant for the right to use test results. REACH costs are recognised as other intangible assets and are amortised over the same period as the corresponding items of property, plant and equipment.

Costs that cannot be assigned to any specific registration are recognised in the statement of profit or loss when incurred.

2.14.3. Goodwill

The methods of determining the amount of goodwill at initial recognition are described in section 2.9.4.

Subsequent to initial recognition, goodwill is recognised at cost less accumulated amortisation. Goodwill is reviewed annually for impairment at the level of a cash-generating unit or a group of cash-generating units.

For equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

2.14.4. Other intangible assets

Other intangible assets acquired in a separate transaction are recognised in the statement of financial position at cost.

Subsequent to initial recognition, intangible assets with a finite useful life are measured at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets with an indefinite useful life are measured at cost less accumulated impairment losses, if any.

Except for development costs, internally generated intangible assets are not recognised in the statement of financial position and the related expenditure is disclosed in the statement of profit or loss when incurred.

2.14.5. Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalised only when it increases future economic benefits associated with the given asset. Other expenditure is recognised in the statement of profit or loss as an expense when incurred.

2.14.6. Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives, unless such useful life is indefinite. Intangible assets with indefinite useful lives and those not yet in use are tested for impairment annually in relation to individual assets or at the level of a cash-generating unit. Other intangible assets are assessed for any impairment indication annually.

(all amounts in PLN thousand unless indicated otherwise)

The Group assumes the following useful lives for each category of intangible assets:

Type	Amortisation rate	Period
Trade marks	none	–
Brand names	individually	-
Customer portfolio	17% - 100%	1–7 years
Licences	5% - 100%	1–20 years
Software	16% - 100%	1–6 years
Technology licences	2% - 100%	1–50 years
REACH	2% - 100%	1–50 years
Development work	2% - 100%	1–50 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and prospectively adjusted, if appropriate.

2.15. Exploration for and evaluation of mineral resources

2.15.1. Measurement and classification of expenditure

The Group applies IFRS 6 *Exploration for and Evaluation of Mineral Resources* to its exploration and evaluation expenditure:
- in the course of exploration for and evaluation of mineral resources, after the right to conduct exploration work in a given area has been obtained,
- before the technical feasibility and commercial viability of extraction of a mineral resource are demonstrable.

Expenditure on mineral resource exploration and evaluation is classified depending on whether the activities:
- were performed before the licence to explore for and evaluate resources in a given area has been obtained.

  Any expenditure incurred before obtaining exploration and evaluation licences (rights) are recognised in the statement of profit or loss when incurred.

- were performed after a licence to explore for and evaluate resources in a given area has been obtained, but before the technical feasibility and commercial viability of extracting a mineral resource is demonstrated.

  Expenditure on mineral resource exploration and evaluation incurred after an exploration and appraisal licence has been obtained, which is directly attributable to a given asset, is recognised, depending on the nature of the expenditure, as property, plant and equipment classified as exploration and evaluation assets (property, plant and equipment under construction), or intangible assets classified as exploration and evaluation assets (a category of intangible assets).

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the evaluation and exploration assets are no longer classified as such. They are then tested for impairment and subsequently reclassified to mineral deposits.

Exploration and evaluation assets are measured at cost. Subsequent to initial recognition, exploration and evaluation assets are measured at cost less accumulated depreciation and impairment losses, if any.

2.15.2. Depreciation

Depreciation of an exploration and evaluation asset commences when the extraction facility is ready to commence operations and production.

The carrying amount of the assets is depreciated using the unit of production method based on the ratio of production volume in a given year/month to the demonstrated probable volume of resources and taking into account future investment expenditure necessary to commence production. Future capital expenditure is estimated considering the development necessary for future production.

Expenditures on wells for which the technical feasibility and economic viability of extracting mineral resources has not been demonstrated, but which may be used for development purposes, are recognized at carrying amount as items property, plant and equipment and depreciated over their estimated useful lives.

2.15.3. Impairment

Exploration and evaluation assets are tested for impairment when sufficient data is available to demonstrate technical feasibility and commercial viability of extracting a mineral resource and facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

Impairment of evaluation and exploration assets is estimated in accordance with the policy described in section 2.20.

2.16. Trade receivables

Trade receivables are non-derivative financial assets, not quoted in an active market, with fixed or determinable payments. They are initially recognised at fair value and are subsequently measured at amortised cost with the effective interest rate method, less impairment losses.

Where the difference between the amortised cost and amount due is not significant, trade and other receivables due within 12 months are measured at amounts due, less impairment losses.

Impairment losses are estimated when full recovery of the receivable is no longer probable. If there is an objective evidence that receivables carried at amortised cost are impaired, the impairment loss is determined as the difference between the carrying amount of the asset and the present value of future cash flows discounted at the asset's original effective interest rate. Losses are recognised as selling and distribution expenses in the statement of profit or loss.

2.17. Presentation of factoring and receivables discounting contracts

The Group uses three types of contracts for purchase of receivables by the financing party before their maturities:

- full factoring (without recourse) or receivables discounting without recourse, where the financing party purchases the receivables before maturity without recourse for a fee and interest from the date of purchase to maturity. If the debtor fails to pay at maturity or within the maximum allowed period after the maturity date, the financing party has no recourse claim against the Group. Therefore, the Group derecognises the receivable as at the transaction date and settles it against the amount received from the financing party,
- factoring with recourse or receivables discounting with recourse – secured by assignment of rights under an insurance policy, in which the financing party purchases the receivables before maturity with recourse, against payment of a fee and interest from the date of purchase to the maturity date. If the debtor does not pay at the maturity date or within the maximum allowed period after the maturity date, the financing party is allowed to claim repayment of the price paid. Due to the assignment of rights under an insurance policy, the financing party is first entitled to satisfy its claims from the policy, without exercising its right of recourse to the Group. Therefore, the Group derecognises the receivables as at the transaction date, and settles their amount against the amount received from the financing party and discloses a contingent liability resulting from factoring (receivables discounting),
- factoring with recourse or receivables discounting with recourse – not secured by assignment of rights under an insurance policy, in which the financing party purchases the receivables before maturity with recourse, against payment of a fee and interest from the date of purchase to the maturity date. If the debtor does not pay at the maturity date or within the maximum allowed period after the maturity date, the financing party is allowed to claim repayment of the price

paid. In this case, if the financing party does not receive payment from the debtor, it first exercises its right of recourse to the Group. Therefore, the receivables amount is not settled against the amount received for their sale until the debtor pays the debt to the financing party, and in the period from the sale of debt to the date of payment the Group presents cash received from the financing party as other financial liabilities resulting from factoring (receivables discounting).

2.18. Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or raw materials used in production or in rendering of services.

Inventories are measured at the lower of cost and net realisable value as at the reporting date. The cost of inventories is determined using the weighted average method.

The cost is the purchase price of an asset, including the amount due to the seller, excluding recoverable value added tax and excise, increased by relevant import taxes and duties (if applicable), adjusted for other directly attributable costs incurred when bringing the asset to its current location and condition, including transport, loading and unloading, less any rebates, discounts or similar recovered amounts. Finished goods, semi-finished products and work in progress are valued at production cost comprising a justified part of fixed indirect production costs, calculated on the assumption that normal production capacity is used.

Net realisable value is the estimated selling price in the ordinary course of business, net of discounts and rebates, less the estimated costs of completion and estimated costs necessary to make the sale.

Write-downs of inventories are recognised in the statement of profit or loss as cost of sales. Reversals of inventory write-downs are recognised in the statement of profit or loss as reduction of cost of sales.

2.19. Property rights

Property rights include CO_2 emission allowances and energy certificates.
Emission allowances received free of charge and rights allocated in connection with projects executed under the National Investment Plan are initially recognised as property rights, with a corresponding entry in deferred income (government grants in accordance with IAS 20), at fair value at the date of registration.
Acquired emission allowances are recognised at cost.
Liabilities resulting from the emission of pollutants to the air, presented under other liabilities, are recognised as cost of sales (taxes and charges) and measured as follows:

- if the Group has a sufficient amount of allowances to cover its liabilities arising from the emission: as a product of the amount of allowances required to be redeemed to settle the obligation and the unit cost of the allowances held by the Group. The unit cost of allowances required to settle the estimated emissions is determined using the weighted average method,
- if the Group does not have a sufficient amount of allowances to cover its liabilities arising from the emission: as a product of the amount of allowances held by the Group and recognised as receivable at the reporting date and the unit cost of such emission allowances, increased by the fair value of the deficit.

Government grants related to allowances received free of charge are recognised in the statement of profit or loss as a reduction to cost of sales (taxes and charges) in the proportion of CO_2 emission realised in the reporting period to the estimated annual emissions. Government grants related to allowances received in the execution of National Investment Plan projects are accounted for as other income during the period of depreciation and amortisation of assets acquired in the execution of National Investment Plan projects.
Redemption of emission allowances is charged against the corresponding liability when redemption of the allowances for the previous reporting period is registered in the relevant register. Allowances allocated under National Investment Plan projects may be used for physical redemption of allowances for a given year.

Energy certificates for electricity production in cogeneration are recognised as a decrease in electricity production cost when they become receivable as property rights. Purchased energy certificates are recognised at cost.
Certificate redemption liabilities resulting from the sale of energy, presented in other liabilities, are recognised as cost of sales (taxes and charges), and are measured at the unit cost of certificates held by the Group or based on the appropriate emission charge.
Redemption of certificates is charged against the corresponding liability when a redemption request is filed with the URE.

In the case of energy certificates received in connection with execution of investment projects, the same rules apply as for the CO_2 emission allowances received as part of the National Investment Plan.

2.20. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with maturities of less than three months. Cash and cash equivalents presented in the statement of cash flows include the above mentioned items.

2.21. Impairment of non-financial assets

The carrying amounts of the Group’s assets other than inventories, deferred tax assets and financial instruments, measured under different principles, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset or cash-generating unit (CGU). The recoverable amount of CGUs including goodwill and intangible assets not yet put into use and with an indefinite useful life is estimated at each reporting date.

Impairment losses are recognised when the carrying amount of an asset or its related CGU exceeds the recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. The Group's common (corporate) assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to the CGU based on consistent and reasonable basis and are tested for impairment as part of the CGU.

Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses on goodwill are not reversed. For other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that impairment loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.22. Equity

Equity is divided by type according to the applicable laws and the Parent's Articles of Association.

Share capital, representing the share capital of the Parent, is measured at the nominal value of issued shares.

Transaction costs incurred on incorporation of the entity or associated with the issue of equity securities reduce share premium.

Capital reserves from previous years, accumulated profit (losses) from previous years, and profit (loss) for the period are presented in the financial statements as retained earnings.

2.23. Employee benefits

Employee benefits are all forms of consideration given by the Group in exchange for services rendered by employees. They include benefits paid during the employment period and post-employment benefits.

2.23.1. Defined contribution plans

Under current regulations the Group has an obligation to withhold and pay contributions concerning social security of the employees. These benefits, in accordance with IAS 19, constitute government programme and are a defined contribution plan. The Group's obligations relating to the contributions are estimated based on the amounts payable for the year and are recognised as an employee benefit expense in the period during which related services are rendered by employees.

Additionally, pursuant to an agreement with employees, the Group pays fixed contributions into a separate entity and has no other legal or constructive obligation to pay further amounts. Obligations to make contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

2.23.2. Defined benefit plans

The Group's obligations in respect of defined benefit plans are calculated for each benefit plan separately by estimation of the present value of future benefits earned by employees in the current period and previous periods. Current service costs are recognised in the statement of profit or loss as employee expenses. Interest on obligations in respect of defined benefit plans is recognised in the statement of profit or loss as finance costs. Revaluation of the obligations is recognised in other comprehensive income.

2.23.2.1. Defined benefit plans – retirement and death benefits

Under current Labour Code and collective bargaining agreement regulations the Group has an obligation to pay retirement and death benefits.

The Group's retirement benefit obligation is calculated by a qualified actuary using the projected unit credit method. The estimate of the future salaries and wages at the retirement date and the amount of future benefits to be paid is included in the calculation. The benefits are discounted to determine their present value. The Group's death benefit obligation is calculated by a qualified actuary by estimating the amount of the future benefits. The benefits are discounted to determine their present value. The discount rate is the yield at the end of the reporting period on government bonds that have maturity dates approximating the terms of the Group's obligations. Employee turnover is estimated based on the past experience and the expected turnover rates in the future. Retirement and death benefit obligations are recognised proportionally to the expected period of the employee's service.

2.23.2.2. Defined benefit plans – provisions for Company Social Fund benefits for pensioners

Under current regulations the Group has an obligation to pay social benefits to pensioners. Therefore, the Group recognises obligations for contributions to the Company Social Benefits Fund related to post-employment benefits. The obligations are estimated based on average wages in the Polish economy. They are discounted to determine their present value in a similar way as other classes of employee benefits. The amount of provision for the fund benefits is calculated individually for each employee and equals the present value of future benefits.

2.23.3. Other long-term employee benefits − jubilee awards

The Group offers jubilee awards to its employees. The cost of the awards depends on the length of service and remuneration of the employees when the awards are paid.

Benefits are calculated using the projected unit credit method. The Group's obligation under jubilee awards is calculated by estimating future remuneration at the date the employee is entitled to receive the award and the amount of future award to be paid. The benefits are discounted to determine their present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. Employee turnover is estimated based on the past experience and the expected turnover rates in the future. The obligation is recognised proportionally to the expected period of the employee's service.

2.23.4. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. An obligation is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.24. Provisions

Provisions are recognised if:
- a present obligation (legal or constructive) has arisen as a result of a past event,
- the outflow of economic benefits is probable,
- the amount can be measured reliably.

The amount of a provision is the best estimate of the expenditure to be incurred which is required to settle the obligation at the reporting date. The estimates are based on the management's judgement, supported by the experience resulting from similar past events and independent experts opinions, if required.

If the Group expects to be reimbursed for expenditures required to settle the obligation covered by a provision, e.g. by the insurer, the reimbursement is recognised as a separate asset if it is virtually certain that the reimbursement will be received.

2.24.1. Restructuring

A restructuring provision is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not covered by a restructuring provision.

2.24.2. Site restoration costs

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land or other property is recognised when the land or other property is contaminated.

2.24.3. Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

2.24.4. Litigation

Provisions for the effects of litigation and claims are recognised considering all available evidence, including lawyers' opinions. If as at the reporting date the outflow of benefits is assessed as probable based on the analysis performed, the respective provision is recognised (provided the other recognition criteria are met).

2.25. Trade payables

Trade payables are initially recognised at fair value. Subsequently they are measured at amortised cost using the effective interest rate method.

Liabilities due in up to 12 months, when the difference between the amortised cost and amount due is not significant, are measured at amounts due.

2.26. Interest-bearing borrowings

Interest-bearing borrowings and other debt instruments are initially recognised at fair value (adjusted for the transaction costs associated with the issue of debt).

Subsequently interest-bearing borrowings and other debt instruments are measured at amortised cost using the effective interest rate method.

2.27. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity provided that the contract has clear economic consequences to both or more parties.

Financial instruments are classified into the following categories:

- financial assets or liabilities at fair value through profit or loss – derivatives and financial assets or liabilities acquired or held for the purpose of selling or repurchasing in the near term or designated on initial recognition as identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking,
- held-to-maturity investments – non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity,
- loans and receivables – non-derivative financial assets with fixed or determinable payments that are not quoted on an active market,
- available-for-sale financial assets – non-derivative financial assets designated on initial recognition as available-for-sale or other instruments that are not classified as (a) loans and

receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

- other financial liabilities.

2.28. Initial recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. Transactions to purchase or sell standardised financial instruments are recognised in the accounts at the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred and the Group does not retain control of the asset.

A financial liability is derecognised from the statement of financial position when it is extinguished, i.e. when the obligations specified in the contract are discharged, cancelled or expired.

2.29. Initial measurement of financial instruments

Initially, financial assets and liabilities are measured at fair value. Transaction costs adjust the initial value of assets and liabilities, except for assets or liabilities measured at fair value through profit or loss.

2.29.1. Measurement subsequent to initial recognition

The Group measures:

- at amortised cost using the effective interest method: held-to-maturity investments, loans and receivables and non-derivative financial liabilities,
- at fair value: financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets.

The impact of subsequent measurement of available-for-sale financial assets, other than impairment loss, is recognised in other comprehensive income and presented in fair value reserve.

The impact of subsequent measurement of financial assets and liabilities classified to other categories is recognised as profit and loss in the statement of profit or loss.

2.29.2. Derivative financial instruments

The Group uses derivative financial instruments to manage its currency risk exposure resulting from operating, financing and investment activities. In accordance with its treasury policy, the Group does not use or issue derivatives held for trading.

Initially, the financial assets and liabilities are recognised at fair value.

Any gains and losses arising from changes in the fair value of financial derivatives not designated for hedge accounting are recognised as profit or loss in the statement of profit or loss.

2.29.3. Impairment of financial assets

A financial asset is impaired, and impairment losses are recognised, if there is an objective evidence as a result of one or more events that such loss event(s) have negative impact on the estimated future cash flows from the asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. An impairment loss in respect of available-for-sale financial assets is recognised when the decline in fair value of such investment below its cost is considered significant or prolonged.

At the reporting date, all individually significant assets are assessed for specific impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

Impairment losses in respect of financial assets measured at amortised cost are recognised in the statement of profit or loss. Impairment losses in respect of available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss.

If, in a subsequent period, the value of an impaired financial asset increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed. An impairment of available-for-sale equity security is not reversed in the statement of profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in the statement of profit or loss.

2.30. Hedge accounting

Financial instruments (including derivatives) designated as hedges whose fair value or cash flows are expected to offset changes in the fair value or cash flows of the hedged items are recognised by the Group in accordance with the principles of hedge accounting, provided that at least all of the following conditions are met:

- At the inception of the hedge, the Group possesses documentation that includes as a minimum: a definition of the objective of risk management and the risk management policy, an identification of the hedging instrument, an identification of the hedged asset, liability or forecast transaction, a description of the nature of the risk associated with the hedged item or forecast transaction, an identification of the hedging period and a description of how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk,
- The hedge is highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk. Its effectiveness is assessed by comparing the changes in the value of the hedge or cash flows associated with the hedge against the changes in the value or cash flows associated with the hedged item. A hedge is considered highly effective if throughout the hedging period nearly the entire amount of changes in the fair value of, or in the cash flows associated with, the hedged item is offset by changes in the fair value of, or in the cash flows associated with, the hedge, and the actual effectiveness of the hedge is within a range of 80%-125%,
- The effectiveness of the hedge can be reliably estimated through reliable measurement of the fair value of, or the cash flows associated with, the hedged item, and the fair value of the hedge. The effectiveness of a hedge is assessed retrospectively (through ex-post tests) to check whether a given hedging relationship was highly effective in the analysed accounting periods, as well as prospectively (through ex-ante tests) to check whether a given hedging relationship can still be expected to be highly effective,
- If the hedge relates to cash flows associated with a forecast transaction, the transaction is highly probable.

2.30.1. Cash flow hedges

Financial instruments (including derivatives) used as cash flow hedges hedge the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability, an unrecognised firm commitment or highly probable forecast transaction.

The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and presented as hedging reserve in equity. Any ineffective portion of changes in the fair value of the hedging instrument is recognised immediately in the statement of profit or loss.

When the hedged item is a non-financial asset, the Company includes the amount accumulated in equity in the initial carrying amount of that asset. In other cases, the amount accumulated in equity is reclassified to the statement of profit or loss in the same period that the hedged item affects profit or loss.

If the forecast transaction is no longer highly probable to occur, hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to the statement of profit or loss for the current period.

2.31. Revenue

Revenue is measured at the fair value of the consideration received or receivable in the course of ordinary operating activities of an entity, net of rebates, discounts, value added and other sales related taxes. Revenue is recognised to the extent it is probable that the economic benefits from a given transaction will flow to the Group and the amount of revenue can be reliably measured.

2.31.1. Sale of goods and merchandise, rendering of services

Revenue from the sale of goods and merchandise is recognised when the significant risks and rewards of ownership have been transferred to the customer and the amount of revenue can be reliably measured.

Revenue from rendering of services is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date and the result of the transaction can be reliably measured. The stage of completion is assessed by reference to the physical proportion of the contract work performed. When the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are likely to be recovered.

2.31.2. Licence fees

Revenue from the sale of licences is recognised when it is probable that the economic benefits from the sale will flow to the Group and the amount of revenue and the related costs can be reliably measured. Revenue from licence fees is presented in revenue.

2.31.3. Revenue from the sale of energy certificates

The Group recognises revenue from the sale of certificates of origin of red energy in the period in which they have been generated and when it is probable that the economic benefits from the sale will flow to the Group.

2.31.4. Rental

Revenue from rental of property, plant and equipment and investment property is recognised in the statement of profit or loss on a straight-line basis over the lease period and presented in revenue (property, plant and equipment) or other income (investment property).

Leases where the Group retains substantially all the risks and rewards incidental to the ownership of the asset are classified as operating leases. Initial direct costs incurred in the course of negotiating operating lease contracts are added to the carrying amount of the leased asset and recognised over the term of the lease on the same basis as rental income. Contingent lease payments are recognised as revenue in the period in which they become due.

2.31.5. Finance income

Finance income comprises the interest on funds invested by the Group, loans and other interest-bearing instruments, dividends receivable, gains on disposal of available-for-sale financial assets, fair value gains on financial instruments at fair value through profit or loss, foreign exchange gains and such gains on derivatives (except for the futures contracts for CO_2 emission allowances) which are recognised in the statement of profit or loss.

Interest income is recognised as it accrues in the statement of profit or loss, using the effective interest rate method. Dividend income is recognised in the statement of profit or loss on the date that the Group’s right to receive the dividend is established.

2.31.6. Government grants received

A government grant is recognised at fair value if there is reasonable assurance that the Company will comply with the conditions attaching to it, and that the grant will be received.
If a grant relates to a cost item, it is recognised as a reduction to the cost item which the grant is intended to compensate.
Amounts of cash received to finance purchase or production of property, plant and equipment, intangible assets and investment property, including assets under construction, and recognised as grants increase other income, with matching depreciation and amortisation charges.

2.32. Expenses

2.32.1. Cost of sales

Cost of sales includes all expenses except for selling and distribution expenses, administrative expenses, other expenses and finance costs. Production cost includes direct costs and an appropriate share of production overheads based on normal operating capacity.

2.32.2. Selling and distribution expenses

Selling and distribution expenses comprise recognised costs related to sales, such as:
- cost of packaging,

- transport, loading and unloading costs,
- customs duties and trade fees,
- carriage insurance cost,
- recognition/reversal of impairment losses on trade receivables, excluding impairment losses on receivables under lease of investment property (presented in other income/expenses) and interest on receivables (presented in finance income/costs).

2.32.3. Administrative expenses

Administrative expenses comprise:

- general and administration expenses associated with the management of the Group,
- general production overheads (related to the production, including maintenance and functioning of general departments, not associated with the direct production).

2.32.4. Operating lease payments

Payments made under operating lease contracts concluded by the Group are recognised in the statement of profit or loss on a straight-line basis over the lease period. Lease incentives received are recognised in the statement of profit or loss as an integral part of the total lease expense.

2.32.5. Finance lease payments

Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2.32.6. Finance costs

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, net foreign exchange losses, fair value losses on financial instruments through profit or loss and impairment losses recognised on financial assets. Interest expense is recognised using the effective interest rate method.

Finance costs that are directly attributable to acquisition, construction or production of a qualifying asset are capitalised. Other borrowing costs are recognised as an expense when incurred.

2.33. Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the statement of profit or loss for the current period except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable is calculated based on taxable profit (tax base) for the period. Taxable profit differs from profit (loss) before tax because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes. Deferred tax is not recognised for: 1) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, 2) temporary differences related to investments in subsidiaries and jointly controlled entities to the extent it is probable that they will not be realised in the foreseeable future, 3) temporary differences arising on initial recognition of goodwill.

Taxable income on activities in special economic zones may be tax exempt up to the amount determined in the applicable rules governing the operation of special economic zones. Future benefits resulting from tax exemption are treated as investment tax credits and recognised, by analogy, as deferred tax assets, in accordance with IAS 12.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised. Deferred tax assets are not recognised to the extent it is not probable that taxable income will be available to utilise all temporary differences or their part. Such assets are subsequently recognised if it becomes probable that sufficient taxable income will be available.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority. Deferred tax assets and liabilities are not discounted and are presented in the statement of financial position as non-current assets or liabilities.

2.34. Segment reporting

The Group identifies operating segments based on internal reports. Operating results of each segment are reviewed on a regular basis by the Group’s chief operating decision maker, who decides about the allocation of resources to different segments and analyses their results. Separate information prepared for each segment is available.

The Group identifies the following operating segments:
- Agro Fertilizers
- Plastics
- Chemicals
- Energy
- Other Activities segment, comprising other activities, such as laboratory services, property rental and other activities that cannot be allocated to other segments.

None of the Group's operating segments has been combined with another segment to create reporting segments.

The Group presents administrative, selling and distribution expenses and other income and expenses allocated to the segments. Performance of each segment is measured based on its revenue, EBIT and EBITDA. The Group's financing (including finance costs and finance income) and income tax are monitored at the level of individual Group companies and are not allocated to the segments.

Transaction prices applied in transactions between operating segments are established on an arm's length basis, similarly as in transactions with unrelated parties.

The Group identifies the following geographical areas:
- Poland
- Germany
- Other EU countries
- Asia
- South America
- Other countries

2.35. Discontinued operations and non-current assets held for sale

Non-current assets are classified as held for sale when their carrying amount will be recovered through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale, the Group's management must actively seek the buyer and sale must be highly probable within a year from classification as held for sale. The assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Discontinued operation is a part of the Group's operations, which represent separate major line of business or a geographical area of operations, which is a part of a single coordinated plan to sold or dispose, or is a subsidiary acquired exclusively with a view to re-sale. Classification as discontinued operations occurs on disposal or when the operations meet the criteria to be classified as held for sale, if earlier. When operations are classified as discontinued operations, the comparative statement of profit or loss is restated as if the operations had been discontinued from the start of the comparative period.

3. Notes to the consolidated financial statements

Business segment reporting

Operating segments

The Grupa Azoty Group's business objectives are delivered through four main reportable segments, identified based on separate management strategies (production, sales, and marketing) adopted in each of the segments.

Operations of the Company's reporting segments:

- Agro Fertilizers segment comprises the manufacturing and marketing of the following products:
  - Nitrogen fertilizers (solid: nitro-chalk, ammonium nitrate, urea; liquid: RSM® - urea-ammonium nitrate solution),
  - Nitrogen fertilizers with sulfur (solid: ammonium sulfate, ammonium sulfonitrite, urea-ammonium sulfate, calcium nitrate with sulfur; liquid: RSM®, urea-ammonium sulfate solution),
  - Compound fertilizers (NPK: Polifoska® and Amofoska®; NP: DAP),
  - Nitrogen fertilizers,
  - Ammonia,
  - Technical-grade and concentrated nitric acid,
  - Industrial gases,
- Plastics segment comprises the manufacturing and marketing of the following products:
  - Engineering plastics (PA 6, POM) and their modifications,
  - Modified plastics (PPC, PPH, PBT, PA66),
  - Caprolactam,
  - Plastic products (PA pipes, PE pipes, polyamide casings);
- Chemicals segment comprises the manufacturing and marketing of the following products:
  - Melamine,
  - OXO products (OXO alcohols, plasticizers),
  - Titanium white,
  - Iron sulfate,
  - Solutions based on urea and ammonia;
- The Energy segment includes the production of energy carriers (electricity, heat, water, process and instrument air, nitrogen) for the purposes of chemical units and, to a lesser extent, for resale (mainly of electricity) to external customers. As part of its operations, the segment also purchases and distributes natural gas for process needs;
- Other Activities segment comprises the remaining activities, including laboratory services, catalyst production (iron-chromium catalyst, copper catalysts, iron catalysts), property rental, and other activities which are not allocated to any of the segments specified above.http://grupaazoty.com/pl/oferta/chemikalia/2/3http://grupaazoty.com/pl/oferta/chemikalia/2/4http://grupaazoty.com/pl/oferta/chemikalia/2/5 None of those activities met the quantitative criteria to be identified as a reportable segment in 2017 and 2016.

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

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

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

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

- Other

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

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

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

<u>**Business rationale (sales- and production-related)**</u>

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

<u>**Formal rationale (IFRS 8 guidelines)**</u>

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

<u>**Other rationale:**</u>

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

(all amounts in PLN thousand unless indicated otherwise)

Operating segments' income, expenses and net profit (loss) for the 12 months ended December 31st 2017

Continuing operations	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	5,027,929	1,419,092	2,788,768	230,126	151,580	9,617,495
Intersegment revenue	2,163,790	315,613	882,685	2,532,081	840,721	6,734,890
Total revenue	**7,191,719**	**1,734,705**	**3,671,453**	**2,762,207**	**992,301**	**16,352,385**
Operating expenses, including: (-)	**(6,853,284)**	**(1,564,066)**	**(3,389,003)**	**(2,785,565)**	**(1,032,028)**	**(15,623,946)**
selling and distribution expenses (-)	*(436,330)*	*(57,464)*	*(177,852)*	*(199)*	*(1,710)*	*(673,555)*
administrative expenses (-)	*(338,215)*	*(114,221)*	*(184,426)*	*(20,109)*	*(100,796)*	*(757,767)*
Other income	9,826	4,136	2,503	4,571	29,164	50,200
Other expenses (-)	(60,456)	(3,510)	(41,933)	(19,526)	(56,000)	(181,425)
Segment's EBIT	**287,805**	**171,265**	**243,020**	**(38,313)**	**(66,563)**	**597,214**
Finance income	-	-	-	-	-	32,107
Finance costs (-)	-	-	-	-	-	(68,931)
Share of profit of equity-accounted investees	-	-	-	-	-	16,015
Profit before tax	**-**	**-**	**-**	**-**	**-**	**576,405**
Income tax	**-**	**-**	**-**	**-**	**-**	**(87,579)**
Net profit	**-**	**-**	**-**	**-**	**-**	**488,826**
EBIT*	287,805	171,265	243,020	(38,313)	(66,563)	597,214
Depreciation and amortisation	195,852	49,670	105,064	96,696	81,750	529,032
Unallocated depreciation and amortisation	-	-	-	-	-	60,640
EBITDA**	**483,657**	**220,935**	**348,084**	**58,383**	**15,187**	**1,186,886**

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

(all amounts in PLN thousand unless indicated otherwise)

Operating segments' income, expenses and net profit (loss) for the 12 months ended December 31st 2016

Continuing operations	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	4,970,294	1,117,842	2,440,685	239,748	198,235	8,966,804
Intersegment revenue	1,914,785	314,835	817,784	2,315,050	894,887	6,257,341
Total revenue	**6,885,079**	**1,432,677**	**3,258,469**	**2,554,798**	**1,093,122**	**15,224,145**
Operating expenses, including: (-)	(6,459,002)	(1,509,560)	(3,045,177)	(2,538,524)	(1,106,288)	(14,658,551)
selling and distribution expenses (-)	(434,067)	(51,762)	(177,938)	(243)	(5,305)	(669,315)
administrative expenses (-)	(364,491)	(119,995)	(171,363)	(19,398)	(52,165)	(727,412)
Other income	8,770	4,713	6,970	7,612	20,073	48,138
Gain on a bargain purchase	-	-	-	-	-	-
Other expenses (-)	(67,273)	(5,352)	(19,707)	(8,256)	(85,540)	(186,128)
Segment's EBIT	**367,574**	**(77,522)**	**200,555**	**15,630**	**(78,633)**	**427,604**
Finance income	-	-	-	-	-	33,745
Finance costs (-)	-	-	-	-	-	(44,443)
Share of profit of equity-accounted investees	-	-	-	-	-	15,170
Profit before tax	**-**	**-**	**-**	**-**	**-**	**432,076**
Income tax	-	-	-	-	-	(116,833)
Net profit	**-**	**-**	**-**	**-**	**-**	**315,243**
EBIT*	367,574	(77,522)	200,555	15,630	(78,633)	427,604
Depreciation and amortisation	173,189	49,345	100,088	80,959	84,267	487,848
Unallocated depreciation and amortisation	-	-	-	-	-	32,516
EBITDA**	**540,763**	**(28,177)**	**300,643**	**96,589**	**5,634**	**947,968**

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

Revenues from intersegment transactions are eliminated. Segments’ operating profit excludes finance income of PLN 32,107 thousand (2016: PLN 33,745 thousand) and finance costs of PLN (68,931) thousand (2016: PLN (44,443) thousand).

(all amounts in PLN thousand unless indicated otherwise)

Operating segments' assets and liabilities as at December 31st 2017

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	3,260,201	1,281,224	1,650,695	1,810,349	1,198,173	9,200,642
Unallocated assets	-	-	-	-	-	2,426,343
Investments in associates	-	-	-	-	-	111,059
Total assets	**3,260,201**	**1,281,224**	**1,650,695**	**1,810,349**	**1,198,173**	**11,738,044**
Segment's liabilities	937,976	183,304	178,213	796,375	282,146	2,378,014
Unallocated liabilities	-	-	-	-	-	1,916,623
Total liabilities	**937,976**	**183,304**	**178,213**	**796,375**	**282,146**	**4,294,637**

Operating segments' assets and liabilities as at December 31st 2016

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Segment's assets	3,102,035	1,147,474	1,586,765	1,649,428	1,203,937	8,689,639
Unallocated assets	-	-	-	-	-	2,193,378
Investments in associates	-	-	-	-	-	110,578
Total assets	**3,102,035**	**1,147,474**	**1,586,765**	**1,649,428**	**1,203,937**	**10,993,595**
Segment's liabilities	852,845	194,317	226,227	576,276	263,123	2,112,788
Unallocated liabilities	-	-	-	-	-	1,841,335
Total liabilities	**852,845**	**194,317**	**226,227**	**576,276**	**263,123**	**3,954,123**

Segment assets do not include such items as deferred tax assets of PLN 69,583 thousand (2016: PLN 50,402 thousand), shares of PLN 14,690 thousand (2016: PLN 13,346 thousand), valuation of currency derivatives of PLN 2,284 thousand (2016: PLN 8,435 thousand), current tax assets of PLN 24,248 thousand (2016: PLN 3,750 thousand), cash and cash equivalents of PLN 1,085,885 thousand (2016: PLN 641,895 thousand) and other financial assets, i.e. deposits maturing in more than three months and loans advanced of PLN 253,684 thousand (2016: PLN 580,849 thousand) because these assets are managed at the Group level. Segment liabilities do not include such items as current tax liabilities of PLN 8,916 thousand (2016: PLN 30,553 thousand), deferred tax liability of PLN 177,588 thousand (2016: PLN 191,291 thousand) and borrowings of PLN 1,635,088 thousand (2016: PLN 1,424,081 thousand) as these liabilities are managed at the Group level.

(all amounts in PLN thousand unless indicated otherwise)

Other segmental information for the year ended December 31st 2017

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Expenditure on property, plant and equipment	298,252	157,647	97,830	271,771	134,440	959,940
Expenditure on investment property	235	-	51	-	844	1,130
Expenditure on intangible assets	8,632	92	377	2,368	1,291	12,760
Unallocated expenditure	-	-	-	-	-	27,143
Total expenditure	**307,119**	**157,739**	**98,258**	**274,139**	**136,575**	**1,000,973**
Segment’s depreciation and amortisation	195,852	49,670	105,064	96,696	81,750	529,032
Unallocated depreciation and amortisation	-	-	-	-	-	60,640
Total depreciation and amortisation	**195,852**	**49,670**	**105,064**	**96,696**	**81,750**	**589,672**

Other segmental information for the year ended December 31st 2016

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities	Total
Expenditure on property, plant and equipment	517,714	172,107	101,049	266,402	143,900	1,201,172
Expenditure on investment property	694	-	142	-	419	1,255
Expenditure on intangible assets	25,341	400	1,909	204	6,722	34,576
Unallocated expenditure	-	-	-	-	-	21,936
Total expenditure	**543,749**	**172,507**	**103,100**	**266,606**	**151,041**	**1,258,939**
Segment’s depreciation and amortisation	173,189	49,345	100,088	80,959	84,267	487,848
Unallocated depreciation and amortisation	-	-	-	-	-	32,516
Total depreciation and amortisation	**173,189**	**49,345**	**100,088**	**80,959**	**84,267**	**520,364**

Capital expenditure is made to purchase property, plant and equipment and intangible assets.

(all amounts in PLN thousand unless indicated otherwise)

Geographical areas

Revenue split by geographical areas is determined based on the location of customers. Assets allocated to a geographical area are identified on the basis of their geographical location.

Revenue

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
Poland	5,295,482	5,111,914
Germany	1,087,420	1,017,961
Other EU countries	2,274,970	1,908,674
Asia	385,349	363,657
South America	120,980	136,311
Other countries	453,294	428,287
Total	**9,617,495**	**8,966,804**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

No single customer accounted for more than 10% of revenue in 2017 and 2016.

Non-current assets

	as at Dec 31 2017	as at Dec 31 2016* restated
Poland	7,791,594	7,449,816
Germany	67,990	57,770
Senegal	738	37,652
	7,860,322	**7,545,238**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

The non-current assets include property, plant and equipment, intangible assets, investment property, perpetual usufruct of land, goodwill, shares, equity-accounted investments, and other assets.

Note 1Revenue

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Revenue from sale of products and services	9,397,164	8,717,711
Revenue from construction contracts	-	15,669
Revenue from sale of merchandise and materials	215,661	228,969
Revenue from sale of property rights	2,670	4,455
Revenue from sale of licences	2,000	-
	9,617,495	**8,966,804**

(all amounts in PLN thousand unless indicated otherwise)

Note 2 Operating expenses

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
Depreciation and amortisation	586,660	517,639
Raw materials and consumables used	5,486,585	4,980,159
Services	990,067	1,039,438
Taxes and charges	337,771	323,431
Remuneration	1,097,796	1,029,315
Social security and other employee benefits	301,651	270,438
Other costs by nature of expense	165,422	171,470
Costs by nature of expense	**8,965,952**	**8,331,890**
Change in inventories of finished goods (+/-)	(77,298)	18,828
Work performed by the entity and capitalised (-)	(190,465)	(159,277)
Selling and distribution expenses (-)	(673,555)	(669,315)
Administrative expenses (-)	(757,767)	(727,412)
Cost of merchandise and materials sold	190,867	209,769
Cost of sales	**7,457,734**	**7,004,483**
including excise duty	22,457	25,599

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

Depreciation and amortization are presented in the following proportions in particular items of the statement of profit or loss and other comprehensive income:

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
Cost of sales	492,391	459,039
Selling and distribution expenses	12,527	4,913
Administrative expenses	81,742	53,687
Total depreciation and amortisation	**586,660**	**517,639**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Note 2.1 Cost of sales

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
Cost of products and services	7,262,099	6,781,890
Cost of contracts for construction work	-	12,830
Cost of merchandise and materials	190,867	209,763
Cost of property rights	4,768	-
Total cost of sales	**7,457,734**	**7,004,483**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

Note 2.2 Employee benefit expenses

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
Remuneration paid and due	1,073,315	1,038,236
Social security	204,365	193,823
Social benefits fund	51,421	35,804
Training	4,888	5,481
Change in defined benefit obligation	1,450	4,736
Change in long-term employee benefit obligation	5,430	(8,383)
Change in provision for accrued holiday entitlements	(162)	1,128
Change in provision for voluntary redundancy programme	(95)	35
Change in provision for annual and incentive bonuses	20,902	(10,930)
Change in other provisions for employee benefits	(2,011)	1,948
Other	39,944	37,875
	1,399,447	**1,299,753**
Average employment	14,373	13,968

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

‘Other’ includes the costs of protective clothing, nutritious meals provided to employees, medical examinations, cleaning products, laundry and cleaning of clothes, and other OHS-related items.

(all amounts in PLN thousand unless indicated otherwise)

Note 3 Other income

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
Reversed impairment losses on:		
Property, plant and equipment	1,324	1,723
Other	668	236
	1,992	**1,959**
Other income:		
Income from lease of investment property	17,976	12,456
Received compensation	5,257	5,686
Provisions reversed	12,368	16,902
Government grants received	7,317	9,430
Other (aggregated items)	5,290	1,705
	48,208	**46,179**
	50,200	**48,138**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

One of the most significant items of other income is the reversal of provisions of PLN 12,368 thousand (2016: PLN 16,902 thousand), including:

- reversal of provision in connection with a settlement made with a contractor concerning liabilities of PLN 4,701 thousand for technical consultancy services related to phosphate rock supplies from Senegal,
- reversal of PLN 2,632 thousand provision for properties ordering (2016: PLN 810 thousand),
- reversal of PLN 1,596 thousand provision for potential complaints.

(all amounts in PLN thousand unless indicated otherwise)

Note 4Other expenses

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
Loss on disposal of assets:		
Loss on disposal of property, plant and equipment, intangible assets, and investment property	20,457	5,567
	20,457	**5,567**
Recognised impairment losses on:		
Property, plant and equipment	37,149	29,457
Intangible assets	44,652	30,079
Goodwill	-	2,493
Other	2,236	1,937
	84,037	**63,966**
Other expenses:		
Investment property maintenance costs	10,761	9,278
Fines and compensations	9,562	5,857
Plant outages	2,907	2,752
Disaster recovery costs	6,928	8,094
Recognised provisions	27,200	17,720
Other (aggregated items)	19,573	72,894
	76,931	**116,595**
	181,425	**186,128**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

The loss on disposal of property, plant and equipment is due to the net value of liquidated assets, including spent catalysts, and the liquidation costs.

In 2017, the following significant impairment losses were charged to other expenses:

- PLN 37,791 thousand impairment loss on intangible assets related to 'Exploration for and evaluation of mineral resources', held by African Investment Group S.A., a subsidiary (for details, see Note 12 *Intangible assets*);
- PLN 14,717 thousand impairment loss recognised by ZCh Chorzów on property, plant and equipment and intangible assets related to a stearin production unit;
- PLN 9,693 thousand impairment loss on property, plant and equipment related to sulfur production;
- PLN 9,113 thousand impairment loss on property, plant and equipment under construction due to a conceptual change in the Puławy Power Plant project.

Provisions of PLN 27,200 thousand were recognised, comprising mainly PLN 14,889 thousand environmental provisions (including PLN 13,754 thousand for landfill site restoration involving the use of sludge from sediment tanks).
The Group paid PLN 6,904 thousand in charges for exceeding permissible SO_2 emission levels.
A major component of other expenses in 2016, totalling PLN 40,999 thousand, was a payment made to the Polish National Foundation's initial capital (PLN 7,000 thousand) and commitment to co-finance the Foundation's activities over ten years, starting from 2017.

(all amounts in PLN thousand unless indicated otherwise)

Note 5 Finance income

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
Interest income:		
Interest on bank deposits	11,774	15,885
Interest on cash pooling	1,350	1,246
Interest on non-borrowings	25	92
Interest on trade receivables	5,250	2,202
Other interest income	76	172
	18,475	**19,597**
Profit from sale of financial investments:		
Profits from sale of financial investments	2,179	-
	2,179	
Gains on measurement of financial assets and liabilities:		
Gains on measurement of financial assets at fair value through profit or loss	1,962	128
Gains on measurement of financial liabilities at fair value through profit or loss	5,582	-
	7,544	**128**
Other finance income:		
Foreign exchange gains	-	10,883
Dividends received	-	1,217
Other finance income	3,909	1,920
	3,909	**14,020**
	32,107	**33,745**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Note 6 Finance costs

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Interest expense:		
Interest on bank borrowings and overdraft facilities	27,622	28,155
Interest on cash pooling	218	907
Interest on non-borrowings	2,230	1,341
Interest on finance lease liabilities	1,675	1,711
Other interest expense	8,018	4,505
	39,763	**36,619**
Loss on sale of financial investments:		
Loss on sale of financial investments	-	11
	-	**11**
Loss on measurement of financial assets and liabilities:		
Loss on measurement of financial assets at fair value through profit or loss	-	6,717
	-	**6,717**
Other finance costs:		
Foreign exchange losses	17,517	-
Unwind of discount on provisions and loans	1,143	1,096
Other finance costs	10,508	-
	29,168	**1,096**
	68,931	**44,443**

The PLN 17,517 thousand foreign exchange losses (2016: PLN 10,833 foreign exchange gains) include:

- net realised foreign exchange losses of PLN 21,946 thousand (2016: net realised foreign exchange gains of PLN 12,457 thousand),
- net foreign exchange gains on realised transactions in currency derivatives of PLN 24,114 thousand (2016: net foreign exchange losses of PLN 4,265 thousand),
- net foreign exchange losses on measurement of receivables and liabilities denominated in foreign currencies as at the reporting date of PLN 6,262 thousand (2016: net foreign exchange gains of PLN 3,108 thousand),
- net foreign exchange losses on measurement of other items as at the reporting date of PLN 13,423 thousand (2016: PLN 467 thousand).

Other finance costs include primarily an impairment loss on interest due on receivables from debtors with respect of which bankruptcy petitions have been filed and unwinding of the discount on liabilities related to financing of the Polish National Foundation’s activities.

(all amounts in PLN thousand unless indicated otherwise)

Note 7 Income tax

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

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
Current income tax:		
Current income tax expense	127,056	86,715
Adjustments to current income tax for previous years	(3,560)	(2,019)
	123,496	**84,696**
Deferred income tax:		
Deferred income tax associated with origination and reversal of temporary differences	(35,917)	32,137
Income tax disclosed in the statement of profit or loss	**87,579**	**116,833**

Note 7.2 Effective tax rate

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Profit/(Loss) before tax	**576,405**	**432,076**
Tax calculated at the applicable tax rate	109,517	82,094
Effect of tax rates in foreign jurisdictions	(4,854)	(4,458)
Effect of tax-exempt income (+/-)	(127)	(4,779)
Effect of non tax-deductible expenses (+/-)	25,004	15,023
Tax effect of inclusion of property, plant and equipment into operations in Special Economic Zone	(12,709)	-
Tax effect of tax losses deducted in the period (+/-)	224	5,855
Recognition of state aid deductible in future periods (+/-)	(40,898)	358
Change in recognised deductible temporary differences (+/-)	-	8,550
Other (+/-)	11,422	14,190
Income tax disclosed in the statement of profit or loss	**87,579**	**116,833**
Effective tax rate	**15.19**	**27.04**

The effective tax rate of 15.19% for 2017 resulted mainly from non-deductible expenses and from the recognition of deferred tax asset on account of benefits the Group could derive from its operations in the Special Economic Zone. The effective tax rate in 2016 of 27.04% results mainly from non-deductible expenses and from non-recognition of deferred tax assets on deductible temporary differences and tax losses by those companies of the Group in which the realisation of tax differences and losses is not sufficiently probable.

(all amounts in PLN thousand unless indicated otherwise)

Note 7.3 Income tax disclosed in other comprehensive income

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Tax on items that will not be reclassified to profit or loss (+/-)	**(1,510)**	(1,937)
Remeasurement of net defined benefit obligation/asset	(1,509)	(1,937)
Other income	(1)	-
Tax on items that are or may be reclassified to profit or loss (+/-)	**5,296**	(1,682)
Measurement of hedging instruments through hedge accounting	5,296	(1,682)
Settlement of hedging instruments	-	-
Income tax disclosed in other comprehensive income	**3,786**	(3,619)

(all amounts in PLN thousand unless indicated otherwise)

Note 7.4 Deferred tax assets and liabilities

	Assets (-)		Liabilities (+)	
	Dec 31 2017	Dec 31 2016 * restated	Dec 31 2017	Dec 31 2016 * restated
Property, plant and equipment	(89,651)	(114,307)	309,541	333,672
Perpetual usufruct of land	(55)	(62)	85,400	85,822
Investment property	(1,373)	(1,231)	8,122	8,593
Intangible assets	(7,779)	(1,414)	67,209	70,195
Financial assets	(629)	(4,169)	14,451	16,263
Inventories and property rights	(11,871)	(9,013)	14,398	15,324
Trade and other receivables	(6,031)	(2,583)	1,359	1,266
Trade and other payables	(54,877)	(57,586)	1,557	1,690
Other assets	(63)	(64)	182	253
Employee benefits	(82,531)	(73,964)	19	18
Provisions	(35,136)	(33,167)	383	222
Borrowings	(105)	(62)	-	-
Other financial liabilities	(286)	(442)	292	1,289
Measurement of hedging instruments through hedge accounting	-	(1,682)	3,614	-
State aid deductible in future periods	(92,180)	(65,314)	-	-
Tax losses	(17,606)	(31,857)	-	-
Other	(976)	(1,057)	2,627	4,256
Deferred tax assets (-)/liabilities (+)	**(401,149)**	**(397,974)**	**509,154**	**538,863**
Offset	331,566	347,572	(331,566)	(347,572)
Deferred tax assets (-)/liabilities (+) recognised in the statement of financial position	**(69,583)**	**(50,402)**	**177,588**	**191,291**

(all amounts in PLN thousand unless indicated otherwise)

In connection with a project involving construction of Polyamide Plant II, the Parent obtained a licence to operate in the Krakowski Park Technologiczny Special Economic Zone. Pursuant to the terms of the licence, the Parent was obliged to incur a minimum expenditure of PLN 203,000 thousand, to increase employment by 34 staff, and to maintain the headcount at least until June 30th 2020. The conditions specified in the licence were satisfied in the course of 2017 and, in line with the current plans, the Parent will be able to satisfy the condition concerning the staffing level. As at December 31st 2017, the Parent recognised assets for the benefits it may obtain from operating in the Special Economic Zone, in an amount corresponding to the expected tax savings in 2018–2021, i.e. PLN 36,158 thousand.
Upon completion of the project, the Parent's eligible capital expenditure totalled PLN 222,603 thousand, which in the future may allow the Parent to realise tax savings on its operations in the zone of approximately PLN 111 million (net of the discount).

In connection with a project to launch production of solid fertilizers based on urea and ammonium sulfate, Grupa Azoty PUŁAWY obtained licence no. 134/2011 to operate in the Special Economic Zone. Pursuant to the terms of the licence, Grupa Azoty PUŁAWY was obliged to incur a minimum expenditure of PLN 68,000 thousand as well as to increase employment by 35 staff and maintain a headcount of 85 in the zone at least until June 30th 2020. The conditions specified in the licence were satisfied in the course of 2015 and, in line with current plans, Grupa Azoty PUŁAWY will be able to continue satisfying the condition concerning the staffing level until June 30th 2020. As at December 31st 2017, the Company recognised assets for the benefits it may obtain from operating in the Special Economic Zone, in an amount corresponding to the expected tax savings in the coming years, i.e. PLN 55,889 thousand.
Upon completion of the project, Grupa Azoty PUŁAWY's eligible capital expenditure totalled PLN 102,000 thousand, which in the future may allow it to realise tax savings on its operations in the zone of approximately PLN 42,704m (net of the discount, but including the amount of the exemption utilised so far).

As at December 31st 2017, the Group recognised a deferred tax asset of PLN 17,606 thousand (December 31st 2016: PLN 31,857 thousand) for unused tax losses which the Group expected to be able to utilise based on projections of future taxable income. The Group will be able to offset the losses in the following years:

Loss for the year	Amount	Settlement (years)
2013	5,333	2018
2014	8,170	2018 – 2019
2015	964	2018 - 2020
2016	1,824	2018 - 2021
2017	**1,315**	2018 - 2022
	17,606	

(all amounts in PLN thousand unless indicated otherwise)

Note 7.5 Change in temporary differences

	As at 01.01.2017	Changes in temporary differences recognised in: (+/-) Statement of profit or loss	Other comprehensive income	Acquisition of companies	Exchange differences on translation recognised in other comprehensive income	As at Dec 31 2017
Property, plant and equipment	219,365	997	-	(124)	(348)	219,890
Perpetual usufruct of land	85,760	(415)	-	-	-	85,345
Investment property	7,362	(613)	-	-	-	6,749
Intangible assets	68,781	(9,347)	-	-	(4)	59,430
Financial assets	12,094	1,728	-	-	-	13,822
Inventories and property rights	6,311	(3,784)	-	-	-	2,527
Trade and other receivables	(1,317)	(3,356)	-	-	1	(4,672)
Trade and other payables	(55,896)	2,576	-	-	-	(53,320)
Other assets	189	(123)	53	-	-	119
Employee benefits	(73,946)	(6,719)	(1,569)	(280)	2	(82,512)
Provisions	(32,945)	(1,808)	-	-	-	(34,753)
Bank borrowings	(62)	(43)	-	-	-	(105)
Other financial liabilities	847	(841)	-	-	-	6
Measurement of hedging instruments through hedge accounting	(1,682)	-	5,296	-	-	3,614
State aid deductible in future periods	(65,314)	(26,866)	-	-	-	(92,180)
Tax losses	(31,857)	14,251	-	-	-	(17,606)
Other	3,199	(1,554)	6	-	-	1,651
Deferred tax assets (-)/liabilities (+)	**140,889**	**(35,917)**	**3,786**	**(404)**	**(349)**	**108,005**

(all amounts in PLN thousand unless indicated otherwise)

	As at Jan 1 2016* restated	Changes in temporary differences recognised in: (+/-) Statement of profit or loss	Other comprehensive income	Exchange differences on translation recognised in other comprehensive income	As at Dec 31 2016 * restated
Property, plant and equipment	259,091	(38,973)	-	(753)	219,365
Perpetual usufruct of land	46,518	39,242	-	-	85,760
Investment property	4,755	2,607	-	-	7,362
Intangible assets	74,521	(5,488)	-	(252)	68,781
Financial assets	8,445	3,649	-	-	12,094
Inventories and property rights	19,745	(13,976)	-	542	6,311
Trade and other receivables	323	(1,642)	-	2	(1,317)
Trade and other payables	(51,705)	(4,161)	-	(30)	(55,896)
Other assets	(4,098)	4,287	-	-	189
Employee benefits	(74,892)	3,039	(1,937)	(156)	(73,946)
Provisions	(60,629)	27,684	-	-	(32,945)
Bank borrowings	-	(62)	-	-	(62)
Other financial liabilities	(472)	1,319	-	-	847
Measurement of hedging instruments through hedge accounting	-	-	(1,682)	-	(1,682)
State aid deductible in future periods	(80,502)	15,188	-	-	(65,314)
Tax losses	(29,310)	(2,545)	-	(2)	(31,857)
Other	1,230	1,969	-	-	3,199
Deferred tax assets (-)/liabilities (+)	**113,020**	**32,137**	**(3,619)**	**(649)**	**140,889**

(all amounts in PLN thousand unless indicated otherwise)

Note 7.6 Unrecognised deferred tax assets

The Group did not recognise deferred tax assets with respect to the following items:

	as at Dec 31 2017	as at Dec 31 2016
Tax losses	2,520	4,350
Temporary differences	5,576	6,062
	8,096	**10,412**

Deferred tax assets not recognised as at December 31st 2017 include mainly:

- deferred tax of PLN 5,576 thousand (2016: PLN 6,057 thousand) for impairment loss on past-due trade receivables of the subsidiary African Investment Group S.A.,
- deferred tax of PLN 1,161 thousand (2016: PLN 2,031 thousand) for tax losses incurred by the subsidiary African Investment Group S.A. for 2017.

In accordance with Senegalese law, tax losses may be carried forward for three years up to the amount of profit for the year in which the loss is utilised.
Deferred tax was not recognised for the aforementioned items as the company is highly unlikely to generate taxable profit against which it could be set off.

In addition, as described in Note 7.4, given the limited time horizon of its tax budgets, the Group does not recognise deferred tax assets related to its operations in the Special Economic Zone in the maximum amount possible.

Note 8 Discontinued operations

In 2017 and 2016, Grupa Azoty did not discontinue any operations.

Note 9 Earnings per share

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

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Net profit	**456,663**	**301,870**
Number of shares at beginning of period	99,195,484	99,195,484
Number of shares at end of period	99,195,484	99,195,484
Weighted average number of shares in the period	**99,195,484**	**99,195,484**
Earnings per share:		
Basic (PLN)	4.60	3.04
Diluted (PLN)	4.60	3.04

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

(all amounts in PLN thousand unless indicated otherwise)

Note 10 Property, plant and equipment

Carrying amount

	as at Dec 31 2017	as at Dec 31 2016 * restated
Land	24,193	26,297
Mineral deposits	16,477	21,988
Buildings and structures	2,287,758	1,914,598
Plant and equipment	3,421,048	2,719,726
Vehicles	118,242	124,564
Other property, plant and equipment	104,922	105,529
	5,972,640	**4,912,702**
Property, plant and equipment under construction	807,108	1,447,924
	6,779,748	**6,360,626**

(all amounts in PLN thousand unless indicated otherwise)

Net property, plant and equipment, by type

	Land	Mineral deposits	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount as at January 1st 2017	**26,297**	**21,988**	**1,914,598**	**2,719,726**	**124,564**	**105,529**	**1,447,924**	**6,360,626**
Increase, including:	**360**	**-**	**520,478**	**1,072,912**	**17,250**	**26,229**	**1,004,021**	**2,641,250**
Purchase, production, commissioning	359	-	506,487	1,062,601	15,326	26,099	999,443	2,610,315
Finance lease contracts	-	-	-	5,893	1,568	98	-	7,559
Reversal and use of impairment losses	-	-	2,670	709	327	-	960	4,666
Reclassification from investment property	-	-	8,549	-	-	-	-	8,549
Exchange differences on translation	-	-	719	-	-	-	-	719
Other increase	1	-	2,053	3,709	29	32	3,618	9,442
Decrease, including:(-)	**(2,464)**	**(5,511)**	**(147,318)**	**(371,590)**	**(23,572)**	**(26,836)**	**(1,644,837)**	**(2,222,128)**
Depreciation and amortisation	-	(3,417)	(124,259)	(349,434)	(20,410)	(23,904)	-	(521,424)
Disposal	-	-	(6,027)	(2,153)	(1,548)	(31)	-	(9,759)
Liquidation	-	-	(1,787)	(6,290)	(500)	(102)	(1,241)	(9,920)
Commissioning	-	-	-	-	-	-	(1,628,587)	(1,628,587)
Recognition of impairment loss	(1,619)	(2,094)	(9,135)	(9,741)	(376)	(797)	(13,387)	(37,149)
Reclassification to investment property	-	-	(1,698)	-	-	-	(417)	(2,115)
Exchange differences on translation	(112)	-	(638)	(3,344)	(32)	(37)	(339)	(4,502)
Other decrease	(733)	-	(3,774)	(628)	(706)	(1,965)	(866)	(8,672)
Net carrying amount as at December 1st 2017	**24,193**	**16,477**	**2,287,758**	**3,421,048**	**118,242**	**104,922**	**807,108**	**6,779,748**

(all amounts in PLN thousand unless indicated otherwise)

Net property, plant and equipment, by type

	Land	Mineral deposits	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Net carrying amount as at January 1st 2016	**24,740**	**28,956**	**1,881,295**	**2,596,702**	**129,011**	**109,451**	**870,660**	**5,640,815**
Increase, including:	**1,862**	**-**	**164,813**	**447,593**	**19,597**	**22,544**	**1,232,804**	**1,889,213**
Purchase, production, commissioning	1,790	-	160,020	435,039	13,756	22,306	1,231,907	1,864,818
Finance lease contracts	-	-	-	3,830	5,034	174	799	9,837
Reversal and use of impairment losses	-	-	2,455	1,868	256	21	72	4,672
Reclassification from investment property	-	-	517	4	-	-	-	521
Exchange differences on translation	72	-	429	2,282	33	26	3	2,845
Other increase	-	-	1,392	4,570	518	17	23	6,520
Decrease, including:(-)	**(305)**	**(6,968)**	**(131,510)**	**(324,569)**	**(24,044)**	**(26,466)**	**(655,540)**	**(1,169,402)**
Depreciation and amortisation	-	(3,108)	(116,215)	(314,053)	(21,984)	(26,278)	(1)	(481,639)
Disposal	(195)	-	(16)	(524)	(779)	(36)	-	(1,550)
Liquidation	-	-	(4,284)	(2,087)	(857)	(64)	(702)	(7,994)
Commissioning	-	-	-	(186)	-	-	(640,067)	(640,253)
Recognition of impairment loss	-	(3,860)	(5,419)	(6,116)	(48)	(83)	(13,931)	(29,457)
Reclassification to investment property	-	-	(3,553)	(227)	-	-	(373)	(4,153)
Exchange differences on translation	-	-	-	-	-	-	-	-
Other decrease	(110)	-	(2,023)	(1,376)	(376)	(5)	(466)	(4,356)
Net carrying amount as at December 31st 2016	**26,297**	**21,988**	**1,914,598**	**2,719,726**	**124,564**	**105,529**	**1,447,924**	**6,360,626**

(all amounts in PLN thousand unless indicated otherwise)

Property, plant and equipment by type

	Land	Mineral deposits	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
As at December 1st 2017								
Gross carrying amount	27,211	60,916	3,365,858	6,020,502	269,831	257,894	889,729	10,891,941
Accumulated depreciation (-)	-	(11,907)	(1,020,200)	(2,478,334)	(106,684)	(151,650)	-	(3,768,775)
Impairment (-)	(3,018)	(32,532)	(57,900)	(121,120)	(44,905)	(1,322)	(82,621)	(343,418)
Net carrying amount as at December 1st 2017	**24,193**	**16,477**	**2,287,758**	**3,421,048**	**118,242**	**104,922**	**807,108**	**6,779,748**
As at December 1st 2016								
Gross carrying amount	27,696	52,426	2,868,190	4,975,956	266,768	242,564	1,518,118	9,951,718
Accumulated depreciation (-)	-	-	(902,157)	(2,144,142)	(97,348)	(136,510)	-	(3,280,157)
Impairment (-)	(1,399)	(30,438)	(51,435)	(112,088)	(44,856)	(525)	(70,194)	(310,935)
Net carrying amount as at December 1st 2016	**26,297**	**21,988**	**1,914,598**	**2,719,726**	**124,564**	**105,529**	**1,447,924**	**6,360,626**

Impairment losses and their use

	Land	Mineral deposits	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Impairment losses as at January 1st 2017	**1,399**	**30,438**	**51,435**	**112,088**	**44,856**	**525**	**70,194**	**310,935**
Impairment loss recognised in the statement of profit or loss	1,619	2,094	9,135	9,741	376	797	13,387	37,149
Reversal and use of impairment losses recognised in the statement of profit or loss (-)	-	-	(2,670)	(709)	(327)	-	(960)	(4,666)
Impairment losses as at December 31st 2017	**3,018**	**32,532**	**57,900**	**121,120**	**44,905**	**1,322**	**82,621**	**343,418**
Impairment losses as at January 1st 2016	**1,399**	**26,578**	**48,471**	**107,839**	**45,064**	**464**	**56,343**	**286,158**
Impairment loss recognised in the statement of profit or loss	-	3,860	5,419	6,116	48	83	13,931	29,457
Reversal and use of impairment losses recognised in the statement of profit or loss (-)	-	-	(2,455)	(1,867)	(256)	(22)	(80)	(4,680)
Impairment losses as at December 1st 2016	**1,399**	**30,438**	**51,435**	**112,088**	**44,856**	**525**	**70,194**	**310,935**

In the reporting period, the Group recognised impairment losses on property, plant and equipment of PLN 37,149 thousand (2016: PLN 29,457 thousand). The most significant impairment losses included:
- PLN 14,016 thousand impairment loss on property, plant and equipment of the fat processing unit (Chemicals);
- PLN 9,214 thousand impairment loss on property, plant and equipment related to sulfur production (Minerals Extraction);
- PLN 9,113 thousand impairment loss on property, plant and equipment under construction due to a conceptual change in the Puławy Power Plant project (Energy);
- PLN 3,150 thousand impairment loss on property, plant and equipment under construction related to the initial preparations to launch and operate a phosphate rock mining project in Senegal. The project will not be continued.

Other impairment losses concerned property, plant and equipment which are not in use and will be put into liquidation in the foreseeable future or will be physically liquidated. The use of the impairment allowances for fixed assets concerns fixed assets for which impairment had been previously recognised and which were subsequently put into liquidation, or were liquidated or sold.

In 2016, the most significant impairment losses included:
- impairment loss on property, plant and equipment of the fat processing unit (Chemicals) in the total amount of PLN 9,443 thousand, including PLN 4,379 thousand on buildings and structures, and PLN 5,064 thousand on plant and equipment;
- PLN 13,923 thousand impairment loss on discontinued investments in property, plant and equipment under construction (Agro Fertilizers: PLN 6,668 thousand, Plastics: PLN 1,181 thousand, Chemicals: PLN 1,424 thousand, Energy: PLN 229 thousand, Other Activities: PLN 4,421 thousand), where the recoverable amount was determined as PLN 0.

No indications were identified in the current period for reversal of the impairment loss recognised in previous years on the property, plant and equipment of the polyoxymethylene (POM) unit in the Plastics segment.

Impairment tests

Zakłady Azotowe Chorzów S.A.

Zakłady Azotowe Chorzów S.A. identified indications that the recoverable amount of the fat processing plant may decrease, including:
- changes in prices of the basic raw material (animal fat) and its high share in production costs,
- underutilisation of full production capacity,
- low production flexibility.

Based on the above indications, as at June 30th 2017 property, plant and equipment and intangible assets of the fat processing plant (forming a cash-generating unit ("CGU")) were tested for impairment by measuring the recoverable amount, with the following main assumptions:
- the Company operates two cash-generating units: the Inorganic Production Division (OPN) and the Organic Production Division (OPO) with other activities,
- the OPN with other activities does not show any indications of fair value impairment and is not related to OPO,
- the stearin plant will operate at full capacity, i.e. approximately 12,000 tonnes per year according to the 2017-2027 Restructuring Plan, from 2020 onwards,
- the selling price of stearin will be PLN 3,875 per tonne in 2017 and will increase slightly by 2027, to PLN 3,976 per tonne,
- the price of fat will be PLN 2,495 per tonne in 2017 and will decrease slightly by 2027, to PLN 2,443 per tonne,
- long-term growth rate of 0.5%,
- the real weighted average cost of capital after tax (WACC) over the projection period will be 8.03%.

The results of the test showed impairment and the need to write down the value of assets assigned to the plant by PLN 14,717 thousand (including a PLN 701 thousand impairment loss on intangible assets, a PLN 6,485 thousand impairment loss on buildings and structures, a PLN 7,385 thousand impairment loss on plant and equipment, and a PLN 146 thousand impairment loss on other assets).

In addition, as at the reporting date, the Company assessed the recoverable amount of its assets in terms of their possible impairment.
The main assumptions of the test were as follows:

- OPN with other activities does not show any indications of fair value impairment and is not related to OPO,
- administrative expenses of OPO were estimated at 7.33% of their total value,
- the stearin plant will operate at full capacity, i.e. approximately 12,000 tonnes per year according to the 2017-2027 Restructuring Plan, from 2020 onwards,
- the selling price of stearin will be PLN 3,892 per tonne in 2018 and will increase slightly by 2027, to PLN 3,976 per tonne,
- the price of fat will be PLN 2,450 per tonne in 2018 and will decrease slightly by 2027, to PLN 2,443 per tonne,
- long-term growth rate of 0%,
- the weighted average cost of capital after tax (WACC) over the projection period was assumed at 6.61%, i.e.: WACC at constant prices of 5.27% and 1.7% for specific risk.

These assumptions, which have been reflected in cash flows, form, in the Company's opinion, a realistic scenario and will remain valid in the period they have been made for. Nevertheless, it cannot be ruled out that the assumptions or the period they have been made for will have to be revised.
As a result of the tests, no indications were identified of the need to recognise an additional impairment loss over the impairment loss recognised as at June 30th 2017. Due to the small difference between the value of invested capital and the recoverable amount, a sensitivity analysis was carried out.
The analysis revealed that the recoverable amount of the assets was most sensitive to changes in prices of stearin, prices of fat, and the weighted average cost of capital.

Sensitivity analysis
The following table presents estimated changes in the impairment of the OPO assets as at December 31st 2017 due to changes in key assumptions.

Metric	Change	Effect on impairment loss (PLN '000)	
		Increase	Decrease
EBITDA	+5%	-	2,799
	-5%	361	-
WACC	+0.5 pp	1,417	-
	-0.5 pp	-	4,308

Grupa Azoty SIARKOPOL
As Grupa Azoty Siarkopol identified indications of impairment of non-current assets in 2017, it carried out an impairment test. In the course of impairment testing, a discrepancy was identified between the actual availability of sulfur deposits held by Grupa Azoty Siarkopol and the availability of the deposits assumed for the purpose of purchase price allocation. The analysis revealed that the Group recognises an overstated amount of the sulfur deposit (carried as property, plant and equipment).
Therefore, the amount was adjusted by PLN 30,438 thousand, with the adjustment recognised as a prior year's error reducing the amount of property, plant and equipment and equity (retained earnings).

In addition, the test revealed it was necessary to write down the Minerals Extraction segment's assets. As a result, a total impairment loss of PLN 9,693 thousand was recognised, including PLN 10 thousand on intangible assets, PLN 475 thousand on perpetual usufruct of land, PLN 20 thousand on investment property, PLN 1,619 thousand on land, PLN 2,094 thousand on mineral deposits, PLN 2,610 thousand on buildings and structures, PLN 1,760 thousand on plant and equipment, and PLN 1,105 thousand on other assets.

The following significant assumptions were made:

- the company has two cash-generating units (Chemicals and Minerals Extraction),
- the Chemicals business will continue for an indefinite period,

- the real weighted average cost of capital (WACC) was assumed at 5.27% in the impairment test.
- the Minerals Extraction business will operate for a definite period, i.e. until 2025, owing to depletion of sulfur reserves held by the company,
- the prices of liquid sulfur and its derivatives (sulfur pastilles, granules) in the Mineral Extraction segment were assumed to grow at 3% (CAGR) over the projection period,
- the prices of insoluble sulfur in the Chemicals segment were assumed to grow at 2% (CAGR) over the projection period,
- the average annual EBITDA margin for the Chemicals segment was assumed at close to 13.9% (2017: -0.1%), and in subsequent years at 16.4-18.7%
- the average annual EBITDA margin for the Minerals Extraction segment was assumed at close to 14.3% (2017: -4.7%), and in subsequent years within a range from 14.49% to 32.3% in the last year, reflecting the value of sold land,
- the total annual volume of sulfur sales in the Minerals Extraction segment was estimated at a level close to that seen in the past, while the sales volumes of insoluble sulfur in the Chemicals segment are expected to increase to levels corresponding to the plant's actual production capacity,
- other assets and related costs were allocated to the core segments indirectly. The cost ratios were determined to by the most rational allocation ratios for corporate assets,
- the growth rate in the residual period was assumed at 0% (for the Chemicals segment continuing for an indefinite period with the residual value calculated after the 5th year of the projection)

Sensitivity analysis
The following table presents estimated changes in the impairment of assets as at December 31st 2017 due to changes in key assumptions.

Minerals Extraction

Metric	Change	Effect on impairment loss (PLN '000)	
		Increase	Decrease
EBITDA	+5%	-	9,073
	-5%	9,073	-
WACC	+0.5 pp	3,876	-
	-0.5 pp	-	4,001

Chemicals

Metric	Change	Effect on impairment loss (PLN '000)	
		Increase	Decrease
EBITDA	+5%	-	-
	-5%	7,770	-
WACC	+0.5 pp	7,187	-
	-0.5 pp	-	-

The other Group companies did not identify any indications of impairment, or impairment tests did not reveal any impairment of property, plant and equipment. Impairment losses were recognised for the entire carrying amount of unused property, plant and equipment.

Interest capitalised as initial cost of property, plant and equipment and intangible assets in 2017 was PLN 7,401 thousand (2016: PLN 10,319 thousand).
The gross carrying amount of all fully depreciated or impaired items of property, plant and equipment as at December 31st 2017 was PLN 996,414 thousand (December 31st 2016: PLN 675,342 thousand), including retired property, plant and equipment of PLN 39,416 thousand (December 31st 2016: PLN 37,846 thousand) and impaired property, plant and equipment of PLN 338,684 thousand (December 31st 2016: PLN 359,916 thousand).

Property, plant and equipment under construction
The most significant items of property, plant and equipment under construction included:

(all amounts in PLN thousand unless indicated otherwise)

- continued work on construction of Polyamide Plant II by the Parent. As at December 31st 2017, outstanding expenditure was PLN 113,592 thousand (December 31st 2016: PLN 210,010 thousand). The Polyamide II plant, whose objective is to improve the efficiency of managing caprolactam manufactured by the Group, was launched and commissioned in 2017. The plant's operations are currently being optimised;
- construction of the PDH propylene plant by PDH Polska S.A. As at December 31st 2017, capitalised expenditure was PLN 89,808 thousand (December 31st 2016: PLN 57,519 thousand);
- construction of facility for production of ammonium nitrate-based granulated by Grupa Azoty PUŁAWY. As at December 31st 2017, capitalised expenditure was PLN 85,401 thousand (December 31st 2016: PLN 42,824 thousand);
- replacement of a turbine set by Grupa Azoty PUŁAWY. As at December 31st 2017, capitalised expenditure was PLN 48,746 thousand (December 31st 2016: PLN 11,068 thousand);
- construction of a biological treatment plant by Grupa Azoty ZAK. As at December 31st 2017, capitalised expenditure was PLN 14,864 thousand (as at December 31st 2016: PLN 8,929 thousand),
- upgrade of the turbine set at Grupa Azoty POLICE. As at December 31st 2017, capitalised expenditure was PLN 12,903 thousand (December 31st 2016: PLN 0 thousand),
- change of the phosphoric acid manufacturing method at Grupa Azoty POLICE. As at December 31st 2017, capitalised expenditure was PLN 12,591 thousand (as at December 31st 2016: PLN 8,374 thousand).

Property, plant and equipment used under finance leases

	as at Dec 31 2017	as at Dec 31 2016 * restated
Carrying amount of property, plant and equipment used under finance leases, including:	**30,668**	**38,885**
Plant and equipment	7,660	8,705
Vehicles	22,679	29,689
Other property, plant and equipment	329	491

Under finance lease contracts, the Group uses mainly computer hardware, IT infrastructure, catalytic equipment and means of transport, including locomotives, railway cars, passenger cars and forklifts.

Collateral

As at December 31st 2017, the net carrying amount of property (buildings and structures), plant and equipment pledged as security for bank loans was PLN 16,176 thousand (December 31st 2016: PLN 20,726 thousand).

Obligation/restriction on use	as at Dec 31 2017	as at Dec 31 2016
Bank loan/mortgage	9,885	14,138
Bank loan/registered pledge	6,291	6,588
	16,176	**20,726**

(all amounts in PLN thousand unless indicated otherwise)

Note 10.1 Assets held for sale

	as at Dec 31 2017	as at Dec 31 2016
Land	95	95
Buildings and structures	187	-
Plant and equipment	78	596
Vehicles	9	-
Other property, plant and equipment	3	-
Property, plant and equipment under construction	305	-
Perpetual usufruct of land	1,741	-
Investment property	6,595	-
Receivables	77	-
Non-bank borrowings	1,465	-
	10,555	**691**

Note 11 Perpetual usufruct right

	as at Dec 31 2017	as at Dec 31 2016
Perpetual usufruct of land	476,616	487,171

Perpetual usufruct of land, gross

	Perpetual usufruct of land
As at December 1st 2017	
Gross carrying amount	515,511
Accumulated depreciation (-)	(38,895)
Net carrying amount as at December 1st 2017	**476,616**
As at Dec 31 2016*, restated	
Gross carrying amount	516,532
Accumulated depreciation (-)	(29,361)
Net carrying amount as at Dec 31 2016*, restated	**487,171**

Note 12 Intangible assets

Carrying amount

	as at Dec 31 2017	as at Dec 31 2016* restated
Trade marks	88,788	88,788
Corporate logo	84,000	105,000
Customer portfolio	50,222	71,157
Patents and licences	93,862	96,088
Software	36,319	32,864
Development costs	4,766	9,611
Other intangible assets	7,419	8,484
	365,376	**411,992**
Intangible assets under construction	30,379	28,830
Exploration for and evaluation of mineral resources	-	35,861
	395,755	**476,683**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

As at December 31st 2017, the carrying amount of the trademarks recognised on acquisition of Grupa Azoty POLICE was PLN 55,688 thousand (December 31st 2016: PLN 55,688 thousand). As at December 31st 2016, the carrying amount of the trademarks recognised on acquisition of Grupa Azoty PUŁAWY was PLN 33,100 thousand (December 31st 2016: PLN 33,100 thousand). The trademarks are not amortised. The Group assumed the indefinite useful life of trademarks due to their long-term existence on the market and absence of plans to change or replace them in the future.
As at December 31st 2017, the value of the PUŁAWY corporate logo was PLN 84,000 thousand (December 31st 2016: PLN 105,000 thousand). In July 2017, in connection with the commenced corporate rebranding, the company started to amortise the corporate logo, having adopted a two-year amortisation period based on the planned schedule.
For information on impairment tests of intangible assets with an indefinite useful life, see Note 12.2.
As at December 31st 2017, the value of the customer portfolio is primarily related to the customers of the Agro-Fertilizers segment. The portfolios were recognised on acquisition of Grupa Azoty POLICE and Grupa Azoty PULAWY. As at December 31st 2017, the carrying amount of the customers portfolio recognised on acquisition of Grupa Azoty PUŁAWY amounted to PLN 49,840 thousand (December 31st 2016: PLN 70,130 thousand), which will be amortised over the remaining amortisation period of two years. The remaining value of the customers portfolio was recognised on acquisition of Grupa Azoty POLICE, and amounts to PLN 382 thousand (December 31st 2016: PLN 549 thousand).

As at December 31st 2017, compared with December 31st 2016, the value of intangible assets disclosed in "Exploration for and evaluation of mineral resources" was reduced in connection with an impairment loss recognised for the entire amount of this item. Having regard to overall conditions relating to the phosphate rock project in Senegal and the non-consummation of the conditional agreement (settlement) between Grupa Azoty Zakłady Chemiczne Police S.A. and DGG ECO sp. o.o. made with a view to obtaining a refund of the purchase price for shares in African Investment Group S.A., the implementation of which could confirm the value of the exploration and evaluation assets recognised in the consolidated financial statements, on March 7th 2018 the Management Board of Grupa Azoty Zakłady Chemiczne Police S.A. passed a resolution to recognise an impairment loss as at December 31st 2017 for the entire amount of the exploration and evaluation intangible assets of XOF 5,854,799 thousand (which corresponds to PLN 37,791 thousand, translated at the exchange rate effective for the reporting date of December 31st 2017).
On March 29th 2018, African Investment Group S.A. declared it was insolvent and filed a petition for bankruptcy with the Commercial Court of Dakar on the same date.

The Group does not carry any intangible assets with restricted legal title or intangible assets pledged as collateral.

Amortisation of intangible assets is generally allocated to the administrative expenses.
The carrying amount of research and development work recognised as an expense in 2017 was PLN 16,026 thousand (2016: PLN 15,409 thousand).

(all amounts in PLN thousand unless indicated otherwise)

Intangible assets, net

	Trade marks	Corporate logo	Customer portfolio	Patents and licences	Software	Development costs	Other intangible assets	Intangible assets under construction	Exploration for and evaluation of mineral resources	Total
Net carrying amount as at January 1st 2017	**88,788**	**105,000**	**71,157**	**96,088**	**32,864**	**9,611**	**8,484**	**28,830**	**35,861**	**476,683**
Increase, including:	**-**	**-**	**-**	**7,563**	**9,785**	**184**	**49**	**19,078**	**3,304**	**39,963**
Purchase, production, commissioning	-	-	-	7,563	9,781	115	44	17,877	3,304	38,684
Other increase	-	-	-	-	4	69	5	1,201	-	1,279
Decrease, including:(-)	**-**	**(21,000)**	**(20,935)**	**(9,789)**	**(6,330)**	**(5,029)**	**(1,114)**	**(17,529)**	**(39,165)**	**(120,891)**
Depreciation and amortisation	-	(21,000)	(20,935)	(9,789)	(5,615)	(283)	(1,061)	-	-	(58,683)
Disposal	-	-	-	-	(7)	-	-	-	-	(7)
Liquidation	-	-	-	-	(7)	-	(7)	-	-	(14)
Commissioning	-	-	-	-	-	(62)	-	(14,498)	-	(14,560)
Recognition of impairment loss	-	-	-	-	(688)	(3,483)	-	(2,690)	(37,791)	(44,652)
Exchange differences on translation	-	-	-	-	(13)	-	(46)	-	(1,374)	(1,433)
Other decrease	-	-	-	-	-	(1,201)	-	(341)	-	(1,542)
Net carrying amount as at December 1st 2017	**88,788**	**84,000**	**50,222**	**93,862**	**36,319**	**4,766**	**7,419**	**30,379**	**-**	**395,755**

(all amounts in PLN thousand unless indicated otherwise)

	Trade marks	Corporate logo	Customer portfolio	Patents and licences	Software	Development costs	Other intangible assets	Intangible assets under construction	Exploration for and evaluation of mineral resources	Total
Net carrying amount as at January 1st 2016* restated	**88,788**	**105,000**	**84,729**	**98,169**	**33,549**	**7,848**	**7,375**	**27,212**	**44,227**	**496,897**
Increase, including:	***-***	***-***	***-***	***7,255***	***5,360***	***2,011***	***1,980***	***15,567***	***35,756***	***67,929***
Purchase, production, commissioning	-	-	-	7,241	4,977	1,252	792	15,112	23,275	52,649
Finance lease contracts	-	-	-	-	361	-	-	-	-	361
Use of impairment loss	-	-	-	-	-	-	-	-	10,632	10,632
Exchange differences on translation	-	-	-	-	21	1	41	-	1,849	1,912
Other increase	-	-	-	14	1	758	1,147	455	-	2,375
Decrease, including:(-)	***-***	***-***	***(13,572)***	***(9,336)***	***(6,045)***	***(248)***	***(871)***	***(13,949)***	***(44,122)***	***(88,143)***
Depreciation and amortisation	-	-	(13,572)	(9,314)	(5,572)	(248)	(850)	-	-	(29,556)
Liquidation	-	-	-	-	(3)	-	-	-	-	(3)
Commissioning	-	-	-	-	-	-	-	(8,967)	-	(8,967)
Recognition of impairment loss	-	-	-	-	(459)	-	-	(1,496)	(28,349)	(30,304)
Exchange differences on translation	-	-	-	(22)	-	-	-	-	-	(22)
Other decrease	-	-	-	-	(11)	-	(21)	(3,486)	(15,773)	(19,291)
Net carrying amount as at December 31st 2016* restated	**88,788**	**105,000**	**71,157**	**96,088**	**32,864**	**9,611**	**8,484**	**28,830**	**35,861**	**476,683**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Intangible assets

	Trade marks	Corporate logo	Customer portfolio	Patents and licences	Software	Development costs	Other intangible assets	Intangible assets under construction	Exploration for and evaluation of mineral resources	Total
As at December 1st 2017										
Gross carrying amount	**90,314**	**105,000**	**205,748**	**162,380**	**71,855**	**11,256**	**77,566**	**35,081**	**64,044**	**823,244**
Accumulated amortisation (-)	(1,526)	(21,000)	(155,526)	(61,818)	(33,495)	(2,852)	(69,446)	(446)	-	(346,109)
Impairment (-)	-	-	-	(6,700)	(2,041)	(3,638)	(701)	(4,256)	(64,044)	(81,380)
Net carrying amount as at December 1st 2017	**88,788**	**84,000**	**50,222**	**93,862**	**36,319**	**4,766**	**7,419**	**30,379**	**-**	**395,755**
As at December 1st 2016										
Gross carrying amount	88,788	105,000	204,748	154,818	62,565	12,469	79,460	30,400	64,210	802,458
Accumulated amortisation (-)	-	-	(133,591)	(52,030)	(28,348)	(2,703)	(70,275)	(4)	-	(286,951)
Impairment (-)	-	-	-	(6,700)	(1,353)	(155)	(701)	(1,566)	(28,349)	(38,824)
Net carrying amount as at December 31st 2016* restated	**88,788**	**105,000**	**71,157**	**96,088**	**32,864**	**9,611**	**8,484**	**28,830**	**35,861**	**476,683**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

Impairment losses and their use

	Patents and licences	Software	Development costs	Other intangible assets	Intangible assets under construction	Exploration for and evaluation of mineral resources	Total
Impairment losses as at January 1st 2017	**6,700**	**1,353**	**155**	**701**	**1,566**	**28,349**	**38,824**
Impairment loss recognised in the statement of profit or loss	-	688	3,483	-	2,690	37,791	**44,652**
Exchange differences on translation	-	-	-	-	-	(2,096)	**(2,096)**
Impairment losses as at December 31st 2017	**6,700**	**2,041**	**3,638**	**701**	**4,256**	**64,044**	**81,380**
As at January 1st 2016*	**6,700**	**894**	**155**	**701**	**70**	**10,357**	**18,877**
Impairment loss recognised in the statement of profit or loss	-	459	-	-	1,496	28,349	30,304
Use of impairment loss, recognised in the statement of profit or loss (-)	-	-	-	-	-	(10,357)	(10,357)
Impairment losses as at December 31st 2016* restated	**6,700**	**1,353**	**155**	**701**	**1,566**	**28,349**	**38,824**

* Financial data restated in accordance with the information presented in Section 2.4 of Supplementary information to the consolidated financial statements.

(all amounts in PLN thousand unless indicated otherwise)

Expenditure on significant intangible assets under construction
Most significant items of expenditure on intangible assets under construction include:
- OLEFLEX and SHP licence for PDH propylene production plant (wet method). Amount of expenditure incurred: PLN 11,315 thousand (December 31st 2016: PLN 11,315 thousand),
- Expenditure on Financial Dashboard (FDB), of PLN 1,143 thousand,
- CMMS rollout licence of PLN 984 thousand (December 31st 2016: PLN 984 thousand).

Note 12.1 Goodwill

	as at Dec 31 2017	as at Dec 31 2016
On acquisition of Grupa Azoty POLICE	29,815	29,815
On acquisition of control by Grupa Azoty Koltar	1,720	-
On acquisition of control of Unibaltic Agro	933	933
	32,468	**30,748**

Recoverable amount of CGUs comprising goodwill and intangible assets with indefinite useful lives

Grupa Azoty POLICE
For the purpose of impairment testing, goodwill and intangible assets with indefinite useful lives were allocated to the group of CGUs which comprises the Fertilizers CGU and Pigments CGU at Grupa Azoty POLICE. Corporate assets shared by the Support and Administration functions were allocated to the segments on an indirect basis. It was concluded that the most reasonable way of allocating the common assets to the Support functions was the cost basis, and to the Administration functions – the income basis.
The total carrying amount of intangible assets with indefinite useful lives and goodwill allocated to the group of CGUs in Grupa Azoty POLICE as at December 31st 2017 was PLN 85,503 thousand (December 31st 2016: PLN 85,503 thousand). The above amount is attributable to the Fertilizers CGU – PLN 58,507 thousand, and to the Pigments CGU – PLN 26,996 thousand.
The recoverable amount was determined based on their value in use. The recoverable amount was based on value in use, determined at the group of CGUs level, i.e. Fertilizers and Pigments to which goodwill and intangible assets with indefinite useful lives were allocated. Value in use in 2017 was determined in a similar manner as in 2016.
Future cash flows were estimated using a detailed financial forecast for 2018-2022. The forecast was limited to the estimate of gross profit, excluding other income and expenses, finance income and costs, and income tax. The forecast was prepared in real terms, i.e. excluding the effects of inflation. The exchange rates as of the reporting date were used in the forecast, i.e. for PLN 3.4813/USD and PLN 4.1709/EUR (2016: PLN 4.1793/USD and PLN 4.2615/EUR).
Residual value was determined by extrapolating the free cash flow forecast beyond the five-year period.
The real pre-tax weighted average cost of capital was 6.51% (2016: 7.81%).
The value in use of the CGUs as at the test date, i.e. December 31st 2017, was:

• Fertilizers CGU	PLN 1,170,985 thousand (December 31st 2016: PLN 1,064,097 thousand),
• Pigments CGU	PLN 243,139 thousand (December 31st 2016: PLN 238,418 thousand),
Total	PLN 1,414,124 thousand (December 31st 2016: PLN 1,302,514 thousand).

The estimated recoverable amount exceeds the assets' carrying amount.

Sensitivity analysis

The sensitivity analysis has shown that a 5% decrease in EBITDA would necessitate an impairment loss of PLN 79,033 thousand, including PLN 38,053 thousand attributable to the Fertilizers CGU and PLN 40,980 thousand attributable to the Pigments CGU. The sensitivity analysis has further shown that if the discount rate (WACC) increased by 0.5pp, the potential impairment loss would be PLN 20,892 thousand, fully attributable to the Pigments CGU (with no effect on the Fertilizers CGU). The reverse changes in the sensitivity parameters (a 5% increase in EBITDA, a 0.5pp decrease of WACC) would have no effect on the potential impairment loss at none of the CGUs. Additionally, an analysis was carried out with respect to the specified CGUs to determine what would be the required discount rate (WACC) at which the CGUs value in use would equal their carrying amount as at December 31st 2017.

(all amounts in PLN thousand unless indicated otherwise)

For the Fertilizers CGU, the WACC would have to increase from 6.51% to 7.29% to make the value in use of the segment's assets equal to their carrying amount as at December 31st 2017.

For the Pigments CGU, the WACC would have to increase from 6.51% to 6.53% to make the value in use of the segment's assets equal to their carrying amount as at December 31st 2017.

Grupa Azoty PUŁAWY

For the purpose of impairment testing, intangible assets with indefinite useful lives were allocated to the Agro Fertilizers CGU at Grupa Azoty PUŁAWY. The total carrying amount of intangible assets with indefinite useful lives as at December 31st 2017 was PLN 33,100 thousand (December 31st 2016: PLN 138,100 thousand). The above amount is assigned to the Agro Fertilizers CGU – PLN 32,600 thousand, and to the Chemicals CGU – PLN 500 thousand. The future cash flows were estimated based on a five-year financial forecast prepared for Grupa Azoty PUŁAWY.

The following significant assumptions were made:
- the business will continue for an indefinite period,
- the EBITDA margin for the Agro Fertilizers CGU was assumed at 13.2% in the first year of the forecast (2016: 8.4%) and within a range from 16.4% to 18.2% in the following years (2016: from 11.5% to 14.3%),
- the total volume of fertilizer sales will be comparable to the volumes sold in the past,
- the corporate assets of Grupa Azoty PUŁAWY were allocated to the CGUs on an indirect basis. The cost ratios were determined to by the most rational allocation ratios for corporate assets,
- the growth rate in the residual period will amount to 1.6% (2016: 1.6%).

For the testing purposes, a discount rate reflecting the weighted average cost of capital (WACC) of 7.69% (2016: 8.03%), calculated in nominal terms after tax, was assumed.

The value in use of the CGUs as at the test date, i.e. December 31st 2017, was:

• Agro Fertilizers CGU	PLN 2,798,000 thousand (December 31st 2016: PLN 1,340,951 thousand),
• Chemicals CGU	PLN 1,331,680 thousand (December 31st 2016: PLN 1,655,236 thousand),
Total	PLN 4,129,680 thousand (December 31st 2016: PLN 2,996,187 thousand).

Sensitivity analysis

The sensitivity analysis has shown that the adopted sensitivity parameters, i.e. a change in EBITDA of +/- 5% and in WACC of +/- 0.5pp, would have no effect on the impairment loss.
For the Agro Fertilizers CGU, the WACC would have to increase from 7.69% to 14.25% to make the value in use of the segment's assets equal to their carrying amount as at December 31st 2017.
For the Chemicals CGU, the WACC would have to increase from 7.69% to 8.39% to make the value in use of the segment's assets equal to their carrying amount as at December 31st 2017.

The assumptions underlying the impairment tests described above were made on the basis of the Management Board's historical experience and its knowledge of the industries in which the Group operates.

Grupa Azoty Koltar Sp. z o.o.

In connection with the opening of a plant in Police and purchase of an organised part of business from CTL Logistics Sp. z o.o., Grupa Azoty Koltar Sp. z o.o. recognised goodwill of PLN 1,720 thousand.

(all amounts in PLN thousand unless indicated otherwise)

Note 13 Investment property

	as at Dec 31 2017	as at Dec 31 2016 * restated
Carrying amount at the beginning of the period	**66,054**	**58,496**
Increase, including:	***3,430***	***12,122***
Purchase, production, subsequent expenditure	898	7,865
Reclassification from another asset category	2,450	3,777
Other increase	82	480
Decrease, including:(-)	***(19,835)***	***(4,564)***
Depreciation (-)	(3,049)	(2,636)
Sale, liquidation	(725)	-
Reclassification to another asset category	(15,863)	(517)
Recognition of impairment loss	(19)	-
Other decrease	(179)	(1,411)
Carrying amount at the end of the period	**49,649**	**66,054**

In 2017, revenue from lease of investment property amounted to PLN 14,976 thousand (2016: PLN 12,456 thousand).
As at December 31st 2017, investment property had a gross carrying amount of PLN 95,033 thousand (December 31st 2016: PLN 140,462 thousand).

Note 14 Financial assets

Note 14.1 Shares

	as at Dec 31 2017	as at Dec 31 2016 * restated
Shares in associates and jointly-controlled entities, including:	111,059	110,411
Bałtycka Baza Masowa Sp. z o.o. (jointly-controlled entity)	15,273	16,285
CTL KOLZAP Sp. z o.o. (jointly-controlled entity)	12,730	13,296
KEMIPOL Sp. z o.o. (associate)	75,355	73,194
CTL CHEMKOL Sp. z o.o. (associate)	7,701	7,636
Shares in other unconsolidated investees	14,690	13,346
	125,749	**123,757**
including		
Long-term	125,749	123,757
	125,749	**123,757**

(all amounts in PLN thousand unless indicated otherwise)

Investments in associates and jointly-controlled entities

The Group holds shares in the following individually material associates, accounted for using the equity method:

Subsidiary	*Registered office*	*Business*	*Group's holding in the associate's share capital*		*Nature of links between the Group entities and the associate*
			December 31st 2017	*December 31st 2016*	
Kemipol Sp. z o.o.	Police	Services related to installation and maintenance of machinery on water and sewage facilities, and disposal of waste	33.99%	33.99%	An associate of Grupa Azoty Zakłady Chemiczne Police S.A.

In the period under review, there were no changes in the shares held in the associate.

The table below presents summary information regarding the investment in Kemipol Sp z o.o.

	as at Dec 31 2017	**as at Dec 31 2016**
Value of the investment in the associate, determined using the equity method	75,355	73,194
Current (short-term) assets	58,150	52,190
Non-current (long-term) assets	40,408	40,829
Current liabilities	18,070	18,791
Non-current liabilities	1,396	1,496

	for the period from Jan 1 to Jun 30 2017	**for the period from Jan 1 to Dec 31 2016**
Income	165,453	148,039
Profit/loss from continuing operations	38,549	34,899
Profit/loss from discontinued operations	-	-
Profit/loss for financial year	38,549	34,899
Other comprehensive income for the year	-	-
Total comprehensive income for the year	38,549	34,899
Dividends received from the associate, attributable to shareholders of the Parent	10,942	10,808

Reconciliation of the above financial information with the carrying amounts of the shares in Kemipol Sp. z o.o. disclosed in the Group's consolidated financial statements:

	as at Dec 31 2017	**as at Dec 31 2016**
The Group's percentage holding in the company's share capital	33.99	33.99
Net assets attributable to Grupa Azoty	26,883	24,722
Fair value adjustment as at the date of obtaining control	48,472	48,472
Equity-accounted investees	75,355	73,194

As at December 31st 2017, the total amount of investments in individually non-material associates and jointly-controlled entities, determined using the equity method, was PLN 35,704 thousand (December 31st 2016: PLN 37,217 thousand).

(all amounts in PLN thousand unless indicated otherwise)

The table below presents summary information regarding the investment in Bałtycka Baza Masowa Sp z o.o.

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Net profit from continuing operations	567	1,316
Other comprehensive income for the year	567	1,316
Total comprehensive income for the year	567	1,316

The table below presents summary information regarding the investment in CTL KOLZAP Sp. z o.o.

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Net profit from continuing operations	2,521	3,931
Other comprehensive income for the year	2,521	3,931
Total comprehensive income for the year	2,521	3,931

The table below presents summary information regarding the investment in CTL CHEMKOL Sp z o.o.

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Profit from continuing operations	933	966
Other comprehensive income for the year	933	966
Total comprehensive income for the year	933	966

Note 14.2 Impairment of investments

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
At the beginning of the period	**1,534**	**1,467**
Recognition of impairment losses, including:	***734***	***67***
Recognition of impairment losses in other entities	734	67
At the end of the period	**2,268**	**1,534**

Note 14.3 Other financial assets

	as at Dec 31 2017	as at Dec 31 2016 * restated
Bank deposits maturing in more than 3 months	253,498	579,066
Non-bank borrowings	339	1,786
Other	2,073	1,950
	255,910	**582,802**
including		
Long-term	2,226	1,953
Short-term	253,684	580,849
	255,910	**582,802**

(all amounts in PLN thousand unless indicated otherwise)

Note 15 Inventories

	as at Dec 31 2017	as at Dec 31 2016
Finished products	302,166	205,433
Semi-finished products, work in progress	142,308	139,164
Materials	547,188	500,569
Merchandise	11,552	12,877
Total inventories, including:	**1,003,214**	**858,043**
carrying amount of inventories at realisable value less cost to sell	*37,090*	*22,783*

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Write-downs of inventories recognised as expense in the period	23,024	28,309
Write-downs used/reversed in the period	(21,580)	(35,713)
	1,444	**(7,404)**

Amount of inventories recognised as expense in the period

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Raw materials and consumables used	5,486,585	4,980,159
Change in inventories of finished goods (+/-)	(77,298)	18,828
	5,409,287	**4,998,987**

	as at Dec 31 2017	as at Dec 31 2016
Inventory write-downs	44,472	43,028

Inventory write-downs recognised in 2017 relate to finished goods, semi-finished products and materials for which cost exceeds net realisable value, or which have been held on stock for more than one year. Changes in write-downs resulted from sale, use or liquidation of particular items and are included in the statement of profit or loss as cost of sales.

Note 16 Property rights

	as at Dec 31 2017	as at Dec 31 2016
Emission allowances	178,657	200,935
Energy certificates	6,930	13,420
Other	3,300	320
Total property rights, including:	**188,887**	**214,675**
carrying amount of property rights at fair value less cost to sell	*3,205*	*758*

(all amounts in PLN thousand unless indicated otherwise)

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016
Impairment losses on property rights recognised as expense in the period	(149)	(11,867)
Impairment losses on property rights used/reversed in the period	595	11,272
Inventory write-downs	**446**	**(595)**

No security was created over the property rights to secure payment of any liabilities by the Group.

Note 16.1 CO_2 emission allowances

CO_2 emission allowances held (number of units)

	as at Dec 31 2017	as at Dec 31 2016
Balance at the beginning of the period (units held)	8,993,047	**7,752,159**
Redeemed	(7,547,399)	(7,895,411)
Allocated	5,153,114	5,544,478
Purchased	1,389,711	3,591,821
Balance at the end of the period (units held)	**7,988,473**	**8,993,047**
Emissions in the reporting period	7,627,155	7,550,474

Following completion of investment projects in 2016–2017, the Parent will receive 75,068 additional CO_2 emission allowances in 2018. As at December 31st 2017, the emission allowances had not yet been registered in the Parent's account. In 2017, following completion of investment projects in 2015-2016, the Parent received 348,460 additional CO_2 emission allowances.

In the reported financial year, Grupa Azoty PUŁAWY received, free of charge, certificates of origin for electricity under the Energy Efficiency Act, in connection with its implementation of energy efficiency improvement projects. The company was allocated certificates of origin for a total amount of 7,197,107 toe (tonnes of oil equivalent), with a value of more than PLN 3,407 thousand. In 2017, certificates received in 2016 for an amount of 267,193 toe were redeemed to discharge the obligations for 2016.

Grupa Azoty POLICE used the entire limit of the free-of-charge emission allowances (1,027,533 CO_2 emission rights) allocated to it for 2017. The difference between the number of allowances allocated for 2017 and their actual utilisation in 2017 (to cover emissions in the reporting period) was 700,972 CO_2 emission rights and ERUs – to cover this difference the company purchased 260,000 CO_2 emission rights and will use 139,950 CO_2 emission rights it has retained after having made the settlement for 2016 (purchased in 2016 to be utilised in 2017). As at December 31st 2017, the shortage was 301,022 CO_2 emission rights and ERUs.

In 2017, Grupa Azoty KĘDZIERZYN received 887,041 CO_2 emission allowances worth PLN 20,302 thousand and 35,603 allowances allocated to it in connection with eligible costs of PLN 719 thousand incurred to modernise the CHP plant. In 2017, the company purchased 178,296 allowances worth PLN 2,870 thousand.
At the end of 2017, the value of free-of-charge energy efficiency certificates received by the company was PLN 2,728 thousand. The value of certificates of origin of energy at the end of 2017 amounted to PLN 1,674 thousand.

(all amounts in PLN thousand unless indicated otherwise)

Note 17 Trade and other receivables

	as at Dec 31 2017	as at Dec 31 2016 * restated
Trade receivables - related parties	2,371	1
Trade receivables - other entities	806,030	762,654
Receivables from state budget, except for income tax	238,309	194,668
Receivables under construction contracts – other entities	579	1,797
Prepayments for deliveries of property, plant and equipment – other entities	127,305	51,186
Prepayments for deliveries of materials, goods and services – related parties	1,334	
Prepayments for deliveries of materials, goods and services – other entities	12,219	17,616
Prepaid expenses - other entities	20,208	29,266
Other receivables - related parties	-	935
Other receivables - other entities	17,919	21,449
	1,226,274	**1,079,572**
including		
Long-term	137,850	57,445
Short-term	1,088,424	1,022,127
	1,226,274	**1,079,572**

Impairment losses on receivables

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016* restated
At the beginning of the period	**80,505**	**63,479**
Recognised – charged to the statement of profit or loss	24,275	32,544
Reversed – charged to the statement of profit or loss	(5,790)	(6,962)
Used	(945)	(8,556)
At the end of the period	**98,045**	**80,505**
including		
Long-term	460	513
Short-term	97,585	79,992
	98,045	**80,505**

Impairment losses on receivables were recognised as it became probable they would not be collectible. Changes to impairment losses on trade receivables (recognition, reversals) are recognised as selling expenses and other costs by kind. Changes to impairment losses on other receivables and receivables under leases are recognised in the statement of profit or loss as other income or expenses (principal) and finance income or costs (interest).

Among impairment losses on receivables, a significant item was the PLN 12,380 thousand impairment loss on the receivables of Agrochem Dobre Miasto, recognised in connection with the long delinquency of the accounts and the risk that the receivables might not be collected.

Unimpaired trade receivables ageing analysis

(all amounts in PLN thousand unless indicated otherwise)

	as at Dec 31 2017	as at Dec 31 2016 * restated
Not past due	755,044	715,583
Past due up to 60 days	40,087	36,505
Past due 60–180 days	9,964	7,424
Past due 181-360 days	258	1,432
Past due more than 361 days	3,048	1,711
	808,401	**762,655**

Impaired trade and other receivables ageing analysis

	as at Dec 31 2017	as at Dec 31 2016 * restated
Not past due	1,550	1,502
Past due up to 60 days	590	676
Past due 60–180 days	4,646	3,051
Past due 181-360 days	6,862	4,159
Past due more than 361 days	84,397	71,117
	98,045	**80,505**

Receivables by currency

	as at Dec 31 2017	as at Dec 31 2016 * restated
PLN	750,315	635,988
EUR translated into PLN	358,679	320,145
USD translated into PLN	100,777	114,595
XOF translated into PLN	6,845	8,793
Other	9,658	51
	1,226,274	**1,079,572**
including		
Long-term	137,850	57,445
Short-term	1,088,424	1,022,127
	1,226,274	**1,079,572**

Neither trade and other receivables nor tax receivables bear any interest.
Trade receivables of PLN 11,419 thousand (December 31st 2016: PLN 6,712 thousand) have been assigned by way of security under the Group's financing agreements.

(all amounts in PLN thousand unless indicated otherwise)

Note 17.1 Prepayments

	as at Dec 31 2017	as at Dec 31 2016
Insurance premiums	6,607	17,585
Subscriptions	474	808
Charges – Perpetual usufruct of land	377	429
Advertising	459	1,720
Other	12,291	8,724
	20,208	**29,266**
including		
Long-term	9,601	4,216
Short-term	10,607	25,050
	20,208	**29,266**

In ‘Other’, as at December 31st 2017 the Group presented prepaid expenses of PDH Polska S.A. in the amount of PLN 8,603 thousand, representing expenses incurred by the subsidiary to raise financing to be amortised over the duration of financing advanced for the propylene and polypropylene unit construction project (the Police Polymers project).

Note 18Cashand cash equivalents

	as at Dec 31 2017	as at Dec 31 2016
Cash in hand	547	774
Bank balances in PLN	187,720	174,054
Bank balances in foreign currencies (translated to PLN)	301,339	285,440
Bank deposits – up to 3 months	588,223	179,001
Other bank deposits	7,849	2,588
Other	207	38
	1,085,885	**641,895**
Cash and cash equivalents in the statement of financial position	**1,085,885**	**641,895**
Cash and cash equivalents in the statement of cash flows	**1,085,885**	**641,895**
Restricted cash	**1,115**	**4,024**

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

(all amounts in PLN thousand unless indicated otherwise)

Note 19 Other assets

	as at Dec 31 2017	as at Dec 31 2016
Drilling and production costs	10,882	8,092
Other	337	199
	11,219	**8,291**
including		
Long-term	337	199
Short-term	10,882	8,092
	11,219	**8,291**

Note 20 Equity

Note 20.1 Share capital

Share capital

	as at Dec 31 2017	as at Dec 31 2016
Par value of Series AA shares	120,000	120,000
Par value of Series B share issue	75,582	75,582
Par value of Series C share issue	124,995	124,995
Par value of Series D share issue	175,400	175,400
	495,977	**495,977**

Number of shares

	as at Dec 31 2017	as at Dec 31 2016
Number of shares at the beginning of the period	**99,195,484**	**99,195,484**
Number of shares at the end of the period	**99,195,484**	**99,195,484**
Par value per share (PLN/share)	5	5

All the issued shares have been fully paid for.

Holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at the General Meeting. The shares carry no preference in terms of rights to the Parent's assets in the event of asset distribution.

Limitation of voting rights
As long as the State Treasury of Poland or its subsidiaries hold shares in the Parent carrying at least one-fifth of the total voting rights, the other shareholders' voting rights will be limited in such a manner that no shareholder may exercise at the General Meeting more than one-fifth of total voting rights existing on the day of the General Meeting.

Note 20.2 Share premium

	as at Dec 31 2017	as at Dec 31 2016
Issue of shares	2,445,409	2,445,409
Share issue costs (-)	(30,713)	(30,713)
Income tax (+/-)	3,574	3,574
	2,418,270	**2,418,270**

Note 20.3 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments, i.e. a bank loan denominated in EUR, used as a cash flow hedge, pending subsequent recognition in the statement of profit or loss as the hedged cash flows occur.

(all amounts in PLN thousand unless indicated otherwise)

Note 20.4 Non-controlling interests

December 31st 2017	Grupa Azoty POLICE	Grupa Azoty PUŁAWY	Grupa Azoty ZAK	PDH Polska S.A.	ZARZĄD MORSKIEGO PORTU POLICE	African Investment Group
Equity attributable to non-controlling interests (%)	34.00%	4.02%	6.52%	29.00%	34.06%	63.77%
Non-current assets	1,651,035	2,916,575	1,468,112	115,448	11,146	844
Current assets	552,812	1,584,568	462,873	58,117	33,374	7,574
Non-current liabilities	(391,743)	(247,090)	(358,568)	(327)	-	(82,370)
Current liabilities	(642,510)	(703,523)	(315,367)	(5,014)	(337)	(59,893)
Net assets	1,169,594	3,550,530	1,257,050	168,224	44,183	(133,845)
Non-controlling interests	**397,662**	**142,731**	**81,960**	**48,785**	**15,049**	**(85,353)**
Revenue	2,585,370	3,060,088	1,827,424	50	4,606	8
Net profit/(loss)	141,140	220,560	78,057	(7,231)	1,567	(44,250)
Other comprehensive income	299	(3,767)	(570)	7	-	4,562
Total profit or loss and other comprehensive income	**141,439**	**216,793**	**77,487**	**(7,224)**	**1,567**	**(39,688)**
Net profit/(loss) attributable to non-controlling interests	**47,988**	**8,867**	**5,089**	**(2,097)**	**534**	**(28,218)**
Other comprehensive income attributable to non-controlling interests	**102**	**(151)**	**(37)**	**2**	**-**	**2,909**
Cash flows from operating activities	283,667	455,901	125,900	(1,217)	1,930	(5,362)
Cash flows from investing activities	(231,634)	(3,584)	(160,354)	(26,035)	(273)	(3,315)
Cash flows from financing activities	(21,784)	(165,536)	(15,076)	52,000	(974)	7,971
Total net cash flows	**30,249**	**286,781**	**(49,530)**	**24,748**	**683**	**(706)**
Dividend payable to non-controlling interests	10,710	6,593	3,346	-	-	-

(all amounts in PLN thousand unless indicated otherwise)

December 31st 2016	Grupa Azoty POLICE	Grupa Azoty PUŁAWY	Grupa Azoty ZAK	PDH Polska S.A.	ZARZĄD MORSKIEGO PORTU POLICE	African Investment Group
Equity attributable to non-controlling interests (%)	34.00%	4.02%	6.52%	29.00%	34.01%	63.77%
Non-current assets	1,539,009	2,814,672	1,434,704	82,792	11,211	43,904
Current assets	483,581	1,444,807	476,068	49,876	32,644	9,599
Non-current liabilities	(397,834)	(214,707)	(326,070)	(497)	-	(77,379)
Current liabilities	(565,101)	(547,028)	(353,828)	(8,976)	(289)	(65,250)
Net assets	**1,059,655**	**3,497,744**	**1,230,874**	**123,195**	**43,566**	**(89,126)**
Non-controlling interests	**360,283**	**140,609**	**80,253**	**35,727**	**14,817**	**(56,836)**
Revenue	2,385,094	2,857,820	1,696,395	8	4,596	44,854
Net profit	71,343	223,807	100,195	(4,743)	1,391	(40,574)
Other comprehensive income	(1,729)	(3,824)	(422)	-	-	2,188
Total profit or loss and other comprehensive income	**69,614**	**219,983**	**99,773**	**(4,743)**	**1,391**	**(38,386)**
Net profit attributable to non-controlling interests	**24,257**	**8,997**	**6,533**	**(1,375)**	**473**	**(25,874)**
Other comprehensive income attributable to non-controlling interests	**(588)**	**(154)**	**(28)**	**-**	**-**	**1,395**
Cash flows from operating activities	267,453	548,892	219,215	(13,417)	2,565	(1,910)
Cash flows from investing activities	(314,416)	(385,065)	(230,282)	(81,690)	(923)	(22,869)
Cash flows from financing activities	29,421	(199,382)	5,820	108,000	-	18,516
Total net cash flows	**(17,542)**	**(35,555)**	**(5,247)**	**12,893**	**1,642**	**(6,263)**
Dividend payable to non-controlling interests	**-**	**8,068**	**4,052**	**-**	**-**	**-**

(all amounts in PLN thousand unless indicated otherwise)

The non-controlling interests in other subsidiaries are not individually material.

	as at Dec 31 2017	as at Dec 31 2016
At the beginning of the period	**576,774**	**625,722**
Dividend paid by subsidiaries	(21,949)	(13,198)
Changes in the subsidiaries' shareholding structure	(3,467)	(46,930)
Share in profit/loss of subsidiaries	35,810	11,180
Other	480	-
At the end of the period	**587,648**	**576,774**

As at December 31st 2017 and December 31st 2016, the proportion of non-controlling shareholders' voting rights at the Group's subsidiaries was equal to the non-controlling shareholders' interest in their respective share capitals,

Note 20.5 Acquisition of non-controlling interests

Since November 2015, in accordance with the provisions of the agreement for the sale of shares in Grupa Azoty SIARKOPOL of September 25th 2013 and the terms of the Social Package, the Parent has been buying back the shares held by employees of Grupa Azoty SIARKOPOL and their heirs. The buyout programme covers up to 825,000 shares.
In 2017, the Parent acquired 50,157 shares in Grupa Azoty SIARKOPOL, representing 0.91% of that company's share capital, for PLN 3,377 thousand. Following the transaction, the Parent holds 99.33% of Grupa Azoty SIARKOPOL's share capital.
As the Group's equity interest in Grupa Azoty SIARKOPOL exceeded 95%, the Group transferred the non-controlling interest concerning this entity of PLN 7,259 thousand from equity to other liabilities, because in accordance with Art. 418[1] of the Commercial Companies Code minority shareholders representing no more than 5% of the share capital are entitled to demand a compulsory buyout of their shares by the Parent.

Note 20.6 Dividends

On June 30th 2017, the Parent's Annual General Meeting passed a resolution on distribution of the 2016 profit and payment of dividend. The amount of profit allocated for distribution was PLN 78,364 thousand (i.e. PLN 0.79 per share).
The dividend record date and the dividend payment date were set for August 4th 2017 and August 23rd 2017, respectively.
In 2016, a dividend of PLN 83,324 thousand, i.e. PLN 0.84 per share, was paid from the 2015 profit.

Note 21Borrowings

	as at Dec 31 2017	as at Dec 31 2016
Bank borrowings	1,476,873	1,269,300
Non-bank borrowings	158,215	154,781
	1,635,088	**1,424,081**
including		
Long-term	1,564,879	1,372,047
Short-term	70,209	52,034
	1,635,088	**1,424,081**

(all amounts in PLN thousand unless indicated otherwise)

Grupa Azoty Group's credit facility and loan agreements as at December 31st 2017

Credit facility/loan	Currency	Reference rate	Amount as at the reporting date in foreign currency	Amount as at the reporting date in PLN	Up to 1 year	1–2 years	2–5 years	Over 5 years
Syndicated revolving credit facility	PLN	1M WIBOR + margin	710,003	710,003	(863)	(1,044)	711,910	-
Syndicated revolving credit facility	EUR	1M EURIBOR + margin	1,104	4,591	(7)	(6)	4,604	-
Term loan facility from EIB	EUR	fixed	127,134	529,809	37,769	75,656	227,052	189,332
Term loan facility from EBRD	PLN	6M WIBOR + margin	149,826	149,826	96	23,003	69,071	57,656
Overdraft credit facility	XOF	variable	158	1	1	-	-	-
Short-term credit facility	PLN	variable	6,108	6,108	6,108	-	-	-
Long-term credit facility from BNP	EUR	variable	19,670	81,932	-	81,932	-	-
Term credit facility from PKO BP	EUR	fixed	3,345	13,952	734	4,405	6,611	2,202
Loan from the Provincial Fund for Environmental Protection and Water Management	PLN	variable	55,270	55,270	10,270	11,250	33,750	-
Loan from the National Fund for Environmental Protection and Water Management	PLN	variable	80,066	80,066	12,571	12,860	38,580	16,055
Term credit facility from BGK	PLN	variable	3,530	3,530	3,530	-	-	-
				1,635,088	**70,209**	**208,056**	**1,091,578**	**265,245**

(all amounts in PLN thousand unless indicated otherwise)

Grupa Azoty's credit facility and loan agreements as at December 31st 2016

Credit facility/loan	Currency	Reference rate	Amount as at the reporting date in foreign currency	Amount as at the reporting date in PLN	Up to 1 year	1−2 years	2−5 years	Over 5 years
Syndicated revolving credit facility	PLN	1M WIBOR + margin	708,961	708,961	(863)	(1,043)	710,867	-
Syndicated revolving credit facility	EUR	1M EURIBOR + margin	1,104	4,862	(6)	(7)	4,875	-
Term loan facility from EIB	EUR	fixed	100,000	441,855	(90)	31,493	189,346	221,106
Term loan facility from EBRD	PLN	6M WIBOR + margin	9,593	9,593	(59)	(78)	4,417	5,313
Overdraft credit facility	PLN	1M WIBOR + margin	10 1	10,136	10,136	-	-	-
Short-term credit facility	PLN	variable	17,022	17,022	17,022	-	-	-
Long-term credit facility from BNP	EUR	variable	17,374	76,868	-	-	76,868	-
Loan from the Provincial Fund for Environmental Protection and Water Management	PLN	fixed	459	459	459	-	-	-
Loan from the Provincial Fund for Environmental Protection and Water Management	PLN	variable	67,721	67,721	11,471	11,250	33,750	11,250
Loan from the National Fund for Environmental Protection and Water Management	PLN	fixed	1,104	1,104	1,104	-	-	-
Loan from the National Fund for Environmental Protection and Water Management	PLN	variable	85,500	85,500	12,860	12,860	38,580	21,200
				1,424,081	**52,034**	**54,475**	**1,058,703**	**258,869**

(all amounts in PLN thousand unless indicated otherwise)

As at December 31st 2017

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

As at December 31st 2016

Currency	Reference rate	Amount as at the reporting date		Up to 1 year	1–2 years	3–5 years	Over 5 years
		in foreign currency	in PLN				
PLN	variable / fixed	899,911	899,911	52,016	22,875	787,351	37,669
EUR	variable / fixed	118,478	524,170	18	31,600	271,352	221,200
			1,424,081	**52,034**	**54,475**	**1,058,703**	**258,869**

The Group's financing is based on variable and fixed interest rates. Depending on the currency, the variable rates are based on WIBOR or EURIBOR.
Grupa Azoty has unused available limits resulting from the overdraft agreement linked to the real cash pooling facility and from the multi-purpose credit facility which are used by the Parent Company to manage the changing financing requirements of the respective Group entities. Complementarily, the Group has unused available limits resulting from bilateral and multi-purpose overdrafts held by the Group's entities.

The amount of limits under overdraft and multi-purpose credit facilities available to the Group as at December 31st 2017 was PLN 405m. In addition, as at the reporting date, the Group had access to corporate credit facilities of approximately PLN 783m.
In total, as at December 31st 2017 the Group had access to credit limits under the agreements specified above of approximately PLN 1,188m (December 31st 2016: PLN 1,511m).

However, taking into account the new EUR 145m long-term loan facility from the European Investment Bank, contracted on January 25th 2018, the amount of credit limits available to the Group under its financing agreements increased after the reporting date to the equivalent of ca. PLN 1,793m.

Discount

	as at Dec 31 2017	as at Dec 31 2016
Bank borrowings	(3,426)	4,496

Security for borrowings
The corporate financing package is secured in the form of harmonised sureties and guarantees granted by the selected subsidiaries, i.e. Grupa Azoty Putawy S.A., Grupa Azoty Police S.A. and Grupa Azoty ZAK S.A. Each of the above-mentioned subsidiaries provided sureties/guarantees up to 1 /3 of 120% of the value of the loan agreements, including:
- the PLN 1,500m revolving credit facility (total sureties of up to PLN 1,800m),
- the PLN 310m overdraft credit facility from PKO BP (total sureties of up to PLN 372m),
- the PLN 240m multi-purpose credit facility from PKO BP (total sureties of up to PLN 288m),

(all amounts in PLN thousand unless indicated otherwise)

- the PLN 550m loan facility from the European Investment Bank (total guarantees of up to PLN 660m),
- the PLN 150m loan facility from the European Bank for Reconstruction and Development (total guarantees of up to PLN 180m).

and after the reporting date, i.e. from January 25th 2018,

- the EUR 145m loan facility from the European Investment Bank (total guarantees of up to EUR 174m).

Additionally, as presented in Note 10, certain Group's subsidiaries have mortgages and registered pledges securing their bank credits and loans contracts. Such mortgages and pledges do not violate the covenants included in the above mentioned corporate

Note 22 Other financial liabilities

	as at Dec 31 2017	as at Dec 31 2016 * restated
Finance lease liabilities	22,443	27,314
Liabilities under receivables discounting	20,387	57,531
Other financial liabilities	28,246	34,005
	71,076	**118,850**
including		
Long-term	39,592	43,172
Short-term	31,484	75,678
	71,076	**118,850**

None of the finance lease contracts is individually of significant value. In the periods covered by these financial statements, the Group incurred no expenses under contingent lease payments.
The lease contracts do not contain any non-standard provisions concerning restrictions on dividend distribution or assumption of other obligations (including other lease contracts). The fair value of lease liabilities approximates their carrying amount.
The majority of lease contracts are entered into to finance the purchase of vehicles (passenger cars, lorries, rolling stock, forklifts, heavy machinery). After the expiry of the lease term, the lessee has the right to purchase the leased assets. Most of the lease contracts are contracts with a floating reference rate.

Payment schedule for finance lease liabilities

	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	Dec 31 2017			*Dec 31 2016*		
Up to 1 year	9,379	1,782	7,597	12,591	1,479	11,112
From 1 to 3 years	11,955	158	11,797	13,628	1,527	12,101
From 3 to 5 years	2,526	1,087	1,439	2,863	361	2,502
Over 5 years	3,398	1,788	1,610	3,344	1,745	1,599
	27,258	**4,815**	**22,443**	**32,426**	**5,112**	**27,314**

(all amounts in PLN thousand unless indicated otherwise)

Note 23Operating leases

Operating lease agreements with the Group as lessor

	as at Dec 31 2017	as at Dec 31 2016
Payment due within 1 year	15,618	10,515
Payment due in 1 to 5 years	38,180	24,034
Payment due in more than 5 years	11,511	9,760
	65,309	**44,309**

The main item of operating leases with the Group as the lessor is the lease of land, buildings, and easement of way. The contracts were concluded in 1997–2016, most of them for an indefinite term. The price is to be adjusted by the inflation rate or the consumer price index announced by the Central Statistics Office of Poland (GUS). There are restrictions on residing in leased properties, and the properties may not be sub-leased to third parties.

Operating lease agreements with the Group as lessee

	as at Dec 31 2017	as at Dec 31 2016
Payment due within 1 year	68,875	73,536
Payment due in 1 to 5 years	161,072	166,853
Payment due in more than 5 years	355,481	373,733
	585,428	**614,122**

A material agreement to which the Group is a party is the contract on oxygen and nitrogen supplies from an externally constructed and operated air separation unit. The contract expires in 2035.
The other agreements to which the Group is a party are mainly lease and rental contracts (e.g. for rail cars and rolling stock).
The presented amounts are shown exclusive of charges for perpetual usufruct of land received free of charge, which individually are not significant.

Payments recognised in expenses

	for the period from Jan 1 to Jun 30 2017	for the period Jan 1 – Dec 31 2016
Payments recognised in expenses	82,896	90,899

Note 24Employee benefit obligations

	as at Dec 31 2017	as at Dec 31 2016
Pension benefit obligations	136,968	129,650
Jubilee benefit obligations	200,861	194,409
Pensioner Social Fund benefit obligations	18,399	15,980
Other obligations	22,869	21,087
	379,097	**361,126**
including		
Long-term	336,781	321,209
Short-term	42,316	39,917
	379,097	**361,126**

(all amounts in PLN thousand unless indicated otherwise)

Changes in defined benefit obligation

	for the period from Jan 1 to Jun 30 2017	for the period Jan 1 – Dec 31 2016
At the beginning of the period	**166,717**	**150,824**
Current service cost (+)	10,019	8,862
Interest expense (+)	5,375	4,308
Remeasurement of net defined benefit obligation/asset, resulting from:	7,991	10,333
- changes in demographic estimates (+/-)	10,199	9,715
- changes in financial assumptions (+/-)	(2,208)	618
Past service cost (+/-)	585	2,905
Exchange differences on translation (+/-)	(94)	36
Benefits paid (-)	(12,357)	(10,551)
	178,236	**166,717**

Changes in other long-term employee benefit obligations

	for the period from Jan 1 to Jun 30 2017	for the period Jan 1 – Dec 31 2016
At the beginning of the period	**194,409**	**209,311**
Current service cost (+)	10,332	10,934
Interest expense (+)	6,457	5,939
Actuarial gains and losses recognised in profit or loss for the period (+/-)	11,487	15,955
Past service cost (+/-)	478	(26,527)
Benefits paid (-)	(22,302)	(21,203)
At the end of the period	**200,861**	**194,409**

Actuarial assumptions

	as at Dec 31 2017	as at Dec 31 2016
Discount rate	3.4%	3.6%
Future minimum pay growth	3.0%	4.0%
Future average pay growth	3.0%	3.5%

Sensitivity analysis
Presented below is a sensitivity analysis of employee benefit obligations (relative to standard assumptions) for changes in: employee attrition rates, discount rate and pay growth rate.

(all amounts in PLN thousand unless indicated otherwise)

As at December 31st 2017

	Provision for jubilee benefits	Provision for retirement severance payments	Provision for disability severance payments	Provision for death benefits	Provision for contribution to the Company Social Benefits Fund
Employee attrition rates x 90%	7,502	3,485	190	836	760
Discount rate x 90%	9,480	5,063	258	986	1,450
Minimum pay growth rate x 110%	4,193	1,859	107	406	407
Pay growth rate x 110%	7,170	3,713	199	681	1,324

As at December 31st 2016

	Provision for jubilee benefits	Provision for retirement severance payments	Provision for disability severance payments	Provision for death benefits	Provision for contribution to the Company Social Benefits Fund
Employee attrition rates x 90%	7,828	3,518	182	899	312
Discount rate x 90%	9,773	5,182	251	1,057	992
Minimum pay growth rate x 110%	2,058	1,208	41	250	28
Pay growth rate x 110%	7,248	3,826	196	772	891

Note 25 Provisions

	as at Dec 31 2017	as at Dec 31 2016 * restated
Provision for litigation	5,164	2,849
Provision for environmental protection, including site restoration	114,353	98,155
Provision for demolition of mercury electrolysis facilities	8,713	8,161
Other provisions	24,315	36,268
	152,545	**145,433**
including		
Long-term	122,740	106,092
Short-term	29,805	39,341
	152,545	**145,433**

Parent

Provision for environmental protection

Due to identified contamination of the Parent's land and two buildings of the electrolysis plant with chemicals (mainly mercury), the Company recognised a provision for site remediation and costs of lowering mercury content in the walls of the buildings.

When estimating the provision, it was assumed that the remediation work would be performed until 2031. The provision was estimated at the amount of direct costs required to remove the contaminated land, transfer it to the landfill and pay the storage costs. The estimates were made taking into consideration the area of the contaminated land, depth of penetration and expected level of contamination. The provision for decontaminating the buildings was estimated at the amount of costs necessary to remove mercury from the walls to such extent that its content does not exceed the permitted limits, so that the rubble from later demolition of the buildings would be accepted for storage as inactive, non-hazardous waste.

As at December 31st 2017, the present value of the provision was PLN 18,002 thousand (December 31st 2016: PLN 16,946 thousand). Present value of long-term provisions was calculated using a real, risk free discount rate of 1.8% (2016: 2.2%).

In 2017, the Parent incurred no site remediation-related expenses (2016: PLN 203 thousand).

Provision for decommissioning of Mercury Electrolysis Plant

In connection with a decision to decommission the Mercury Electrolysis Plant, a provision was recognised for decommissioning of the site.

When preparing the estimate of the provision it was assumed that the site restoration works would be completed by 2031.

The provision was estimated at the amount of costs required to demolish the buildings and structures, and to landfill the waste.

In 2017, spending related to the decommissioning work amounted to PLN 79 thousand (in 2016: PLN 557 thousand).

Litigation

The Company had concluded a general contractor agreement with Cenzin Sp. z o.o. Cenzin Sp. z o.o. filed a claim against the Company for payment of PLN 8,679 thousand, requesting the Court to determine the existence of an agreement specifying a higher amount payable to the contractor than the lump sum set out in the general contractor agreement and extending the completion deadline due to an increased work scope. No hearing had taken place by the date of issue of these financial statements. A mediation meeting was held on April 12th 2018. The Company currently estimates the risk of losing the dispute with Cenzin Sp. o.o. below 50%. However, this estimate may change depending on further developments in the case.

Grupa Azoty PUŁAWY

Provisions for waste disposal and other costs related to environmental protection

The provisions comprise:

- provision for liabilities related to landfill site restoration and monitoring,
- provision for liabilities related to withdrawal of asbestos-containing products,
- provision for liabilities related to emptying of production units and management of removed waste.

The provisions are estimated up to the amount of possible future liabilities. Given their longer time horizon, in the statement of financial position they are shown at amounts discounted to the present values. The nominal discount rate of 3.4% was used to calculate the amounts of the provisions.

As regards the provision for landfill site restoration, it was assumed that further use of the landfill would continue for 20.5 years and its monitoring – for 30 years. Restoring and monitoring of landfill sites is mandated by law.

In 2017, it was decided that one of the five landfill cells would be withdrawn from use and closed. A restoration period of around three years is assumed. The provision attributable to that cell pro rata to its area was adjusted for the discount and presented as a short-term provision.

As regards the provision related to withdrawal of asbestos-containing products, it was assumed that the expenditure would be incurred proportionally over a 14.5-year period. Withdrawal from use of asbestos-containing products is mandated by law.

In the case of the provision for emptying of production units and management of removed waste, it was estimated that the units would be in further operation for 20.5 years. The obligation to empty the production units and manage the removed waste is imposed by law.

Grupa Azoty POLICE

Provisions for environmental protection

The provision for cleaning installations of chemical substances was recognised for activities necessary when the operation of particular production units is discontinued. The provision was estimated separately for each production line, based on cost estimates prepared by each plant. As at December 31st 2017, the provision amounted to PLN 4,728 thousand (December 31st 2016: PLN 3,516 thousand).
The provision for site restoration was recognised to cover future costs of land remediation, monitoring and protection of surface waters for the ferrous sulfate and phosphogypsum landfill sites. It was assumed that sludge from the sediment tanks located at the company's wastewater treatment plant would be used (in accordance with a decision of the Governor of the Szczecin Province) for partial rehabilitation of the phosphogypsum landfill site, which would significantly reduce the costs of its restoration once the evacuation of phosphogypsum is completed. The extraction and transport costs were estimated on the basis of a valuation of related work. The costs of groundwater monitoring and protection were estimated on the basis of average costs incurred in recent years, taking into account their reduction resulting from the passage of time. The amount of the provision reflects expected costs to be incurred after the landfill sites are closed, taking into account the time passed between their opening and closure. As at December 31st 2017, the provision amounted to PLN 52,866 thousand (December 31st 2016: PLN 38,247 thousand).
It is estimated that the provision for site restoration would be used in approximately 25 to 30 years (after the use of the landfill sites for waste storage is discontinued) and from that time onwards, for about 30 years, the provisions for the costs of monitoring and protection of surface water would be used.
The discount rate for provisions was determined based on the return on securities whose maturity date corresponds to the estimated liabilities settlement date. The provisions were discounted, with the discount rate decreased to 1.80% (by 0.4 pp) compared with December 31st 2016.
The discount rate applied as at December 31st 2017 was built using the following components:

- rate of return on 30-year Treasury bonds amounting to 4.25%. 30-year debt securities offered by the Ministry of Finance are an instrument with the longest maturity among all Treasury bonds in Poland;
- inflation rate at the level of the long-term continuous inflation target, set by the NBP at 2.5%, in effect since the beginning of 2004.

The change in provisions resulted from changes in estimates of individual provisions and in the discount rate as at December 31st 2017; in particular:

- provisions of PLN 14,889 thousand were recognised (including PLN 13,754 thousand for landfill site restoration involving the use of sludge from sediment tanks),
- discount of PLN 942 thousand was unwound.

Provisions for litigation and other provisions

In the 12 months ended December 31st 2017, having settled the dispute regarding its obligations towards a counterparty for technical consultancy services related to phosphate rock supplies from Senegal, Grupa Azoty POLICE reversed the relevant provision in an amount of PLN 4,701 thousand and used the remaining part of the provision in an amount of PLN 4,710 thousand.
In addition, the company recognised provisions for:

- litigation (including interest) in an amount of PLN 3,335 thousand,
- compensation due for damage to property in an amount of PLN 2,726 thousand,
- risk of grant repayment (including interest) in an amount of PLN 1,509 thousand.

As at December 31st 2017, the other subsidiaries' provisions decreased by PLN 71 thousand relative to December 31st 2016.

In the second half of 2017, tax proceedings were pending with respect to the operations of Grupa Azoty POLICE's subsidiary (i.e. African Investment Group S.A.) in 2013–2015. In their course, the Management Board of African Investment Group S.A. provided explanations to the Senegalese tax authorities (with the participation of the entity managing its accounting and tax matters). The Management Board denied most of the authorities' allegations as groundless. The Senegalese tax authorities did not accept the explanations and, on March 13th 2018, African Investment Group S.A. received a payment demand notice with an enforceability order issued by the Director for Large Enterprises, for XOF 10,435,788 thousand (equivalent to PLN 66,268 thousand as at December 31st

2017, translated at the exchange rate quoted for the reporting date). After the filing, on March 29th 2018, of a bankruptcy petition by African Investment Group S.A., and given that Grupa Azoty POLICE's liability (as the majority shareholder) is limited to its share in African Investment Group's share capital, the Grupa Azoty POLICE Management Board believes there is no risk of cash outflows from the Group to settle the disputed liabilities. Therefore, the Group concluded that the conditions justifying the recognition of provisions for the above tax liabilities were not met.

Grupa Azoty KĘDZIERZYN

Remediation of areas contaminated by chemical substances

A survey of soil quality found that the permitted contamination limits were exceeded for certain chemicals. The effective environmental protection laws require that areas where contamination limits have been exceeded must be remediated to restore the quality of soil and ground to required standards. In 2015, the remediation provisioning estimates were revised based on a report by Ramboll Environ. In 2017, the provisioning estimates were revised again based on a report by GEO-KAT. When estimating the provision for remediation of areas contaminated by chemical substances, it was assumed that the works would be performed by 2030 (assumption unchanged since 2015). The amount of the provision for land remediation is revised based on work performed in certain locations and discounted. As at December 31st 2017, a real discount rate of 1.8% was applied. The present value of the remediation provision as at December 31st 2017 was PLN 13,882 thousand (December 31st 2016: PLN 12,551 thousand, calculated using a real discount rate of 2.2%). The increase in the provision resulted mainly from a proposed increase in the scope of work compared with previous estimates.
In addition, a PLN 1,575 thousand provision was recognised for remediation of a site leased by the company where waste with a potential adverse impact on the environment was stored. The amount of the provision remained unchanged as at December 31st 2017.

Remediation of sludge landfill site at the Central Mechanical and Biological Wastewater Treatment Plant

The present value of the provision for remediation of the sludge landfill site at the Central Mechanical and Biological Wastewater Treatment Plant was PLN 899 thousand in 2016. The Company used part of the provision in 2017, with the balance reversed following a decision declaring the completion of the site remediation process on December 30th 2016.

Grupa Azoty SIARKOPOL

Grupa Azoty Siarkopol calculated the provision for remediation of the land where it conducted or still conducts mining operations based on the area of the land for which it had secured an administrative decision specifying the remediation model and not the area of the mining land in respect of which a remediation obligation had arisen or would arise under the mining law. What is more, the planned date of remediation was different from the planned date of completion of the mining operations. Accordingly, the provision was revised upwards by PLN 5,127 thousand (including the deferred tax effect) As a prior-period error correction by increasing the amount of the provision and reducing equity (retained earnings).

Items classified in 2017 by the Grupa Azoty companies as other provisions include provisions for:
- decommissioning of idle process units in an amount of PLN 4,824 thousand,
- costs related to removal and disposal of waste in an amount of PLN 3,210 thousand,
- compensation due for damage to property in an amount of PLN 2,726 thousand,
- contribution to the extraction facilities decommissioning fund in an amount of PLN 2,207 thousand,
- costs of handling complaints in an amount of PLN 1,693 thousand,
- risk of grant repayment (including interest) in an amount of PLN 1,509 thousand,
- costs related to the investment properties ordering in an amount of PLN 1,478 thousand,
- penalties in an amount of PLN 1,261 thousand.

In 2016, the largest item out of the PLN 36,268 thousand was the provision for the properties ordering: PLN 9,304 thousand.

(all amounts in PLN thousand unless indicated otherwise)

Change in provisions

	Provision for litigation	Provision for environmental protection, including site restoration	Provision for demolition of mercury electrolysis facilities	Other provisions	Total
As at January 1st 2017	**2,849**	**98,155**	**8,161**	**36,268**	**145,433**
Increase, including:	***5,008***	***20,624***	***552***	***13,848***	***40,032***
Recognition	5,008	10,287	552	9,068	24,915
Discount	-	9,395	-	-	9,395
Other increase	-	942	-	4,780	5,722
Decrease, including:(-)	***(2,693)***	***(4,426)***	***-***	***(25,801)***	***(32,920)***
Use	(1,778)	(1,513)	-	(13,725)	(17,016)
Reversal	(855)	(2,047)	-	(11,973)	(14,875)
Exchange differences on translation	(60)	-	-	(103)	(163)
Discount	-	(675)	-	-	(675)
Other decrease	-	(191)	-	-	(191)
As at December 31st 2017	**5,164**	**114,353**	**8,713**	**24,315**	**152,545**

	Provision for litigation	Provision for environmental protection, including site restoration	Provision for demolition of mercury electrolysis facilities	Other provisions	Total
As at January 1st 2016	**4,313**	**106,863**	**7,479**	**36,715**	**155,370**
Increase, including:	***303***	***4,916***	***1,239***	***20,064***	***26,522***
Recognition	282	3,973	1,239	16,665	22,159
Other increase	21	943	-	3,399	4,363
Decrease, including:(-)	***(1,767)***	***(13,624)***	***(557)***	***(20,511)***	***(36,459)***
Use	(287)	(5,112)	(557)	(8,947)	(14,903)
Reversal	(1,480)	(8,512)	-	(10,019)	(20,011)
Other decrease	-	-	-	(1,545)	(1,545)
As at December 31st 2016	**2,849**	**98,155**	**8,161**	**36,268**	**145,433**

(all amounts in PLN thousand unless indicated otherwise)

Note 26 Trade and other payables

	as at Dec 31 2017	as at Dec 31 2016 * restated
Trade payables - related parties	-	4,746
Trade payables - other entities	971,545	829,343
Liabilities to state budget, except for income tax	155,962	144,694
Salaries payable	51,972	49,311
Liabilities under purchases of property, plant and equipment, intangible assets, investment properties - other entities	130,709	132,599
Prepayments for deliveries - other entities	11,753	7,387
Other liabilities - related parties	3,010	932
Other liabilities - other entities	45,123	53,435
Prepaid expenses - related parties	615	2,595
Prepaid expenses - other entities	399,279	369,372
Deferred income	3,687	1,899
	1,773,655	**1,596,313**
including		
Long-term	4,456	1,082
Short-term	1,769,199	1,595,231
	1,773,655	**1,596,313**

Aging of trade payables

	as at Dec 31 2017	as at Dec 31 2016
Not past due	955,655	816,137
Past due up to 60 days	14,155	12,556
Past due 60–180 days	393	927
Past due 181-360 days	1,302	4,299
Past due more than 360 days	40	170
	971,545	**834,089**

Currency structure of payables

	as at Dec 31 2017	as at Dec 31 2016 * restated
PLN	1,515,527	1,281,832
EUR translated into PLN	209,914	234,009
USD translated into PLN	43,166	73,244
XOF translated into PLN	4,524	6,797
Other	524	431
	1,773,655	**1,596,313**

(all amounts in PLN thousand unless indicated otherwise)

Note 26.1 Accrued expenses

	as at Dec 31 2017	as at Dec 31 2016 * restated
Annual bonus	82,312	65,077
Accrued holiday entitlements	35,500	35,662
Incentive bonus	15,001	11,334
Other accrued employee benefit expenses	7,852	5,475
Costs related to sale of licence	149	149
Energy certificates	27,844	25,329
CO_2 emission allowances	171,675	167,028
Uninvoiced expenses	23,326	32,174
Other	36,235	29,739
	399,894	**371,967**
including		
Short-term	399,894	371,967
	399,894	**371,967**

Liabilities arising from pollutant emissions into the air amounted to PLN 171,675 thousand (as at December 31st 2016: PLN 167,028 thousand).
The liabilities are measured as follows:

- if the Group has a sufficient amount of allowances to cover its liabilities arising from the emission: as a product of the amount of allowances required to be redeemed to settle the obligation and the unit cost of allowances held by the Group at the reporting date. The unit cost of allowances required to settle the estimated emissions is determined using the weighted average method,
- if the Group does not have a sufficient amount of allowances to cover its liabilities arising from the emission: as a product of the amount of allowances held by the Group and recognised as receivable at the reporting date and the unit cost of such emission allowances, increased by the fair value of the deficit.

In 2017, accrued expenses of PLN 16,013 thousand were recognised under operating expenses to account for the difference between the number of emission allowances allocated for 2017 and the number of allowances actually utilised in 2017, of which PLN 8,556 thousand remains to be settled against emission allowances purchased in 2016 and 2017, and PLN 7,457 thousand represents the amount of the deficit.

On redemption of CO_2 emission allowances being entered in the relevant register, emission allowances recognised under accrued expenses will be accounted for with a corresponding entry made under inventories.

Note 27 Grants

	as at Dec 31 2017	as at Dec 31 2016
Government grants	27,481	19,374
EU grants	37,679	37,099
Other grants	31,512	21,790
	96,672	**78,263**
including		
Long-term	90,585	68,431
Short-term	6,087	9,832
	96,672	**78,263**

In 2017, Grupa Azoty received a PLN 14,061 thousand grant for co-financing of the 'Exhaust gas treatment unit and upgrade of the EC II CHP plant at Zakłady Chemiczne Police S.A.' project under the Norwegian Financial Mechanism. The amount of the grant was reduced by costs incurred to secure the grant, i.e. PLN 1,121 thousand.
Additionally, the Group received a PLN

- 371 thousand grant (2016: PLN 6,760 thousand) as co-financing for the construction of the Flue Gas Treatment Unit,
- a PLN 523 thousand grant for the construction of the Research and Development Centre (ultimately, the Group is to receive up to PLN 20,020 thousand to co-finance the project),
- a PLN 145 thousand grant for the 'Establishment of a Research and Development Centre for development of advanced plastics' project.
- a PLN 36 thousand grant for property, plant and equipment from the Insurance Fund,
- a PLN 6 thousand grant for the 'Demonstrator' project.

The Group received and settled grants related to free-of-charge CO_2 emission allowances amounting to PLN 113,936 thousand (2016: PLN 108,502 thousand), and received CO_2 emission allowances following the completion of a project included in the National Investment Plan, with a value of PLN 10,070 thousand (2016: PLN 8,281 thousand).

Note 28 Financial instruments

Note 28.1 Capital management

The Group's policy is to maintain a strong capital base, so as to maintain investor, creditor and market environment confidence and to sustain future development of the business. The Group monitors changes in the shareholding structure, return on capital, and debt to equity ratios.
The Group manages the capital in order to ensure the Group's ability to continue as a going concern and to maximise returns for shareholders through optimisation of the debt to equity ratio.
The capital structure of the Group consists of liabilities, including borrowings presented in Note 22, other financial liabilities presented in Note 22, and equity presented in Note 20.
The Parent, as a joint-stock company, is subject to the regulation resulting from Art. 396.1 of the Commercial Companies Code, which requires transferring to the reserves at least 8% of the profit for the period, until such reserves equal one-third or more of the share capital.
As at December 31st 2017, there were no other restrictions as to dividend payment.

(all amounts in PLN thousand unless indicated otherwise)

Note 28.2 Categories of financial instruments

Classification of financial instruments

Financial assets

	as at Dec 31 2017	as at Dec 31 2016 * restated
At fair value through profit or loss	2,284	8,435
Loans and receivables	1,210,115	1,365,891
Cash and cash equivalents	1,085,885	641,895
Financial assets available for sale	307	318
Other financial assets		1,950
	2,298,591	**2,018,489**
Recognised in the statement of financial position as:		
Shares	307	318
Trade and other receivables *	954,205	785,039
Cash and cash equivalents	1,085,885	641,895
Derivative financial instruments	2,284	8,435
Other financial assets	255,910	582,802
	2,298,591	**2,018,489**

Financial liabilities

	as at Dec 31 2017	as at Dec 31 2016 * restated
At fair value through profit or loss	-	8,213
At amortised cost	2,908,157	2,613,387
	2,908,157	**2,621,600**
Recognised in the statement of financial position as:		
Long-term borrowings	1,564,879	1,372,047
Short-term borrowings	70,209	52,034
Derivative financial instruments	-	8,213
Trade and other payables **	1,201,993	1,070,456
Other non-current financial liabilities	39,592	43,172
Other current financial liabilities	31,484	75,678
	2,908,157	**2,621,600**

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

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

Gains/(Losses) from individual categories (+/-)

	for the period from Jan 1 to Jun 30 2017	for the period from Jan 1 to Dec 31 2016

Financial assets		
At fair value through profit or loss	2,519	5,085
Held for trading	1	
Loans and receivables	586	1,476
Cash and cash equivalents	443	656
Financial liabilities		
At fair value through profit or loss	-	(7,387)
At amortised cost	(108)	(104)
	3,441	**(274)**

Gains on financial assets at fair value through profit or loss represent a net gain on measurement of currency forwards for the period January 1st-December 31st 2017.

The table above does not include gains or losses on interest, or foreign exchange gains or losses, which are presented in Note 5 Finance costs and Note 6 Finance income.

Additional information:
- There were no financial assets presented in the statement of financial position as at December 31st 2017 and December 31st 2016 whose terms and conditions would be renegotiated.
- Except for the impairment losses on receivables presented in Note 17, the Group did not recognise other impairment losses on financial instruments.
- In 2017 and 2016, other than reclassifications under the contractual schedules, there were no reclassifications of financial assets at the Group which would result from their maturities as at the reporting dates.
- In 2017 and 2016, there were reclassifications of financial assets which resulted from their maturities as at the reporting dates.
- No instruments containing both a liability and an equity component, or instruments containing embedded derivatives were issued in 2017 and 2016.
- In 2017 and 2016, the Group did not foreclose any security established for its benefit.

Note 28.3 Financial risk management

The Group has exposure to the credit risk, liquidity risk and market risk (related mainly to the foreign exchange and interest rate risk). These risks arise in the ordinary course of the Group's business. The objective of the Group's financial risk management is to reduce the impact of market factors such as currency exchange rates and interest rates on the basic financial parameters (net profit for the period, cash flows) previously approved in the Group's budget by using natural hedging and derivatives.

Note 28.3.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk is mainly related to derivative financial instruments, trade receivables, bank deposits and cash at banks (including under cash pooling).

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

	as at Dec 31 2017	as at Dec 31 2016 * restated
Assets at fair value through profit or loss	2,284	8,435
Loans and receivables	1,194,783	1,365,891
Cash and cash equivalents	1,085,885	641,895
Other financial assets	2,704	-

(all amounts in PLN thousand unless indicated otherwise)

	2,285,656	**2,016,221**

The credit risk structure of trade receivables by segments is presented in the table below:

Trade receivables

	as at Dec 31 2017	as at Dec 31 2016
Agro Fertilizers	160,511	271,062
Plastics	284,502	168,489
Chemicals	317,393	262,516
Energy	22,223	32,286
Other Activities	23,772	28,302
	808,401	**762,655**

Not impaired past due trade receivables

	as at Dec 31 2017	as at Dec 31 2016
Past due up to 60 days	40,088	36,485
Past due 60−180 days	9,965	7,424
Past due 181-360 days	258	1,432
Past due more than 361 days	3,048	1,711
	53,359	**47,052**

Changes in impairment losses on receivables are presented in Note 17.

Over 80% of the Group's trade receivables from third parties are insured under trade credit insurance policies (December 31st 2016: 45%), which limits the credit risk exposure to the deductible amount (5-10% of the amount of insured receivables). The policies ensure that customers' financial condition is monitored on a ongoing basis and enable debt recovery when required. Upon a customer's actual or legal insolvency, the Group receives compensation equal to 90-95% of the amount of the insured receivables. Additionally, more than 8% (December 31st 2016: 32%) of the Group’s trade receivables from third parties are secured by letters of credit and guarantees. Such receivables are excluded from the insurance. Further 4% (December 31st 2016: 10%) are secured with mortgages and pledges.

The Group established a unified credit risk management policy and performs ongoing credit assessment, including customer monitoring. For these purposes, the Group reviews business intelligence reports, debtor registers and, where appropriate, requires adequate collateral. The Group grants trade credit – mainly to domestic customers in the Agro Fertilizers segment – up to the market value of the collateral provided.

If there is no positive history of trading between the Group and a customer, or where transactions are occasional and the credit limit cannot be insured, the customer is required to make a prepayment. Trade credit limit is granted primarily on the basis of the insurance company's decision, but also taking into account positive trading history with the customer and the customer's creditworthiness (assessed based on business intelligence reports), financial statements and payment history.

Credit risk exposure is defined as the total of unpaid receivables, monitored on an ongoing basis by the Group’s internal financial staff (individually for each trading partner) and, if a receivable is insured, also by insurance companies' credit analysts. The concentration of credit risk is not significant given the Group's procedures and diversified customer portfolio.

Approximately 54% (December 31st 2016: 56%) are trade receivables from domestic customers, and the remaining 46% (December 31st 2016: 44%) are receivables from customers based outside Poland.

The Group's revenue concentrates in three main segments reflecting the profile of the Group's business. The Chemicals segment accounts for the largest share, of 39%, in the Group's trade receivables (December 31st 2016: 34%), followed by Plastics – 35% (December 31st 2016: 22%) and Agro Fertilizers – 20% (December 31st 2016: 36%). The Plastics and Chemicals segments are dominated by foreign customers, with sales made on a deferred payment basis, mostly within insured credit limits or against letters of credit and guarantees. On the other hand, Polish entities are the largest customer group in the Agro Fertilizers segment, with sales made on a deferred payment basis within insured credit limits to customers with proven credit record or where collateral has been provided; or on a prepayment basis to other customers.

Cash and bank deposits
Cash and cash equivalents are placed with financial institutions with high credit ratings and healthy solvency ratios.
The excess of domestic cash and cash equivalents is first consolidated in the Parent's current account, with negative balances in overdraft accounts held by the Group companies using the physical cash pooling facility provided by PKO BP.

Note 28.3.2 Liquidity risk

Financial liquidity risk is the risk that the Group will not be able to repay its financial liabilities when they fall due. Mitigating measures include proper management of financial liquidity through correct assessment of the level of cash resources based on cash flow plans for various time horizons. The Parent optimises the management of the Group's cash surplus using the cash pooling facility, revolving loans granted under the intra-group financing agreement, and dividend policies of the Group companies.

Within the centralised financing model, the Parent holds corporate financing agreements for a total amount of PLN 2.2bn, further described in Note 21. The agreements ensure long-term financial liquidity, including financing for both the long-term strategy and current operating objectives. Additionally, the Group has available credit limits, described in greater detail in Note 21, within the overdraft facility linked to the physical cash pooling arrangement and multi-purpose loan provided by PKO BP, which the Parent can manage to respond to the financing needs of the individual Group companies.

The Group took out loans and credit facilities which included uniform and harmonised covenants. A future breach of these covenants may require the Group to repay the loans and credit facilities earlier than indicated in the table below. In 2017 and 2016, none of the Group companies defaulted on any of their liabilities or financial covenants where such default would trigger acceleration of the liabilities.

Interest payments on variable-rate loans, credit facilities other financial instruments were estimated based on the interest rates at the reporting date, but these amounts may change in the future.

The table below presents the contractual cash flows of financial liabilities at the reporting date.

(all amounts in PLN thousand unless indicated otherwise)

Liquidity risk

December 31st 2017

		contractual flows			
	Carrying amount	Total	Up to one year	From 1 to 5 years	Over 5 years
At fair value through profit or loss	-	-	-	-	-
At amortised cost, including:	2,908,157	3,154,108	1,287,758	1,597,707	268,643
borrowings	1,635,088	1,876,224	32,209	1,578,770	265,245
leases	22,443	27,258	9,379	14,481	3,398
factoring and receivables discounting	20,387	20,387	20,387	-	-
other financial liabilities	28,246	28,246	28,246	-	-
trade and other payables	1,201,993	1,201,993	1,197,537	4,456	-
	2,908,157	**3,154,108**	**1,287,758**	**1,597,707**	**268,643**

December 31st 2016

		contractual flows			
	Carrying amount	Total	Up to 1 year	From 1 to 5 years	Over 5 years
At fair value through profit or loss	8,213	8,213	8,213	-	-
At amortised cost, including:	2,579,299	2,692,053	1,221,188	1,203,374	267,491
borrowings	1,424,081	1,531,723	81,775	1,185,801	264,147
leases	27,314	32,426	12,591	16,491	3,344
factoring and receivables discounting	57,531	57,531	57,531	-	-
other financial liabilities	6	6	6	-	-
trade and other payables	1,070,367	1,070,367	1,069,285	1,082	-
	2,587,512	**2,700,266**	**1,229,401**	**1,203,374**	**267,491**

(all amounts in PLN thousand unless indicated otherwise)

Note 28.3.3 Market risk

Interest rate risk
The Group's exposure to changes in interest rates applies mainly to credit facilities/bank loans and other loans, factoring and lease liabilities based on WIBOR + margin or respectively EURIBOR + margin in the case of credit facilities and factoring, and additionally cash and cash equivalents and financial assets for which interest payments are determined based on the above-mentioned market rates.

The following table presents the risk profile (maximum exposure) of the Group to the interest rate risk, by instruments with fixed and variable interest rates:

Interest rate risk

	Present value Dec 31 2017	Present value Dec 31 2016
Instruments with fixed interest rates		
Financial assets	453,674	680,192
Financial liabilities (-)	(533,247)	(446,971)
	(79,573)	**233,221**
Instruments with variable interest rates		
Financial assets	888,121	554,017
Financial liabilities (-)	(1,172,917)	(1,059,697)
	(284,796)	**(505,680)**

The Group does not hedge against the interest rate risk. However, in order to mitigate the effect of the interest rate risk, a part of the bank loans contracted in 2015–2017 were instruments with fixed interest rates.

Other measures taken to mitigate the interest rate risk include ongoing monitoring of the situation on the money market. The Group's surplus cash in 2017 was partly covered by the physical cash pooling facility, bearing interest at 1M WIBOR. The remaining cash surplus was held as short-term interest-bearing bank deposits with interest based on the market rates as at the date of opening the deposits.

The Group analysed the sensitivity of its variable-rate financial instruments to changes in market interest rates. The following table presents the impact of a 100 basis point change in the interest rates on profit or loss and equity. The analysis assumes that all other variables, in particular exchange rates, remain constant.

Sensitivity analysis: (+/-)

	Statement of profit or loss		**Other comprehensive income**	
	increase 100bp	decrease 100bp	increase 100bp	decrease 100bp
December 31st 2017	(2,848)	2,848	-	-
December 31st 2016	(4,758)	4,758	-	-

Currency risk
The Group is exposed to the currency risk on foreign currency transactions, which account for more than a half of the Group's income and approximately one-third of its expenses. Exchange rate fluctuations affect both revenue and costs of raw materials. Appreciation of the Polish currency has a negative impact on the profitability of exports and of domestic sales denominated in foreign currencies, while depreciation of the Polish currency has a positive effect on profitability. Changes in export revenue as well as domestic revenue from sales of goods which are priced based on market quotations, caused by exchange rate fluctuations, are partly compensated for by changes in the cost of raw material imports, which to a large extent reduces the Group's exposure to the exchange rate risk.

The Group reduces the risk resulting from its net currency exposure by using selected instruments and taking measures to hedge against the currency risk based on the current and planned net currency exposure. In the reporting period, the Group used natural hedging, factoring and discounting of foreign currency receivables as its primary hedging tools, further supported by currency forwards. In 2017, the Group had primarily a net currency exposure in EUR, which represented 79% (2016: 77%) of the total currency exposure, the remaining 21% of the exposure being in USD (2016: 23%), with up to 80% of the expected net exposure hedged.

The following table presents the summary quantitative data about the Group's exposure to currency risk as at the reporting date, by classes of financial instruments and currencies:

Net exposure to currency risk

December 31st 2017	**EUR**	**USD**	**CHF**	**GBP**	**XOF**
Trade and other receivables	95,405	27,068	2,550	-	-
Cash in foreign currencies	63,488	59,668	-	3	-
Trade and other payables (-)	(82,378)	(19,382)	-	(41)	(99,000)
Borrowings (-)	(147,909)	-	-	-	-
Derivative financial instruments	(18,756)	-	-	-	-
Lease, factoring and discounting liabilities (-)	(4,647)	-	-	-	-
Total in the relevant currency	**(94,797)**	**67,354**	**2,550**	**(38)**	**(99,000)**
Impact of a 5% appreciation of the currency on the statement of profit or loss (PLN thousand)	6,744	11,724	455	(9)	(31)
Impact of a 5% depreciation of the currency on the statement of profit or loss (PLN thousand)	(6,744)	(11,724)	(455)	9	31
Impact of a 5% appreciation of the currency on other comprehensive income (PLN thousand)	26,513	-	-	-	-
Impact of a 5% depreciation of the currency on other comprehensive income (PLN thousand)	(26,513)	-	-	-	-

December 31st 2016	EUR	USD	GBP	XOF
Trade and other receivables	91,912	24,332	3	-
Cash in foreign currencies	61,767	9,722	1	-
Trade and other payables (-)	(52,111)	(16,254)	(73)	(99,000)
Borrowings (-)	(101,104)	-	-	-
Derivative financial instruments	(108,982)	(34,447)	-	-
Lease, factoring and discounting liabilities (-)	(13,393)	-	-	-
Total in the relevant currency	**(121,911)**	**(16,647)**	**(69)**	**(99,000)**
Impact of a 5% appreciation of the currency on the statement of profit or loss (PLN thousand)	(4,847)	(3,479)	(18)	(33)
Impact of a 5% depreciation of the currency on the statement of profit or loss (PLN thousand)	4,847	3,479	18	33
Impact of a 5% appreciation of the currency on other comprehensive income (PLN thousand)	(22,120)	-	-	-
Impact of a 5% depreciation of the currency on other comprehensive income (PLN thousand)	22,120	-	-	-

Sensitivity analysis: (+/-)

	Statement of profit or loss		Other comprehensive income	
	5% increase in foreign currency exchange rates	5% decrease in foreign currency exchange rates	5% increase in foreign currency exchange rates	5% decrease in foreign currency exchange rates
December 31st 2017	(18,883)	18,883	(26,513)	26,513
December 31st 2016	(8,377)	8,377	(22,120)	22,120

Price risk

In the long term, the energy procurement strategy is based on securing supplies and the price formulae with bilateral long-term and short-term contracts with suppliers whose financial and operational standing is sound, further supported by contracts for products and instruments traded on the commodity exchange (electricity and natural gas).

Additionally, the Group intends to mitigate the risk of price volatility using natural hedging, which involves linking the largest possible part of its procurement and sales volumes (in particular of phenol, benzene, caprolactam and polyamide, used in its production chain) resulting from framework contracts with changes in ICIS prices for a given raw material.

Note 28.4 Fair value of financial instruments

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

- Cash and cash equivalents, short-term bank deposits and short-term bank borrowings. Carrying amounts of these instruments approximate their fair values because of their short maturities.
- Trade and other receivables, trade payables. Carrying amounts of these instruments approximate their fair values due to their short-term nature.
- Long-term variable-rate borrowings. The carrying amount of such instruments approximates their fair value due to the variable interest.
- Long-term fixed-rate borrowings. The carrying amount of these instruments is PLN 535,490 thousand, and their fair value is approximately PLN 529,810 thousand (Level 2 in the fair value hierarchy).

(all amounts in PLN thousand unless indicated otherwise)

- Foreign currency derivatives. The carrying amount of these instruments is equal to their fair values.
- Financial assets available for sale. Carrying amounts of these instruments are equal to their fair values.

In 2017 and 2016, the Group had no instruments for which the initial value of the transaction would differ from its fair value as at the transaction date, determined using the applied valuation technique. The table below presents financial instruments, carried at fair value, by levels in the fair value hierarchy:

December 31st 2017

Hierarchy level	Level 1	Level 2	Level 3
Financial assets at fair value, including:			
shares classified as available for sale	-	-	303
currency futures and forward contracts	-	2,283	-
	-	**2,283**	**303**

December 31st 2016

Hierarchy level	Level 1	Level 2	Level 3
Financial assets at fair value, including:			
shares classified as available for sale	-	-	303
currency futures and forward contracts	-	13,850	-
	-	**13,850**	**303**

The fair value hierarchy presented in the table above is as follows:
Level 1 – price quoted in an active market for the same asset or liability,
Level 2 – values based on inputs other than quoted Level 1 prices that are either directly or indirectly observable or determined on the basis of market data,
Level 3 – values based on input data that are not based on observable market data.

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

The Group carries investments of PLN 303 thousand (December 31st 2016: PLN 303 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 thousand unless indicated otherwise)

Note 28.5 Derivatives

Foreign currency derivatives

As at December 31st 2017, the notional amount of Grupa Azoty's open currency derivatives (forwards) totalled EUR 18.8m (which included instruments maturing in 2018: January – EUR 2.9m, February – EUR 3.6m, March – EUR 3.8m, April – EUR 3.2m, May – EUR 2.7m, and June – EUR 2.6m). As at December 31st 2016, the notional amount of the Group's open currency derivatives (forwards) was EUR 110.4m and USD 34.4m.

Such contracts are only entered into with reliable banks under framework agreements. All the contracts reflect actual cash flows in foreign currencies. Currency forwards and derivative contracts are executed to match the Group's currency exposure and their purpose is to limit the effect of exchange rate fluctuations on profit or loss.

Note 28.6 Hedge accounting

The Group applies cash flow hedge accounting. The hedged items are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from December 2018 to June 2025. The hedging covers currency risk. The hedge is a euro-denominated credit facility of EUR 127,134 thousand as at December 31st 2017 (December 31st 2016: EUR 100,000 thousand), repayable from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each. As at December 31st 2017, the carrying amount of the credit facility was PLN 535,490 thousand (December 31st 2016: PLN 444,874 thousand). In 2017, the hedging reserve included PLN 19,022 thousand (2016: PLN (8,788) thousand) on account of the effective hedge.

In 2017 and 2016, the Group did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

Note 29 Contingent liabilities, contingent assets, sureties and guarantees

Contingent assets

	as at Dec 31 2017	as at Dec 31 2016
Contingent receivables	28,377	27,033

Contingent liabilities and guarantees/sureties

	as at Dec 31 2017	as at Dec 31 2016 * restated
Guarantees	64	366
Other contingent liabilities	29,177	19,885
	29,241	**20,251**

As at December 31st 2017, contingent receivables comprised primarily receivables related to the claim raised against Ciech S.A. for payment of PLN 18,864 thousand for breach of the warranties made by Ciech S.A. in the agreement for purchase of shares in GZNF Fosfory Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY). On October 30th 2012, Grupa Azoty PUŁAWY filed a suit with the Regional Court in Warsaw. The case is pending.

Other contingent liabilities as at December 31st 2017 mainly relate to a lawsuit against GZNF Fosfory Sp. z o.o. filed with the Regional Court in Gdańsk by Ciech S.A. on February 12th 2013 for payment of PLN 18,864 thousand as compensation for damage suffered by Ciech S.A. as a result of untrue representations made by the defendant regarding the legal status and financial position of the defendant and its subsidiaries, together with statutory interest accrued from the claim filing date to the day of payment, as well as costs of the court proceedings, including costs of legal representation.

(all amounts in PLN thousand unless indicated otherwise)

Note 30 Related-party transactions

Trade transactions with associates and jointly-controlled entities
Trade transactions

	Revenue	Receivables	Purchases	Liabilities
In the 12 months ended December 31st 2017 and as at that day				
Related parties of Grupa Azoty KĘDZIERZYN	2,111	2,249	20,419	789
Related parties of Grupa Azoty POLICE	9,397	721	12,233	2,046
Related parties of Grupa Azoty PUŁAWY	3,580	735	37,191	1,603
	15,088	**3,705**	**69,843**	**4,438**

	Revenue	Receivables	Purchases	Liabilities
In the 12 months ended December 31st 2016 and as at that day				
Related parties of Grupa Azoty KĘDZIERZYN	1,527	416	19,934	2,711
Related parties of Grupa Azoty POLICE	5,769	-	10,950	1,762
Related parties of Grupa Azoty PUŁAWY	4,415	505	39,931	3,800
Related parties of Grupa Azoty PKCH	305	17	12	-
	12,016	**938**	**70,827**	**8,273**

Other transactions

	Other income	Other expenses	Finance income	Finance costs
In the 12 months ended December 31st 2017				
Related parties of Grupa Azoty KĘDZIERZYN	2,271	6	392	-
Related parties of Grupa Azoty PUŁAWY	342	-	6	-
	2,613	**6**	**398**	**-**

(all amounts in PLN thousand unless indicated otherwise)

	Other income	Other expenses	Finance income	Finance costs
In the 12 months ended December 31st 2016				
Related parties of Grupa Azoty KĘDZIERZYN	2,258	-	640	-
Related parties of Grupa Azoty PKCh Sp. z o.o.	70	-	-	-
Related parties of Grupa Azoty POLICE	-	-	23	-
Related parties of Grupa Azoty PUŁAWY	351	-	74	-
	2,679	**-**	**737**	**-**

Loans granted to related parties

The Group granted the following loans to related parties:

	as at Dec 31 2017	as at Dec 31 2016
Associates	1,670	1,336
Other parties	-	11,262
	1,670	**12,598**

Terms of related-party transactions

Terms of related-party transactions are determined on an arm's length basis. Parties to a transaction determine the price based on market benchmarks to ensure that it does not depend on the cost of relevant goods or services, using the methods listed in the Minister of Finance's Regulation on the method and procedure for estimating corporate income, dated September 10th 2009 (consolidated text: Dz.U. of 2014, item 1186). A detailed analysis of the transaction terms is carried out before a method is selected: the division of risks and costs as well as the assets involved, so that the price reflects the transaction terms that would be agreed on between unrelated parties.

Remuneration of members of the Parent's Management Board for positions held in the Group

	for the period from Jan 1 to Jun 30 2017	for the period Jan 1 – Dec 31 2016
Short-term benefits	9,169	5,240
Post-employment benefits	2	(6)
Termination benefits	-	2,178
Other long-term benefits	1	-
	9,172	**7,412**

Remuneration policy for members of the Management Board

Remuneration of Management Board members comprises:

- a fixed component in the form of a monthly base pay,
- a variable component representing additional remuneration payable for the Company's financial year,
- additional benefits granted each time by the Supervisory Board.

The monthly remuneration of a Management Board member is the product (depending on the position held) of the average monthly remuneration in the business sector, net of bonuses paid from profit, in the fourth quarter of the previous year, as announced by the President of the Central Statistics Office

(all amounts in PLN thousand unless indicated otherwise)

of Poland (GUS). Starting from the calendar month following the month in which the President of GUS announced the amount of the average monthly remuneration, the amount of the fixed remuneration is changed accordingly.
The fixed remuneration is reduced by the amount payable for the days on which no work was performed by a Management Board member (except for the 26 business days of leave during the term of the contract to which each Management Board member is entitled).
The fixed monthly remuneration comprises all components and elements of remuneration payable on a monthly basis.

Bonuses for members of the Management Board
The variable (additional) remuneration depends on the progress in the delivery of management objectives and is paid in accordance with the rules stipulated in Resolution No. 8 of the Parent's General Meeting of December 2nd 2016 (as amended by Resolution No. 37 of the General Meeting of June 30th 2017), and in the Act on rules of remunerating persons who direct certain companies of June 9th 2016 (Dz.U. of 2016, item 1202).
Variable remuneration is paid after:
- approval of the Directors' Report on the Company's operations and of the financial statements for the previous financial year,
- the General Meeting has granted a Management Board member discharge in respect of performance of their duties in a given financial year,
- a Management Board member has submitted a report on performance of the management objectives,
- the Supervisory Board has approved performance of the management objectives by the Management Board member in a given year,
- the Supervisory Board has passed a resolution on performance of the management objectives and the amount of variable remuneration due.

Remuneration of members of the Parent's Supervisory Board for positions held in the Group

	for the period from Jan 1 to Jun 30 2017	for the period Jan 1 – Dec 31 2016
Short-term benefits	1,827	2,012

Remuneration of members of management boards of the Group's leading companies (excluding the Parent)*

	for the period from Jan 1 to Jun 30 2017	for the period Jan 1 – Dec 31 2016
Short-term benefits	12,916	11,203
Post-employment benefits	2,341	192
Termination benefits	760	6,983
Other long-term benefits	8	105
	16,025	**18,483**

* Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN, Grupa Azoty SIARKOPOL, Grupa Azoty ATT Polymers

Loans
In 2017 and 2016, the Group did not grant any loans to members of the Management Board or the Supervisory Board.

Transactions with owners
As at December 31st 2017, the Group had a loan facility of PLN 150,000 thousand contracted with the European Bank for Reconstruction and Development (December 31st 2016: PLN 10,018 thousand).

(all amounts in PLN thousand unless indicated otherwise)

Transactions with parties related through the State Treasury
As at December 31st 2017

Entity	Amount	Transaction
PGNiG	1,917,356	purchase of natural gas
PKN Orlen	251,224	purchase of raw materials
PKP Cargo	128,641	purchase of transport services
Enea S.A.	112,981	purchase of electricity
PSE S.A.	61,815	purchase of transmission services
PGE	57,357	purchase of electricity
Tauron	48,081	purchase of electricity and fine coal
Lotos	22,515	purchase of raw materials
Katowicki Holding Węglowy	19,879	purchase of fine coal
KGHM Polska Miedź S.A.	15,700	purchase of raw materials
PZU S.A.	12,996	property insurance
PKO BP	7,011	credit facility repayment
Polish National Foundation	7,000	contribution to the initial capital
BGK	6,455	credit facility repayment
Jastrzębska Spółka Węglowa	3,413	purchase of fine coal
Węglokoks Sp. z o.o.	2,755	purchase of fine coal
PZU Życie	667	insurance premiums
	2,675,846	

As at December 31st 2016

Entity	Amount	Transaction
PGNiG	1,008,315	purchase of natural gas
PKN Orlen	252,970	purchase of raw materials
PKP Cargo	124,936	purchase of transport services
PGE	111,241	purchase of electricity
Enea S.A.	100,490	purchase of electricity
Tauron	58,365	purchase of electricity
PSE S.A.	56,550	purchase of transmission services
Polska Grupa Górnicza	49,199	purchase of fine coal
Katowicki Holding Węglowy	41,015	purchase of fine coal
Kompania Węglowa S.A.	30,685	purchase of fine coal
LOTOS	26,559	purchase of raw materials
PZU S.A.	19,829	property insurance
KGHM Polska Miedź S.A.	15,251	purchase of raw materials
PKO BP	7,482	payment of interest and commissions
Polish National Foundation	7,000	contribution to the initial capital
BGK	6,387	credit facility repayment
Jastrzębska Spółka Węglowa	2,788	purchase of fine coal
Węglokoks Sp. z o.o.	1,645	purchase of fine coal
PZU Życie	604	credit facility repayment
	1,921,311	

(all amounts in PLN thousand unless indicated otherwise)

Note 31 Investment commitments

In the period ended December 31st 2017, the Group signed contracts for new investment projects and for continuation of ongoing projects. The projects involve mainly the provision of chemical, construction, mechanical and electrical services, design services, and project supervision.

The largest capital commitments are as follows:

	as at Dec 31 2017	as at Dec 31 2016
PDH propylene plant	80,570	-
Construction of nitric acid units	80,248	-
Construction and procurement for the Chemical Technology and Development Centre	37,432	400
Expansion of production capacity of technical-grade nitric acid unit	36,142	-
Upgrade of phosphoric acid unit (DA-HF method)	33,794	7,179
Speciality esters unit	31,716	2,016
Ammonium nitrate-based granulated fertilizers unit	24,820	-

As at December 31st 2017, the total amount of the Group's commitments under contracts was PLN 524,338 thousand (December 31st 2016: PLN 366,394 thousand).

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

Note 32Mineral extraction

	as at Dec 31 2017	as at Dec 31 2016
Total assets	189,175	234,252
Total liabilities	159,003	159,411
Revenue	203,795	266,647
Other income	954	1,967
Operating expenses	205,259	268,702
Other expenses	39,416	48,116

(all amounts in PLN thousand unless indicated otherwise)

Note 33 Notes to the statement of cash flows

	for the period Jan 1– Dec 31 2017	for the period Jan 1 – Dec 31 2016
Net change in trade and other receivables	(146,702)	23,701
Change due to prepayments for property, plant and equipment	76,119	(1,420)
Change due to prepayments and accrued income	(9,840)	(3,026)
Change in trade and other receivables in the statement of cash flows	**(80,423)**	**19,255**
Net change in inventories and property rights	(119,383)	112,982
Change in inventories and property rights following from non-cash items	(1,680)	(395)
Change in inventories disclosed in the statement of cash flows	**(121,063)**	**112,587**
Net change in trade and other payables	177,342	52,144
Change due to liabilities under purchase of property, plant and equipment and intangible assets	(9,288)	(10,913)
Change due to accruals and deferred income	3,048	62,767
Change in liabilities following from non-cash items	1,151	0
Change in trade and other payables in the statement of cash flows	**172,253**	**103,998**
Net change in provisions, employee benefit obligations and grants	37,352	17,190
Change due to prepayments, accruals and deferred income	23,631	(59,741)
Change due to grants	(14,570)	(26,136)
Other changes	(4,605)	(4,084)
Change in provisions, accruals and grants in the statement of cash flows resulting from the statement of cash flows	**41,808**	**(72,771)**

Note 34Events after the reporting date

Loan facility agreement
On January 25th 2018, the Parent concluded a EUR 145m long-term loan facility agreement with the European Investment Bank. The agreement was concluded for a period of up to ten years from the disbursement date, and the facility is to be repaid in instalments, starting within three years from the disbursement date. As a result of the agreement, the corporate financing package was increased to the total amount of approximately PLN 2,800m.

Share capital increase at PDH Polska S.A.

On March 1st 2018, acting pursuant to a resolution passed by the Parent's Management Board on October 18th 2017, the Parent acquired PLN 2,350,000 new registered shares in PDH Polska S.A. for PLN 23,500 thousand.

On April 9th 2018, the share capital increase at PDH Polska S.A. was registered in the National Court Register.

Execution of merger plan for Grupa Azoty KOLTAR Sp. z o.o., CTL CHEMKOL Sp. z o.o., and CTL KOLZAP Sp. z o.o.

A plan of merger between Grupa Azoty KOLTAR Sp. z o.o., CTL CHEMKOL Sp. z o.o. and CTL KOLZAP Sp. z o.o. was agreed upon and signed on March 27th 2018. The plan specified the method of the merger, the ratio at which the shares in the acquired companies would be exchanged for the shares in the acquiring company, the rules governing the allotment of shares in the acquiring company, etc. The plan was published on the websites of the merged companies.

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

Having declared insolvency on March 29th 2018, African Investment Group S.A. with a share capital of CFA 340m (PLN 2,169 thousand, translated at the mid exchange rate for March 28th 2018), filed a petition for bankruptcy with the Commercial Court of Dakar on March 29th 2018.

The consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2017 contain 136 pages.

Signatures of members of the Management Board

………………………………
Wojciech Wardacki, PhD
President of the Management Board

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

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

………………………………
Grzegorz Kądzielawski, PhD
Vice President of the Management Board

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

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

Signature of person responsible for maintaining accounting records

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

Tarnów, April 18th 2018