Consolidated interim report
for Q1 2014

Grupa Azoty Group

Contents

Financial highlights

Consolidated financial information

	PLN '000		EUR '000	
	for the period Jan 1-Mar 31 2014	for the period Jan 1-Mar 31 2013	for the period Jan 1-Mar 31 2014	for the period Jan 1-Mar 31 2013
Revenue	2,702,789	2,677,546	645,149	641,513
Operating profit	181,922	419,067	43,424	100,404
Profit before tax	180,620	463,326	43,114	111,008
Net profit	149,354	410,309	35,650	98,306
Total comprehensive income	152,698	374,111	36,449	89,633
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per ordinary share (PLN)	1.37	3.82	0.33	0.92
Net cash provided by operating activities	245,407	664,567	58,578	159,223
Net cash used in investing activities	(56,920)	(134,566)	(13,587)	(32,241)
Net cash used in financing activities	(188,263)	(62,477)	(44,938)	(14,969)
Net increase in cash and cash equivalents	224	467,524	53	112,014
Cash at the beginning of the period	713,024	243,440	170,197	58,326
Cash at the end of the period	711,837	710,513	169,914	170,232
	As at Mar 31 2014	As at Dec 31 2013	As at Mar 31 2014	As at Dec 31 2013
Non-current assets	6,613,138	6,635,580	1,585,390	1,600,014
Current assets	3,278,963	3,325,950	786,077	801,975
Non-current liabilities	1,379,163	1,412,617	330,631	340,619
Current liabilities	2,089,590	2,278,262	500,945	549,349
Equity	6,423,348	6,270,651	1,539,891	1,512,020
Share capital	495,977	495,977	118,902	119,593
Non-controlling interests	723,855	709,194	173,532	171,005

Separate financial information

	PLN '000		EUR '000	
	for the period Jan 1-Mar 31 2014	for the period Jan 1-Mar 31 2013	for the period Jan 1-Mar 31 2014	for the period Jan 1-Mar 31 2013
Revenue	503,119	546,832	120,093	131,015
Operating profit	18,343	31,804	4,378	7,620
Profit before tax	200,070	60,933	47,756	14,599
Net profit	196,283	54,308	46,852	13,012
Total comprehensive income	196,283	17,087	46,852	4,094
Number of shares	99,195,484	99,195,484	99,195,484	99,195,484
Earnings per ordinary share (PLN)	1.98	0.55	0.47	0.13
Net cash provided by operating activities	28,686	33,506	6,847	8,028
Net cash provided by/(used in) investing activities	160,481	(33,311)	38,306	(7,981)
Net cash used in financing activities	(168,688)	(11,610)	(40,265)	(2,782)
Net increase/(decrease) in cash and cash equivalents	20,479	(11,415)	4,888	(2,735)
Cash at the beginning of the period	6,349	66,992	1,515	16,051
Cash at the end of the period	26,828	55,577	6,404	13,316
	As at Mar 31 2014	As at Dec 31 2013	As at Mar 31 2014	As at Dec 31 2013
Non-current assets	4,874,723	4,883,941	1,168,634	1,177,648
Current assets	498,677	491,865	119,550	118,602
Non-current liabilities	577,247	617,167	138,385	148,815
Current liabilities	615,990	774,758	147,673	186,815
Equity	4,180,163	3,983,881	1,002,125	960,619
Share capital	495,977	495,977	118,902	119,593

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

- individual items of assets and equity and liabilities in the statement of financial position have been translated using the exchange rate effective for the last day of the reporting period:
  the exchange rate as at December 31st 2013 was EUR 1 = PLN 4.1472 (table No. 251/A/NBP/2013),
  the exchange rate as at March 31st 2014 was EUR 1 = PLN 4.1713 (table No. 062/A/NBP/2014),
- items of the statement of profit or loss and other comprehensive income and statement of cash flows have been translated using the arithmetic averages of the EUR/PLN rates quoted by the National Bank of Poland as effective for the last day of each month in the reporting period:
  in Jan 1st–Mar 29th 2013, the average exchange rate was EUR 1 = PLN 4.1738,
  in Jan 1st-Mar 31st 2014, the average exchange rate was EUR 1 = PLN 4,1894.

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

Interim condensed consolidated financial statements for the three months ended March 31st 2014 prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the European Union

STATEMENT OF THE MANAGEMENT BOARD

The Management Board of Grupa Azoty S.A. presents the interim condensed consolidated financial statements for the three months ended March 31st, comprising:

- Condensed consolidated statement of profit or loss and other comprehensive income for the period January 1st – March 31st 2014,
- Condensed consolidated statement of financial position as at March 31st 2014,
- Condensed consolidated statement of changes in equity for the period January 1st–March 31st 2014,
- Condensed consolidated statement of cash flows for the period January 1st–March 31st 2014,
- Supplementary information to the interim condensed consolidated financial statements.

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a clear and fair view of the financial position and financial performance of the Group.

Signatures of the Members of the Management Board

………………………………
Paweł Jarczewski
President of the Management Board

………………………………
Andrzej Skolmowski
Vice-President of the Management Board

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

………………………………
Marek Kapłucha
Vice-President of the Management Board

………………………………
Marian Rybak
Vice-President of the Management Board

………………………………
Krzysztof Jałosiński
Vice-President of the Management Board

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

Person entrusted with maintaining accounting records

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

Tarnów, May 12th 2014

(all figures in PLN ’000, unless indicated otherwise)

Condensed consolidated statement of profit or loss and other comprehensive income

	for the period Jan 1- Mar 31 2014	for the period Jan 1- Mar 31 2013
	unaudited	*unaudited*
Continuing operations		
Revenue	2,702,789	2,677,546
Cost of sales	(2,222,325)	(2,171,149)
Gross profit	**480,464**	**506,397**
Selling and distribution expenses	(137,746)	(98,000)
Administrative expenses	(164,310)	(148,973)
Other income, including:	12,353	206,910
gain from a bargain purchase	-	174,252
Other expenses	(8,839)	(47,267)
Operating profit	**181,922**	**419,067**
Finance income	9,841	50,703
Finance costs	(13,914)	(8,833)
Net finance income	**(4,073)**	**41,870**
Share of profit of equity-accounted associates	2,771	2,389
Profit before tax	**180,620**	**463,326**
Tax expense	(31,078)	(52,879)
Net profit from continuing operations	**149,542**	**410,447**
Discontinued operations		
Net loss from discontinued operations	(188)	(138)
Net profit	**149,354**	**410,309**

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

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

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

	for the period Jan 1- Mar 31 2014	for the period Jan 1- Mar 31 2013
	unaudited	*unaudited*
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Change in fair value of available-for-sale financial assets	511	(45,952)
Exchange differences on translating foreign operations	2,930	967
Other income	-	56
Tax on items that are or may be reclassified to profit or loss	(97)	8,731
Total other comprehensive income	**3,344**	**(36,198)**
Total profit or loss and other comprehensive income	**152,698**	**374,111**
Net profit attributable to:		
Owners of the parent	136,094	379,158
Non-controlling interests	13,260	31,151
Total profit or loss and other comprehensive income attributable to:		
Owners of the parent	138,037	342,960
Non-controlling interests	14,661	31,151
Earnings per share:		
Basic (PLN)	1.37	3.82
Diluted (PLN)	1.37	3.82

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

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

Condensed consolidated statement of financial position

	As at Mar 31 2014	As at Dec 31 2013
	unaudited	*audited*
Assets		
Non-current assets		
Property, plant and equipment	5,787,766	5,791,013
Investment property	52,498	53,374
Intangible assets	499,835	516,099
Goodwill	11,617	11,617
Investments in subordinated entities	131,418	128,944
Available-for-sale financial assets	21,193	23,989
Other financial assets	898	53
Non-current receivables	2,516	3,408
Deferred tax assets	101,562	102,621
Other non-current assets	3,835	4,462
Total non-current assets	**6,613,138**	**6,635,580**
Current assets		
Inventory	1,135,564	1,170,626
Other financial assets	24,619	106,822
Current tax assets	38,209	40,558
Trade and other receivables	1,323,409	1,273,112
Cash and cash equivalents	711,837	713,024
Other non-current assets	45,026	21,016
Assets held for sale	299	792
Total current assets	**3,278,963**	**3,325,950**
Total assets	**9,892,101**	**9,961,530**

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

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

Condensed consolidated statement of financial position (continued)

	As at Mar 31 2014	As at Dec 31 2013
	unaudited	*audited*
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Fair value reserve	2,698	2,346
Exchange differences on translating foreign operations	(7 629)	(9,623)
Retained earnings, including:	2,790,177	2,654,487
profit for the period	*136,094*	*679,593*
Equity attributable to owners of the parent	**5,699,493**	**5,561,457**
Non-controlling interests	**723,855**	**709,194**
Total equity	**6,423,348**	**6,270,651**
Liabilities		
Borrowings	604,613	634,693
Employee benefit obligations	254,516	254,613
Other non-current liabilities	93,293	61,821
Provisions	112,172	119,343
Government grants	24,678	24,906
Deferred tax liabilities	268,688	294,728
Other financial liabilities	21,203	22,513
Total non-current liabilities	**1,379,163**	**1,412,617**
Borrowings	480,909	604,140
Employee benefit obligations	31,469	34,008
Current tax expense	6,282	4,903
Trade and other payables	1,210,640	1,313,547
Provisions	260,693	213,839
Government grants	7,958	2,936
Deferred income	24,096	25,921
Other financial liabilities	67,543	78,968
Total current liabilities	**2,089,590**	**2,278,262**
Total liabilities	**3,468,753**	**3,690,879**
Total equity and liabilities	**9,892,101**	**9,961,530**

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

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

Condensed consolidated statement of changes in equity

for the period ended March 31st 2014

	Share capital	Share premium	Fair value reserve	Exchange differences on translating foreign operations	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at January 1st 2014	**495,977**	**2,418,270**	**2,346**	**(9,623)**	**2,654,487**	**5,561,457**	**709,194**	**6,270,651**
Profit or loss and other comprehensive income								
Net profit	-	-	-	-	136,094	136,094	13,260	149,354
Other comprehensive income	-	-	352	1,994	(403)	1,943	1,401	3,344
Total profit or loss and other comprehensive income	**-**	**-**	**352**	**1,994**	**135,691**	**138,037**	**14,661**	**152,698**
Transactions with owners of the Company, recognised directly in equity								
Share issue	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes in ownership interests in subsidiaries				-				
Acquisition of non-controlling interests without change of control	-	-	-	-	-	-	-	-
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	-	-	-
Total transactions with owners of the Company	**-**	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**(1)**
Balance at Mar 31st 2014 (unaudited)	**495,977**	**2,418,270**	**2,698**	**(7,629)**	**2,790,177**	**5,699,493**	**723,855**	**6,423,348**

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

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

Consolidated statement of changes in equity (continued)

for the period ended March 31st 2013

	Share capital	Share premium	Fair value reserve	Exchange differences on translating foreign operations	Other components of equity	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at January 1st 2013	**320,577**	**680,688**	**37,221**	**(1,279)**		**2,039,413**	**3,076,620**	**414,078**	**3,490,698**
Total comprehensive income									
Net profit	-	-	-	-	-	379,158	379,158	31,151	410,309
Total other comprehensive income	-	-	(37,221)	967	56	-	(36,198)	-	(36,198)
Total comprehensive income	**-**	**-**	**(37,221)**	**967**	**56**	**379,158**	**342,960**	**31,151**	**374,111**
Transactions with owners of the Company, recognised directly in equity									
Share issue	175,400	1,737,978	-	-	-	-	1,913,378	-	1,913,378
Total contributions by and distributions to owners	**175,400**	**1,737,978**	**-**	**-**	**-**	**-**	**1,913,378**	**-**	**1,913,378**
Changes in ownership interests in subsidiaries									
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	-	-	477,933	477,933
Total transactions with owners of the Company	**175,400**	**1,737,978**	-	-		-	**1,913,378**	**477,933**	**2,391,311**
Other	-	-	-	-	(8)	(181)	(189)	8	(181)
Balance at March 31st 2013 (unaudited)	**495,977**	**2,418,666**	**-**	**(312)**	**48**	**2,418,390**	**5,332,769**	**923,170**	**6,255,939**

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

(all figures in PLN ’000, unless indicated otherwise)

Condensed consolidated statement of cash flows

	for the period Jan 1- Mar 31 2014	for the period Jan 1- Mar 31 2013
Cash flows from operating activities		
Profit before tax	**180,620**	**463,188**
Adjustments for:	*153,304*	*117,796*
Depreciation and amortisation	143,149	110,837
Impairment	149	520
Loss from investing activities	1,134	165
Profit on disposal of financial assets	-	(4)
Share of profit of equity-accounted associates	(2,771)	(2,389)
Interest, foreign exchange gains or losses	13,361	7,499
Change in fair value of financial assets at fair value through profit or loss	(1,718)	1,168
Cash from operating activities before changes in working capital	***333,924***	***580,984***
Changes in trade and other receivables	31,478	36,905
Changes in inventory	36,264	171,100
Changes in trade and other payables	(174,966)	(145,749)
Changes in provisions, prepayments and grants	32,656	(21,910)
Other adjustments	(2,052)	74,860
Cash from operating activities	***257,304***	***696,190***
Income taxes paid	(11,897)	(31,623)
Net cash from operating activities	**245,407**	**664,567**

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

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

Consolidated statement of cash flows (continued)

	for the period Jan 1-Mar 31 2014	for the period Jan 1-Mar 31 2013
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	870	1,757
Acquisition of property, plant and equipment, intangible assets and investment property	(145,401)	(150,962)
Dividends received	-	18,500
Acquisition of financial assets	(8,919)	(4,995)
Proceeds from sale of financial assets	96,664	1,518
Interest received	1,430	729
Government grants	-	97
Loans	(400)	(910)
Other proceeds/disbursements	(1,164)	(300)
Net cash used in investing activities	**(56,920)**	**(134,566)**
Cash flows from financing activities		
Net expenses related to share issue	-	(10,762)
Dividends paid	(7,986)	(13)
Proceeds from loans and borrowings	114,189	33,645
Payment of loans and borrowings	(265,682)	(83,048)
Interest paid	(13,770)	(7,542)
Payment of finance lease liabilities	(3,346)	(2,594)
Other proceeds/(disbursements)	(11,668)	7,837
Net cash from financing activities	**(188,263)**	**(62,477)**
Net increase/(decrease) in cash and cash equivalents	**224**	**467,524**
Cash and cash equivalents at the beginning of the period	**713,024**	**243,440**
Effect of exchange rate fluctuations	(1,411)	(451)
Cash and cash equivalents at the end of the period	**711,837**	**710,513**

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

Supplementary information to the interim condensed consolidated financial statements

1. About the Grupa Azoty Group

1.1. Organisational structure

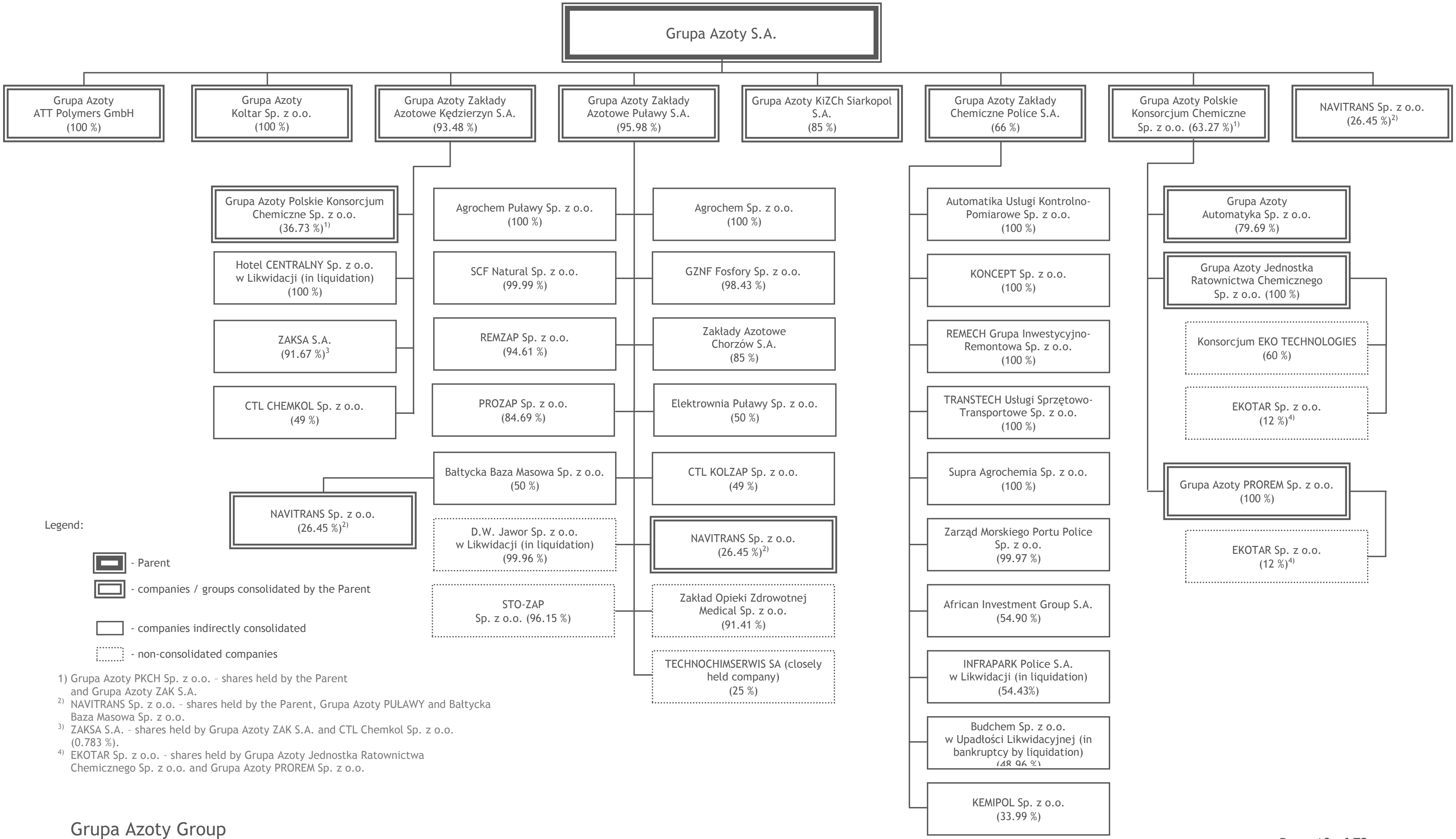
As at March 31st 2014, the Grupa Azoty Group (or the “Group”) comprised Grupa Azoty S.A. (the Parent) and eight subsidiaries (seven companies in which the Parent holds ownership interests above 50%, and one indirectly controlled entity), including:

- Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY),
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty ZAK),
- Grupa Azoty Zakłady Chemiczne Police S.A. (Grupa Azoty POLICE),
- Grupa Azoty ATT Polymers GmbH,
- Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. (Grupa Azoty PKCh),
- Grupa Azoty Koltar Sp. z o.o.,
- Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKOPOL),
- Navitrans Sp. z o.o., an indirectly controlled subsidiary.

Further:

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

Structure of the Group as at March 31st 2014:



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

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

Acquisition of controlling interest in African Investment Group S.A.

In the three months ended March 31st 2014, the adjustments presented in section 1.2.4 Acquisition of African Investment Group S.A. of the Annual consolidated financial statements of the Grupa Azoty Group were not made. Considering that as at the date of these interim condensed consolidated financial statements, the fair value of all acquired net assets had not been measured, the estimated gain on bargain purchase may be subject to change upon final accounting for the purchase.

Change of name of Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A.

On January 9th 2014, the Extraordinary General Meeting of the company resolved to amend the company's Articles of Association by changing the company's name to Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. The new name was registered on February 11th 2014.

Change of name of STO-ZAP Sp. z o.o., Grupa Azoty PUŁAWY's subsidiary

On February 27th 2014, the District Court for Lublin–Wschód in Lublin, with its seat in Świdnik, 6th Commercial Division of the National Court Register, registered the resolutions of the General Meeting of Przedsiębiorstwo Żywienia Zbiorowego i Usług STO-ZAP Sp. z o.o. held on December 9th 2013, concerning amendments to the company's Articles of Association, including the change of name to STO-ZAP Sp. z o.o.

Changes in Supra Agrochemia Sp. z o.o., Grupa Azoty POLICE's subsidiary

On January 27th 2014, the decision of the Extraordinary General Meeting of Supra Agrochemia Sp. z o.o. w likwidacji (in liquidation) of December 16th 2013, to revoke the resolution on the company's liquidation as of January 1st 2014, was registered in the National Court Register along with a change of the company's name to Supra Agrochemia Sp. z o.o.

Relocation of registered office of Grupa Azoty Prorem Sp. z o.o., Grupa Azoty PKCh Sp. z o.o.'s subsidiary

On January 31st 2014, the decision of the company's Extraordinary General Meeting of December 18th 2013 to amend the company's Articles of Association, including to relocate the company's registered office from Tarnów to Kędzierzyn-Koźle, was registered in the National Court Register.

Business combination at Grupa Azoty PKCh Sp. z o.o.

On March 14th 2014, the merger of Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. and Regionalne Laboratorium Oceny Mleka Sp. z o.o., through transfer of all assets of the target company - Regionalne Laboratorium Oceny Mleka Sp. z o.o. to the acquiring company - Grupa Azoty JRCh Sp. z o.o., without increasing the share capital, was registered in the National Court Register.

Incorporation of SCF Natural Sp. z o.o.

Following the Fertilizer Research Institute of Puławy's (Instytut Nawozów Sztucznych) failure to obtain clearance from the Minister of Economy and the Minister of State Treasury to make an in-kind contribution in the form of a hops extraction unit and hops extraction technology to SCF Natural Sp. z o.o., the Fertilizer Research Institute submitted an offer to Grupa Azoty Zakłady Azotowe Puławy S.A., a shareholder in SCF Natural Sp. z o.o., to sell 10 shares in SCF Natural Sp. z o.o. with a par value of PLN 1,000, i.e. PLN 100 per share. A review of the business relationship between the entities is under way.

2. Key events in the three months ended March 31st 2014

Letter of intent signed with KGHM Polska Miedź S.A.

On January 16th 2014, the Management Boards of the Parent and KGHM Polska Miedź S.A. of Lubin signed a letter of intent outlining general terms on which the parties may collaborate in the areas of phosphogypsum processing, acquisition of potassium chloride deposits abroad, accessing natural gas reserves, construction of a polygeneration power plant, and phosphorite exploration and production.
The parties anticipate that their mutual relationship, which is treated as non-exclusive, may take one of the following forms:

- commercial and operational cooperation based on detailed agreements between the parties or their subsidiaries or partners, if any; or
- joint ventures comprising the parties or their subsidiaries or partners, if any, with the proviso that the parties may decide to execute certain projects through a separate vehicle, with the joint venture being the vehicle's sole shareholder.

Expanding the scope of collaboration to include these areas is a step towards implementation of the Parent's strategy. In order to maintain production continuity and maximise utilisation of its production capacities, the Parent seeks to secure strategic feedstock supplies from new or alternative sources, also by forming equity relationships with suppliers.

Given the scope and the schedule of further execution of the project, it is important that the details of the investment agreement be agreed upon, based on which the partners intend to establish the special purpose vehicle, and also to define the rules for purchasing raw materials produced by the SPV. To this end, the partners will request corporate approvals and clearance from the Office of Competition and Consumer Protection.

A similar agreement was signed on January 10th 2014 by the Management Boards of Grupa Azoty PUŁAWY, Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. and KGHM Polska Miedź S.A. The agreement defines the objectives of a joint-venture project in the exploration for, appraisal and production of potassium chloride, phosphates, halite and non-ferrous metals. The agreement marks another step in the cooperation initiated with the letter of intent between Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. and KGHM Polska Miedź S.A. on the joint execution of projects in the exploration for and appraisal of mineral deposits, including potassium chloride, and mining projects involving the development of existing mineral deposits, in Poland and abroad, as well as on the management of recyclable materials (waste) in the recovery of critical metals (including rare earth metals), as reported by Grupa Azoty PUŁAWY in Current Report No. 50/2013 of August 30th 2013. The Agreement provides for other entities of the KGHM Group or the Grupa Azoty Group to participate in any project executed under the letter of intent.
The agreement further stipulates that KGHM Polska Miedź S.A. will be the leader of the project, while the joint equity interest of Grupa Azoty PUŁAWY and Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. or other entities of the Grupa Azoty Group in the SPV, and in projects executed by the SPV, will as a rule be 50%.

Rebranding of Grupa Azoty SIARKOPOL

As Grupa Azoty SIARKOPOL joined the Grupa Azoty Group at the end of the previous year, the company is in the process of rebranding. The company has launched a new website, consistent and aligned with the Parent's, and a number of changes has been made to adjust the company's previous image to the standards followed by the Parent.

Negotiations to acquire shares in Zakłady Chemiczne Organika-Sarzyna S.A.

Grupa Azoty PUŁAWY is continuing negotiations to acquire shares in Zakłady Chemiczne Organika-Sarzyna S.A. of Nowa Sarzyna from Ciech S.A., representing 98.85% of Zakłady Chemiczne Organika-Sarzyna S.A.'s share capital and conferring the right to 98.85% of total voting rights at its general meeting. The negotiations are conducted in line with a schedule agreed with Ciech S.A.

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

3.1. Statement of compliance and general policies

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” endorsed by the European Union and in accordance with the Minister of Finance’s Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (consolidated text: Dz.U. of 2014, No. 133), and present the Grupa Azoty Group’s financial performance as at March 31st 2014, its results of operations and cash flows for the three months ended March 31st 2014.
These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Grupa Azoty Group for the financial year ended December 31st 2013 prepared in accordance with the International Financial Reporting Standards endorsed by the European Union (“EU IFRS”) and other applicable laws.

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

3.2. Accounting policies and computation methods

a) Applied accounting policies
The accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the annual consolidated financial statements for 2013.

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

c) Judgements and estimates
The preparation of these interim condensed consolidated financial statements requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and other factors reasonable in the circumstances and are the basis for determining the net carrying amount of assets and liabilities that do not result directly from other sources. Actual results may differ from these estimates.

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

The key judgements and estimates made by the Management Board in preparing these interim condensed consolidated financial statements were the same as those made in preparing the consolidated financial statements for the financial year ended December 31st 2013.

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

4. Selected supplementary notes

4.1. Accounting estimates and assumptions

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

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

	for the period Jan 1-Mar 31 2014	for the period Jan 1–Dec 31 2013	for the period Jan 1-Mar 31 2013
Balance at the beginning of the period	**621,803**	**406,970**	**406,970**
Effect of acquisition of subsidiaries	-	163,655	141,217
Recognised	70,308	247,068	29,123
Reversed (-)	(22,585)	(50,240)	(5,281)
Used (-)	(10,676)	(145,650)	(26,477)
Balance at the end of the period	**658,850**	**621,803**	**545,552**

Changes in impairment loss of property, plant and equipment

	for the period Jan 1-Mar 31 2014	for the period Jan 1–Dec 31 2013	for the period Jan 1-Mar 31 2013
Balance at the beginning of the period	**171,844**	**129,971**	**129,971**
Effect of acquisition of subsidiaries	-	341	489
Recognised	53	47,658	1,229
Reversed (-)	(318)	(2,366)	(239)
Used (-)	(1,124)	(3,760)	(252)
Balance at the end of the period	**170,455**	**171,844**	**131,198**

Changes in inventory write-downs

	for the period Jan 1-Mar 31 2014	for the period Jan 1–Dec 31 2013	for the period Jan 1-Mar 31 2013
Balance at the beginning of the period	**41,400**	**21,192**	**21,192**
Effect of acquisition of subsidiaries	-	41,122	30,365
Recognised	27,906	44,582	6,614
Reversed (-)	(11,584)	(30,289)	(8,250)
Used (-)	(2,455)	(35,207)	(4,939)
Balance at the end of the period	**55,267**	**41,400**	**44,982**

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

Changes in impairment loss on receivables

	for the period Jan 1-Mar 31 2014	for the period Jan 1–Dec 31 2013	for the period Jan 1-Mar 31 2013
Balance at the beginning of the period	**78,665**	**21,291**	**21,291**
Effect of acquisition of subsidiaries	-	46,529	45,354
Recognised	1,545	21,073	10,159
Reversed (-)	(1,048)	(7,354)	(1,268)
Used (-)	(410)	(2,874)	(300)
Balance at the end of the period	**78,752**	**78,665**	**75,236**

4.2. Segment reporting

Operating segments

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

In 2013, the presentation of the operating segments was changed through the addition of a new Chemicals Segment and Energy Segment and the change of name of the Fertilizers segment. The change was a result of the acquisition of Grupa Azoty PUŁAWY. The former Oxo and Pigments Segments are currently presented jointly under the Chemicals Segment, the Energy Segment was separated from the Other Activities Segment, whereas the Fertilizers Segment is now presented as the Agro Fertilizers Segment.

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

- Agro Fertilizers Segment comprises manufacture and marketing of the following products: nitrogen fertilizers (ammonium nitrate mixtures, ammonium nitrate with filler, carbonic acid diamide, water solution of ammonium nitrate and carbonic acid diamide, ammonium nitrate, urea, nitrate and urea solution), sulfur-based nitrogen fertilizers (mixtures of ammonium nitrate and ammonium sulphate, mixtures of ammonium nitrate and calcium sulphate, ammonium sulphate), compound fertilizers, phosphate fertilizers, ammonia, ammonium nitrate, syngas, nitric acid, industrial gases;
- Plastics Segment comprises manufacture and marketing of the following products: polyamide 6 (PA6), acetal copolymer, polypropylene, polybutylene terephthalate, polyamide 66 (PA66), caprolactam;
- Chemicals Segment comprises manufacture and marketing of the following products: oxo alcohols (2-ethylohexanol, n-butanol, isobutanol, octanol F), plasticizers (DEHP, DIBP, DPHP, DEHT), titanium white, Tytanpol®, melamine, maleic anhydride, AdBlue®, Fespol;
- Energy Segment comprises activities involving production of electricity and heat for the purposes of the chemical installations and contract-based sale of electricity to customers connected to the power network;
- Other Activities Segment comprises the remaining activities, including laboratory services, catalysts, rental of real estate, and other activities which cannot be allocated to any of the segments specified above. None of these activities met the quantitative criteria to be separated as reportable segment in 2013 and 2012.

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

Geographical areas

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

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

Operating segments

Revenue, expenses and financial result of operating segments for the three months ended March 31st 2014

Continuing operations	Agro Fertilizers*	Plastics	Chemicals	Energy	Other Activities	Total
External revenue	1,592,558	374,955	650,766	51,146	33,364	2,702,789
Inter-segment revenue	548,672	88,977	267,208	793,643	160,642	1,859,142
Total revenue	2,141,230	463,932	917,974	844,789	194,006	4,561,931
Operating expenses, including:(-)	(1,967,722)	(477,485)	(881,457)	(847,828)	(209,031)	(4,383,523)
Selling and distribution expenses (-)	*(91,081)*	*(12,797)*	*(33,214)*	*(22)*	*(632)*	*(137,746)*
Administrative expenses (-)	*(86,562)*	*(25,753)*	*(33,996)*	*(3,160)*	*(14,839)*	*(164,310)*
Other income	1,237	736	4,321	924	5,135	12,353
Other expenses(-)	(783)	(74)	(1,561)	(446)	(5,975)	(8,839)
Segment's EBIT	**173,962**	**(12,891)**	**39,277**	**(2,561)**	**(15,865)**	**181,922**
Finance income	-	-	-	-	-	9,841
Finance costs (-)	-	-	-	-	-	(13,914)
Share of profit of equity-accounted associates	-	-	-	-	-	2,771
Profit before tax	**-**	**-**	**-**	**-**	**-**	**180,620**
Result from discontinued operation						**(188)**
Tax expense	-	-	-	-	-	(31,078)
Net profit	**-**	**-**	**-**	**-**	**-**	**149,354**
EBIT**	173,962	(12,891)	39,277	(2,561)	(15,865)	181,922
Depreciation and amortisation	47,361	11,802	27,719	18,512	36,422	141,816
Unallocated depreciation and amortisation	-	-	-	-	-	1,333
EBITDA* **	**221,323**	**(1,089)**	**66,996**	**15,951**	**20,557**	**325,071**

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

(all figures in PLN ’000, unless indicated otherwise)

Revenue, expenses and financial result of operating segments for the three months ended March 31st 2013

	Agro Fertilizers*	Plastics	Chemicals**	Energy**	Other Activities**	Total
External revenue	1,546,096	373,291	588,859	94,691	74,609	2,677,546
Inter-segment revenue	454,274	90,521	117,278	674,131	115,209	1,451,413
Total revenue	2,000,370	463,812	706,137	768,822	189,818	4,128,959
Operating expenses, including:(-)	(1,721,332)	(484,110)	(690,265)	(759,774)	(214,054)	(3,869,535)
Selling and distribution expenses (-)	*(59,630)*	*(12,115)*	*(18,633)*	*(76)*	*(7,546)*	*(98,000)*
Administrative expenses (-)	*(73,176)*	*(26,696)*	*(28,362)*	*(3,441)*	*(17,298)*	*(148,973)*
Other income	8,020	1,331	5,507	2,289	15,511	32,658
Other expenses (-)	(862)	(1,834)	(514)	(2,918)	(41,139)	(47,267)
Segment’s EBIT	**286,196**	**(20,801)**	**20,865**	**8,419**	**(49,864)**	**244,815**
Gain from a bargain purchase					-	174,252
Operating profit	**-**	**-**	**-**	**-**	**-**	**419,067**
Finance income	-	-	-	-	-	50,703
Finance costs (-)	-	-	-	-	-	(8,833)
Share of profit of equity-accounted associates	-	-	-	-	-	2,389
Profit before tax	**-**	**-**	**-**	**-**	**-**	**463,326**
Result from discontinued operation						**(138)**
Tax expense	-	-	-	-	-	(52,879)
Net profit	**-**	**-**	**-**	**-**	**-**	**410,309**
EBIT***	286,196	(20,801)	20,865	8,419	124,388	419,067
Depreciation and amortisation	42,321	10,541	18,883	17,683	19,766	109,194
Unallocated depreciation and amortisation	-	-	-	-	-	1,643
EBITDA****	**328,517**	**(10,260)**	**39,748**	**26,102**	**144,154**	**529,904**

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

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

Geographical areas

Geographical information for the three months ended March 31st 2014

	Revenue	Expenses
Poland	1,558,890	1,423,155
Germany	272,589	266,153
Other EU countries	633,691	605,968
Asian countries	151,310	142,271
South American countries	35,346	37,360
Other countries	50,963	49,474
Total	**2,702,789**	**2,524,381**

Geographical information for the three months ended March 31st 2013

	Revenue	Expenses
Poland	1,511,190	1,240,338
Germany	201,836	295,325
Other EU countries	604,764	553,477
Asian countries	143,927	124,554
South American countries	130,469	123,304
Other countries	85,360	81,124
Total	**2,677,546**	**2,418,122**

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

Contingent assets

	As at Mar 31 2014	As at Dec 31 2013
Contingent receivables	33,506	28,812

Contingent liabilities and guarantees

	As at Mar 31 2014	As at Dec 31 2013
Guarantees	8,161	13,336
Other	1,381,320	1,302,503
Other contingent liabilities	149,107	27,879
	1,538,588	**1,343,718**

ISARIOS Industriekapital AG's claim concerning Grupa Azoty ATT Polymers GmbH
At present, proceedings are pending against the Parent concerning reverse transfer of ownership of shares in Grupa Azoty ATT Polymers GmbH.
The first hearing was held in Düsseldorf on February 12th 2014. Prior to the hearing, the parties exchanged their pleadings, maintaining their earlier positions which remained substantially unchanged from the time of filing the claim and the response to the claim. After the relevant pleadings (concerning recapitulation of the case and submission of evidence) had been exchanged once again, the Court of Arbitration requested the parties to present their respective lists of

expenses incurred in connection with the proceedings. It may be expected that the judgement will be passed within the next few weeks and communicated to the parties in writing (as a rule, without any prior hearing). The judgement will be final, which means that it will not be subject to any ordinary legal remedies.
As at the date of these financial statements, the Parent’s legal advisers maintain their earlier opinion on the validity of the Grupa Azoty ATT Polymers GmbH share sale agreement, claiming that there are no circumstances justifying reverse transfer of ownership of the shares to any entity. They believe that Grupa Azoty has a fair chance to obtain a favourable decision. However, there can be no assurance that actions taken by ISARIOS Industriekapital AG or other entities raising claims to Grupa Azoty ATT Polymers GmbH shares will not result in a negative ruling on the Grupa Azoty ATT Polymers GmbH acquisition by the Parent, which could adversely affect the operations, financial performance and financial standing of Grupa Azoty.

4.4. Related parties

Significant related-party transactions:

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

In the three months ended March 31st 2014, the Grupa Azoty Group did not execute any related-party transactions on non-arm’s length terms.

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

During the three months ended March 31st 2014, the Grupa Azoty Group did not grant any advances, loans, guarantees or sureties to management or supervisory personnel or persons closely related to them, nor did it enter into any agreements with them to provide benefits to the Group.

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

No such events were recorded.

4.6. Dividends

In Q1 2014, the Parent did not pay any dividend.
The Management Board of the Parent reported that on April 15th 2014 it passed a resolution to recommend to the Annual General Meeting payment of dividend for 2013 of PLN 19,839,096.80, or PLN 0.20 per share.
The Management Board submitted the recommendation for assessment by the Supervisory Board. On May 9th 2014, the Company's Supervisory Board approved the recommendation made by the Company's Management Board to the Annual General Meeting to distribute the net profit for 2013 in the following manner:

- PLN 19,839,096.80 for payment of dividend,
- PLN 24,278,168.84 to statutory reserve funds

The final decision on the profit distribution will be made by the Annual General Meeting of the Parent.

4.7. Seasonality of operations

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

Mineral fertilizers

Each year, the first quarter is a period of increased activity in the agricultural sector, when demand for agricultural materials (including mineral fertilizers) is at all-year high. The seasonality of fertilizer sales at the Grupa Azoty Group is minimised through a distribution strategy based on year-round supplies.

Titanium white

Because of its chief application (component of paints and varnishes), titanium white is a seasonal product. Sales of titanium white usually decline during the winter season. Sales pick up in the spring-summer period (Q2 and Q3) on the back of stronger demand for paints and varnishes, mainly in the construction industry.

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

Interim condensed separate financial statements for the three months ended March 31st 2014 prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the European Union

STATEMENT OF THE MANAGEMENT BOARD

The Management Board of Grupa Azoty S.A. presents the interim condensed separate financial statements for the three months ended March 31st 2014, comprising:

- Condensed separate statement of profit or loss and other comprehensive income for the period January 1st–March 31st 2014,
- Condensed separate statement of financial position as at March 31st 2014,
- Condensed separate statement of changes in equity for the period January 1st–March 31st 2014,
- Condensed separate statement of cash flows for the period January 1st–March 31st 2014,
- Supplementary information to the interim condensed separate financial statements.

The interim condensed separate financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union and present fairly and clearly the financial position and financial performance of Grupa Azoty S.A.

Signatures of the Members of the Management Board

………………………………
Paweł Jarczewski
President of the Management Board

………………………………
Andrzej Skolmowski
Vice-President of the Management Board

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

………………………………
Marek Kapłucha
Vice-President of the Management Board

………………………………
Marian Rybak
Vice-President of the Management Board

………………………………
Krzysztof Jałosiński
Vice-President of the Management Board

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

Person entrusted with maintaining accounting records

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

Tarnów, May 12th 2014

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

Condensed separate statement of profit or loss and other comprehensive income

	for the period Jan 1- Mar 31 2014	for the period Jan 1- Mar 31 2013
	unaudited	*unaudited*
Profit or loss		
Revenue	503,119	546,832
Cost of sales	(432,397)	(464,674)
Gross profit	**70,722**	**82,158**
Selling and distribution expenses	(18,278)	(13,081)
Administrative expenses	(32,484)	(32,970)
Other income	281	1,849
Other expenses	(1,898)	(6,152)
Operating profit/(loss)	**18,343**	**31,804**
Finance income	191,075	32,647
Finance costs	(9,348)	(3,518)
Net finance income	**181,727**	**29,129**
Profit before tax	**200,070**	**60,933**
Tax expense	(3,787)	(6,625)
Net profit	**196,283**	**54,308**
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Change in fair value of available-for-sale financial assets	-	(45,952)
Tax on items that are or may be reclassified to profit or loss	-	8,731
	-	**(37,221)**
Total other comprehensive income	**-**	**(37,221)**
Total profit or loss and other comprehensive income	**196,283**	**17,087**
Earnings per share:		
Basic (PLN)	1.98	0.55
Diluted (PLN)	1.98	0.55

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

(all figures in PLN ’000, unless indicated otherwise)

Condensed separate statement of financial position

	As at Mar 31 2014	As at Dec 31 2013
	unaudited	*audited*
Assets		
Non-current assets		
Property, plant and equipment	990,766	1,000,610
Investment property	14,860	15,154
Intangible assets	41,530	40,370
Investments in subordinated entities	3,814,983	3,814,983
Available-for-sale financial assets	12,134	12,134
Other non-current assets	450	690
Total non-current assets	**4,874,723**	**4,883,941**
Current assets		
Inventory	200,504	236,749
Other financial assets	4,539	5,649
Current tax assets	10,268	10,268
Trade and other receivables	244,786	227,114
Cash and cash equivalents	26,828	6,349
Other non-current assets	11,627	5,611
Assets held for sale	125	125
Total current assets	**498,677**	**491,865**
Total assets	**5,373,400**	**5,375,806**

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

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

Condensed separate statement of financial position (continued)

	As at Mar 31 2014	As at Dec 31 2013
	unaudited	*audited*
Equity and liabilities		
Equity		
Share capital	495,977	495,977
Share premium	2,418,270	2,418,270
Fair value reserve	-	-
Retained earnings, including:	1,265,916	1,069,634
Profit for the period	*196,283*	*44,117*
Total equity	**4,180,163**	**3,983,881**
Liabilities		
Borrowings	471,949	513,827
Employee benefit obligations	41,873	41,873
Provisions	22,674	22,781
Government grants	3,426	3,463
Deferred tax liabilities	35,956	33,381
Other financial liabilities	1,369	1,842
Total non-current liabilities	**577,247**	**617,167**
Borrowings	296,961	402,883
Employee benefit obligations	2,369	2,369
Trade and other payables	200,921	257,177
Provisions	49,526	40,145
Government grants	4,842	533
Deferred income	4,397	3,669
Other financial liabilities	56,974	67,982
Total current liabilities	**615,990**	**774,758**
Total liabilities	**1,193,237**	**1,391,925**
Total equity and liabilities	**5,373,400**	**5,375,806**

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

(all figures in PLN ’000, unless indicated otherwise)

Condensed separate statement of changes in equity

for the period ended March 31st 2014

	Share capital	Share premium	Retained earnings	Total equity
Balance at January 1st 2014	**495,977**	**2,418,270**	**1,069,634**	**3,983,881**
Profit or loss and other comprehensive income				
Net profit	-	-	196,283	196,283
Total profit or loss and other comprehensive income	**-**	**-**	**196,283**	**196,283**
Other	-	-	(1)	(1)
Balance at Mar 31st 2014 (unaudited)	**495,977**	**2,418,270**	**1,265,916**	**4,180,163**

for the period ended March 31st 2013

	Share capital	Share premium	Fair value reserve	Retained earnings	Total equity
Balance at January 1st 2013	**320,577**	**680,688**	**37,221**	**1,176,649**	**2,215,135**
Profit or loss and other comprehensive income					
Net profit	-	-	-	54,308	54,308
Other comprehensive income	-	-	(37,221)	-	(37,221)
Total profit or loss and other comprehensive income	**-**	**-**	**(37,221)**	**54,308**	**17,087**
Transactions with owners of the Company, recognised directly in equity					
Share issue	175,400	1,737,978	-	-	1,913,378
Total transactions with owners of the Company	**175,400**	**1,737,978**	**-**	**-**	**1,913,378**
Balance at March 31st 2013 (unaudited)	**495,977**	**2,418,666**	**-**	**1,230,957**	**4,145,600**

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

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

Condensed separate statement of cash flows

	for the period Jan 1-Mar 31 2014	for the period Jan 1-Mar 31 2013
	unaudited	*unaudited*
Cash flows from operating activities		
Profit before tax	**200,070**	**60,933**
Adjustments for:	*(157,756)*	*26,553*
Depreciation and amortisation	22,111	21,574
(Reversal of)/impairment losses of assets	(103)	807
(Profit)/loss from investing activities	707	(63)
Interest, foreign exchange gains or losses	10,112	3,843
Dividends	(190,429)	-
Change in fair value of financial assets at fair value through profit or loss	(154)	392
Cash from operating activities before changes in working capital	***42,314***	***87,486***
Changes in trade and other receivables	(17,653)	(33,644)
Changes in inventory	36,244	37,852
Changes in trade and other payables	(44,880)	(28,049)
Changes in provisions, prepayments and grants	13,873	1,144
Other adjustments	-	(27,255)
Cash from operating activities	***29,898***	***37,534***
Income taxes paid	(1,212)	(4,028)
Net cash from operating activities	**28,686**	**33,506**

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

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

Condensed separate statement of cash flows (continued)

	for the period Jan 1-Mar 31 2014	for the period Jan 1-Mar 31 2013
	unaudited	*unaudited*
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and investment property	566	1,283
Acquisition of property, plant and equipment, intangible assets and investment property	(30,518)	(49,537)
Dividends received	190,429	18,500
Acquisition of financial assets	-	(3,561)
Government grants	-	97
Loans	1,265	805
Other disbursements	(1,261)	(898)
Net cash used in investing activities	**160,481**	**(33,311)**
Cash flows from financing activities		
Net expenses related to share issue	-	(10,763)
Dividends paid	(1)	(9)
Proceeds from loans and borrowings	32,242	7,977
Payment of loans and borrowings	(180,523)	(13,039)
Interest paid	(9,631)	(3,034)
Payment of finance lease liabilities	(459)	(541)
Other proceeds/disbursements	(10,316)	7,799
Net cash from financing activities	**(168,688)**	**(11,610)**
Net increase/(decrease) in cash and cash equivalents	**20,479**	**(11,415)**
Cash and cash equivalents at the beginning of the period	**6,349**	**66,992**
Cash and cash equivalents at the end of the period	**26,828**	**55,577**

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

Supplementary information to the interim condensed separate financial statements

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

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

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

Management's discussion and analysis: the Grupa Azoty Group in Q1 2014

1. Discussion of the interim consolidated financial statements

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

1.1.1. Volatility of exchange rates

The conflict in Ukraine, its escalation and annexation of Crimea by Russia led to increased volatility of the PLN/EUR and PLN/USD exchange rates, which was however offset by the positive effects of economic recovery in Poland and globally.
During Q1 2014, the Polish currency slightly weakened, by approximately 0.7% against USD and by about 0.6% against EUR over December 31st 2013. At the same time, the average PLN/EUR exchange rate in Q1 2014 was similar to the average exchange rate in the previous quarter, while the average PLN/USD exchange rate was up by about 0.6% on the previous quarter.
Since the quarter-on-quarter changes in PLN/EUR and PLN/USD exchange rates were not significant, they had no material effect on the Group’s performance in the period.
Based on the Market Risk Management Policy under the 2014 Plan and in accordance with the internal guidelines of the Foreign Exchange Risk Committee, in Q1 2014 the Group applied rolling hedges to up to 50% of its planned currency exposure under open contracts, in a time horizon of up to twelve months from the hedge contract date.
In Q1 2014, the Group’s hedging tools were EUR and USD swap forwards, reflecting its planned net exposure in both currencies.
The Grupa Azoty Group earned a PLN 579 thousand gain on hedging transactions realised in the three months of 2014, and a PLN 2,008 thousand gain on revaluation of cash-flow hedges.
On non-hedged net currency exposure, the Group reported a PLN (205) thousand foreign exchange loss, and a PLN 1,883 thousand surplus of foreign-currency income over expenses.
In total, during the three months of 2014, the Group’s total result on foreign exchange differences and currency derivative transactions (taking into account revaluation as at the end of the reporting period) was PLN 4,218 thousand (including PLN 327 thousand on realised foreign exchange differences and hedging transactions and PLN 3,891 thousand on unrealised items).
In the three months of 2014, the Group had a PLN 1 thousand realised gain on valuation of interest rate hedging instruments (collar transactions for EUR-denominated loans), and a PLN (445) thousand loss on valuation and settlement of transactions hedging the price of emission rights.

Following the coming into force of Regulation No. 648/2012 of the European Parliament and of the Council of July 4th on OTC derivatives, central counterparties and trade repositories, the financial and non-financial counterparties are obliged to report to a trade repository the details of any derivative contract they have concluded and of any modification or termination of the contract.
To fulfil these obligations, the Grupa Azoty Group companies which enter into such transactions were assigned LEI codes by the Polish NDS that identify parties to transactions on financial markets.
The regulation enables delegation of transaction reporting to other entities, and therefore the Group companies made relevant amendments to their agreements with banks, with which they enter into transactions that are subject to such reporting. Under the amended agreements, banks will report the transactions to the trade repository maintained by the Polish NDS. Additionally, the Group companies filed applications with the Polish NDS for execution of participation agreements and granting of Indirect Repository Participant (PUR) status, which enable access to information on derivative contracts to which they are counterparties, and provide the ability to amend the reports submitted by the other counterparty (bank).

1.1.2. CO_2 emission allowances

In Q1 2014, the CO_2 allowances market was characterised by uncertainty and volatility, due to the nearing allowances redemption deadline, the risk that production installations may not receive free allowances, a lower number of allowances available at auctions (as a result of backloading), and information on possible structural changes after 2020.
In the reporting period, the average spot price of EUA rights (CO_2 emission rights) was EUR 5.85 (EUR 4.75 in the previous quarter), while the maximum and minimum prices were EUR 7.19 and EUR 3.97, respectively.

The growing price of emission allowances relative to Q4 2013 was caused by the limited amount of allowances available on the primary market. As a result of backloading, the emission volumes available at auctions decreased by about 50%. The growth of prices was also driven by the nearing redemption deadline for 2013 emissions, and the related stronger demand for allowances.
The Group companies received free allocation of CO_2 emission allowances for 2013 and 2014. By the end of April 2014, the 2013 allowances were redeemed in line with the audit report.
Also, the European Commission published its assumptions for the 2021-2030 climate and energy package, which serve as guidelines for regulations to be effective in the subsequent trading period of 2021-2030. Introduction of the legally binding target for greenhouse emissions to be reduced by 40% on the 1990 levels, is one of the three pillars of the European Commission's new policy. The proposed changes assume that the stringent environmental policy will be upheld, which may translate into higher prices of carbon dioxide emission allowances in the future.

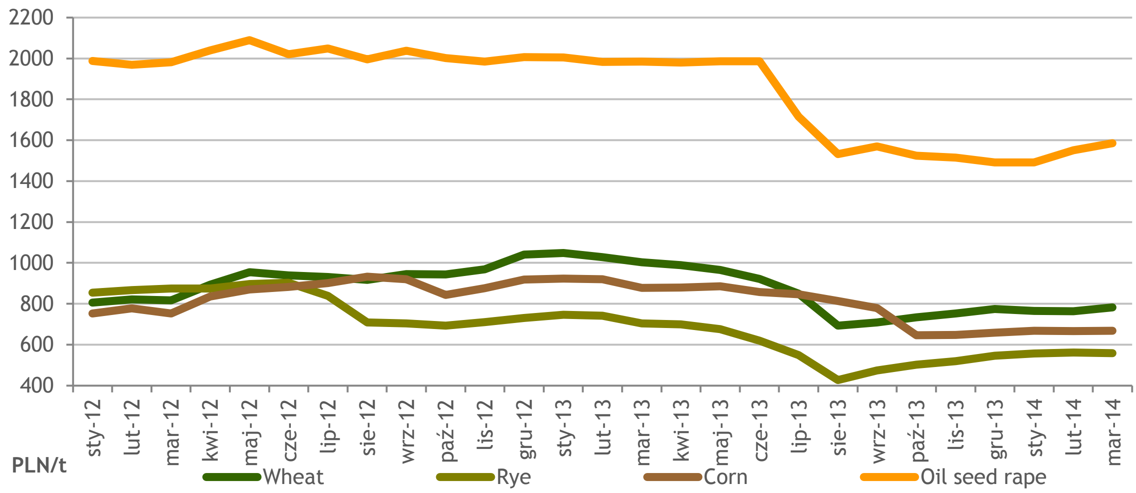
1.1.3. Market overview

Agro Fertilizers

Agricultural market

Grain prices continued to increase slightly towards the end of Q1 2014 on the back of higher exports and declining stockpiles, with the increase additionally driven by the situation in Ukraine. Rape prices were also up in Q1 2014. However, prices of agricultural produce in 2014 are lower than in 2013.
Strategie Grains estimates that the grain harvest in Poland will be comparable with the 28.06m tonnes reported in 2013. This figure could only decline due to unfavourable weather conditions in the summer, including in particular soil humidity.
According to the Agricultural Market Agency, grain prices in H1 2014 will change seasonally on the back of declining stocks and domestic demand.

Oil seed rape, wheat, rye and corn prices

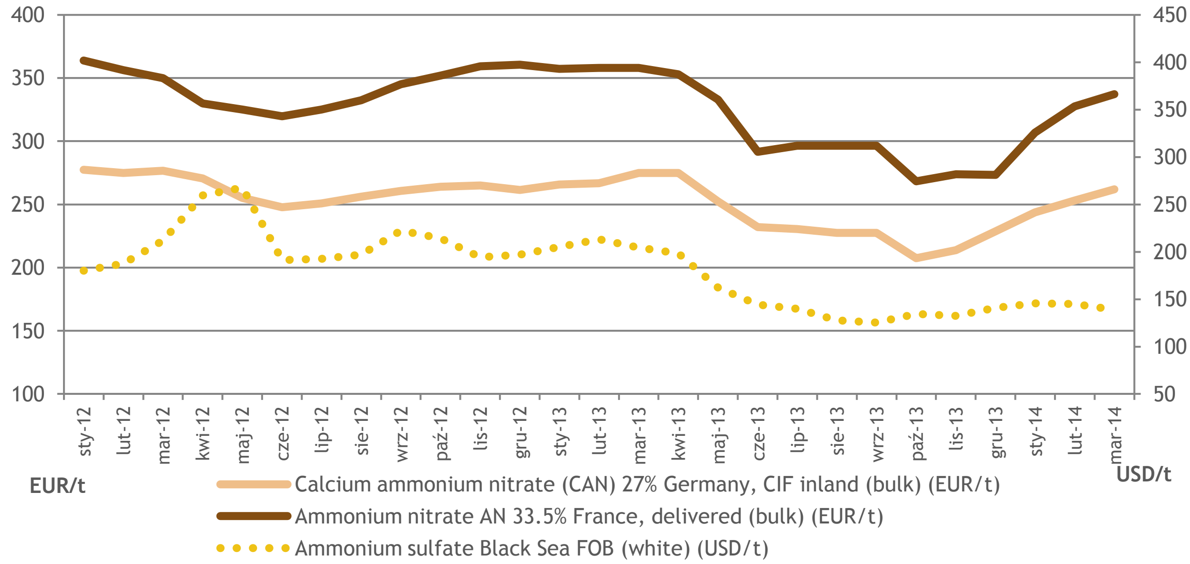


Source: Ministry of Agriculture and Rural Development.

Nitrogen fertilizers

By the end of Q1 2014, direct subsidies from the EU had reached PLN 9.4bn, i.e. approximately 63% of the budgeted total. The demand for nitrate fertilizers from the domestic agricultural segment has been estimated as very high. This was caused by the mild winter weather, as a result of which the fertilizer application season started significantly earlier. The substantial demand for ammonium nitrate in Q1 2014 led to local shortages of the fertilizer.
The situation was similar in Western Europe, where prices of nitrate fertilizers also rose. The increase was further advanced by limited availability of nitrate fertilizers, attributable to technical difficulties experienced by the manufacturers in this region. As a consequence, the prolonged shortage of ammonium nitrate (e.g. in France) had to be covered with urea imports. Imports of nitrate fertilizers to Western Europe were low, primarily because of the strong demand for the product on the manufacturers' local markets.

CAN, AN and AS prices



Sources: ICIS, FMB.

Ammonium nitrate/calcium ammonium nitrate (CAN)

In Q1 2014, average quarterly prices of ammonium nitrate were down year or year, from EUR 324/tonne to EUR 358/tonne. Calcium ammonium nitrate followed a similar trend, with the average price at EUR 253/tonne, as opposed to USD 269/tonne in 2014.

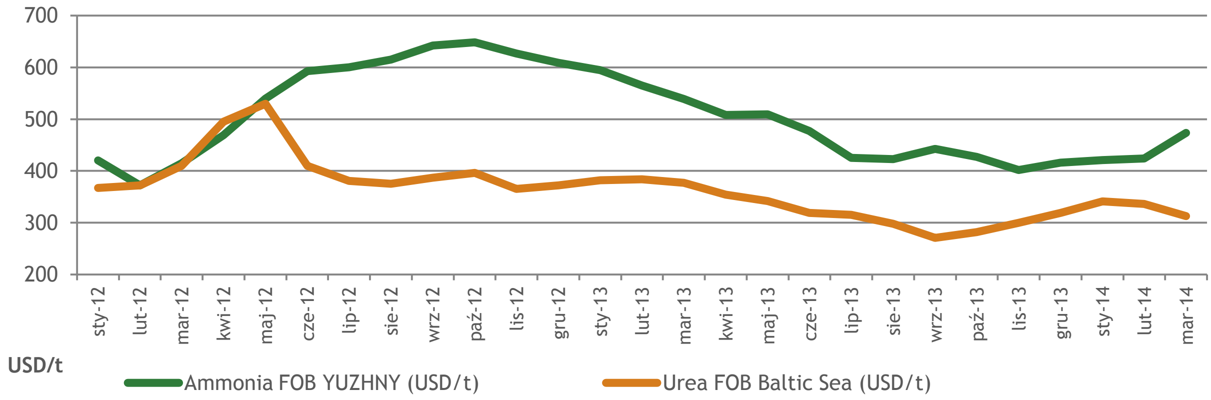
Ammonium sulfate

The substantial oversupply of ammonium sulfate drove down its average quarterly prices, from USD 205/tonne in Q1 2013 to USD 143/tonne in Q1 2014.
Over the same time, the gap between prices of coke-oven sulfate, coarse-grained sulfate from compacting and white sulfate from caprolactam production narrowed.

Saletrosan® (ammonium sulfate nitrate, ASN)

Also prices of ammonium sulfate nitrate decreased year on year. The decrease was correlated with the decline of nitrate fertilizers prices.

Ammonia and urea prices



Sources: ICIS, FMB.

Ammonia

In Q1 2014, the situation on the ammonia market was unstable, chiefly due to the political unrest in former Soviet Union countries (Russia and Ukraine are among the largest producers and exporters of ammonia). The demand for ammonia for fertilizer production (Europe, the US and South Africa) and technological applications (Asia) remained low. The harsh weather conditions prevailing in several US states during the winter of 2013/2014 were the main reason behind lower sales of agricultural ammonia to the US, which is the world’s largest importer of ammonia.
A number of manufacturers experienced technical issues (Qatar, the US, Thailand) or gas supply difficulties (Trinidad, Egypt) in the period. Ammonia prices followed a visible downward trend, with the average quarterly prices down from EUR 566/tonne in Q1 2013 to EUR 439/tonne in Q1 2014 (FOB Black Sea).

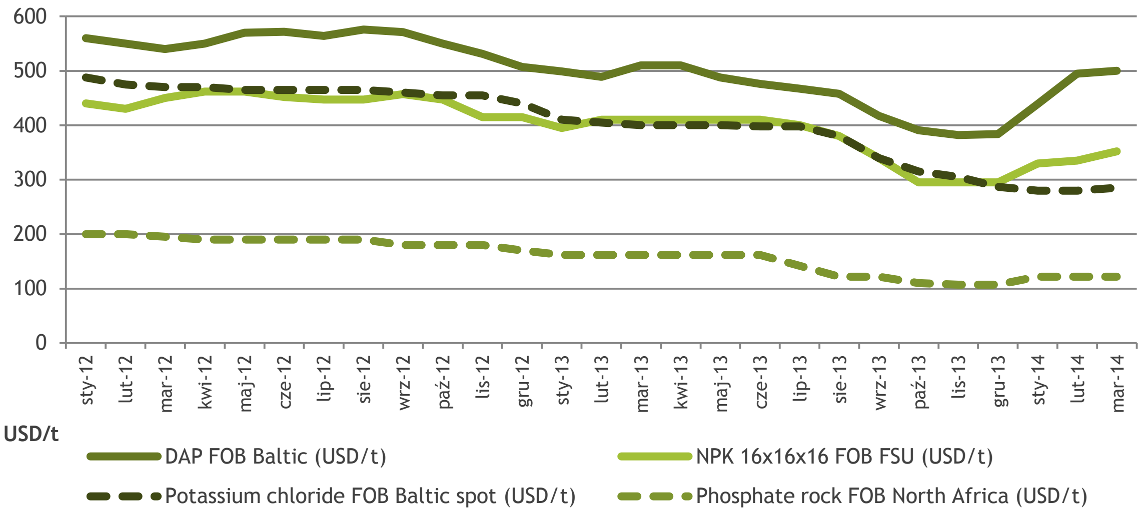
Urea

Urea prices also decreased markedly year on year, as average quarterly prices of prilled bulk urea fell from EUR 381/tonne in Q1 2013 to EUR 330/tonne in Q1 2014 (FOB Baltic).

UAN

In Q1 2014, the prices of liquid fertilizers on global markets followed an upward trend. This was chiefly due to limited product availability, as the largest manufacturers focused on local markets and reduced exports. On the other hand, farmers and distributors were interested in replenishing their stocks prior to the beginning of the new fertilizer application season. The average UAN FOB Baltic Sea price in Q1 2014 was EUR 202/tonne, having increased from EUR 162/tonne in Q4 2013.

Prices of NPK, DAP, potassium chloride and phosphate rock



Source: FMB, FERTECON, Profercy.

NPK fertilizers

Early in Q1 2014, European manufacturers of NPK fertilizers increased prices of basic fertilizers, as per their previous announcements. In most European countries, the demand for NPK fertilizers was negligible, except for France and Spain, where it remained high.

In March 2014, the demand for NPK fertilizers in Western Europe improved markedly on the back of better weather conditions, which encouraged European manufacturers to increase their prices by EUR 5-10/tonne. The market was short of specialised chloride-free NPK fertilizers because of disruptions in supply of potassium sulfate, which is the key feedstock for manufacture of such fertilizers.

In the reporting period, many Polish farms, including in particular large enterprises, bought cheaper imported NPK fertilizers or blended fertilizers to generate savings.

Lower availability of imported compound fertilizers had a positive effect on sales of NPK by Polish manufacturers. NPK 16x16x16 prices decreased markedly year on year, with the average quarterly prices down from USD 405/tonne in Q1 2013 to USD 339/tonne in Q1 2014 (FOB FSU).

DAP fertilizers

The growing demand for DAP and other phosphate fertilizers (MAP, NP), first seen late in December 2013, continued throughout January and February 2014. The highest demand for fertilizers was recorded in Brazil, Australia and Europe, as well as the US, Turkey, Vietnam and Pakistan. Prices of DAP grew gradually throughout the quarter. The prices, which stabilised in the first half of March, started to fall again on some of the markets (Brazil, Argentina), eventually driving down the price (DAP FOB Baltic).

DAP fertilizer prices followed a visible downward trend, with the average quarterly prices down from EUR 499/tonne in Q1 2013 to EUR 478/tonne in Q1 2014 (FOB Baltic).

Phosphorite

The price of DAP and other phosphate fertilizers increased at the beginning of Q1 2014. In January 2014, the largest phosphate rock exporter, OPC of Morocco, raised prices by USD 15/tonne, to USD 115-130/tonne (FOB Morocco). In the same period, the phosphate rock supplier from Algeria also increased prices by USD 10/tonne, to USD 95-100/tonne.

Phosphorite prices did not change in February and March 2014.

The prices decreased year on year, with the average quarterly prices down from USD 162/tonne in Q1 2013 to USD 122/tonne in Q1 2014 (FOB North Africa).

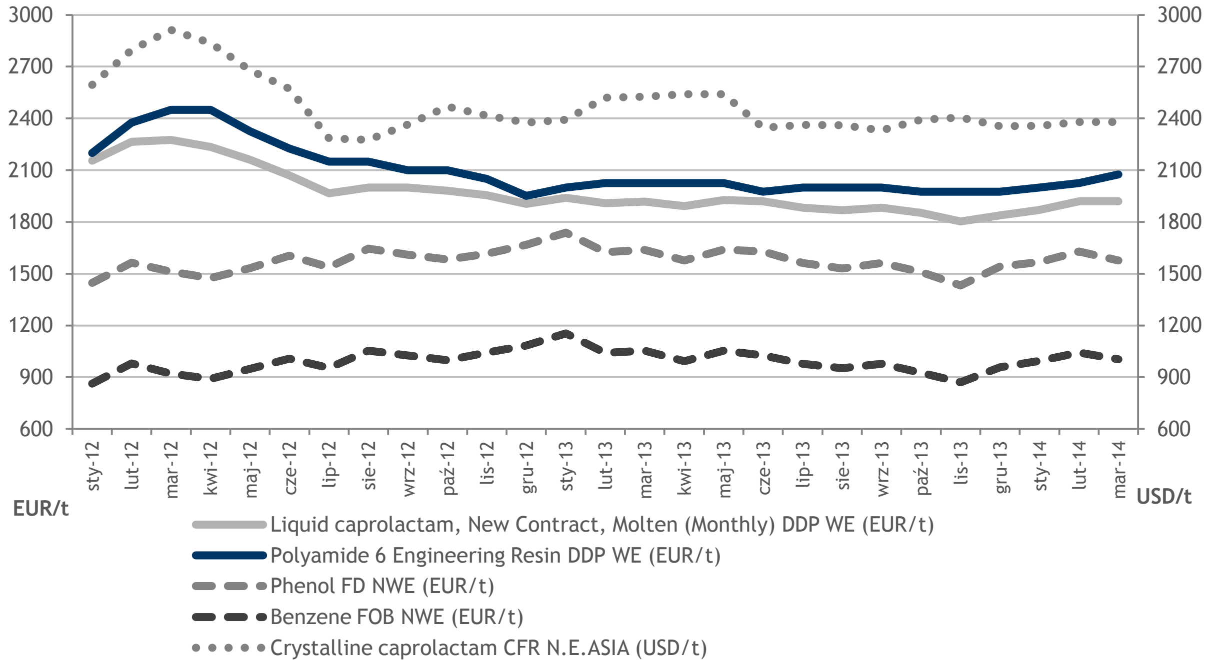
Potassium chloride (KCl)

Early in Q1 2014, large contracts for supplies of potassium chloride to China were executed. The prices under the China contracts are a benchmark for other customers on large markets such as

India, Malaysia, the Philippines, Indonesia and Brazil. Following the transactions, the potassium chloride market eased and spot prices stabilised at USD 240-320/tonne (based on FOB Baltic). The prices decreased substantially year on year, with average quarterly prices down from USD 405/tonne in Q1 2013 to USD 282/tonne in Q1 2014 (FOB Baltic).

Plastics

Prices of caprolactam, PA6, benzene and phenol



Source: TECNON, ICIS.

Benzene

The first quarter of 2014 saw volatility in benzene prices. The market remained unstable, which had no direct justification in the market itself but was rather a result of a downward correction on the very high pricing in February, an appreciable rise in global demand for benzene (inflated by increased volumes of European benzene purchased by customers in the United States) and speculative transactions. In Q1 2014, average quarterly prices of benzene were down year or year, from EUR 1,153/tonne to EUR 994/tonne.

Phenol

The situation on the phenol market in Q1 2014 was stable despite a slight oversupply. Due to weaker demand for key phenol-based products, the largest European manufacturers had to temporarily reduce their phenol output. The average capacity utilisation rate at Europe's largest plants was relatively low. Favourable conditions on the acetone market was a positive signal contributing to market stabilisation.
Phenol prices decreased 4.6% year on year, with the average quarterly price (FD NWE) down from EUR 1,666/tonne in Q1 2013 to EUR 1,590/tonne in Q1 2014.

Caprolactam

In Q1 2014, demand for caprolactam in Europe remained weak but stable.
The launch of new caprolactam facilities in late 2013 and resumed production after maintenance shutdowns in Asia reduced imports from Europe and the United States.
The caprolactam market is affected by the development of the target markets for polyamide-based products, which mainly include engineering plastics markets.

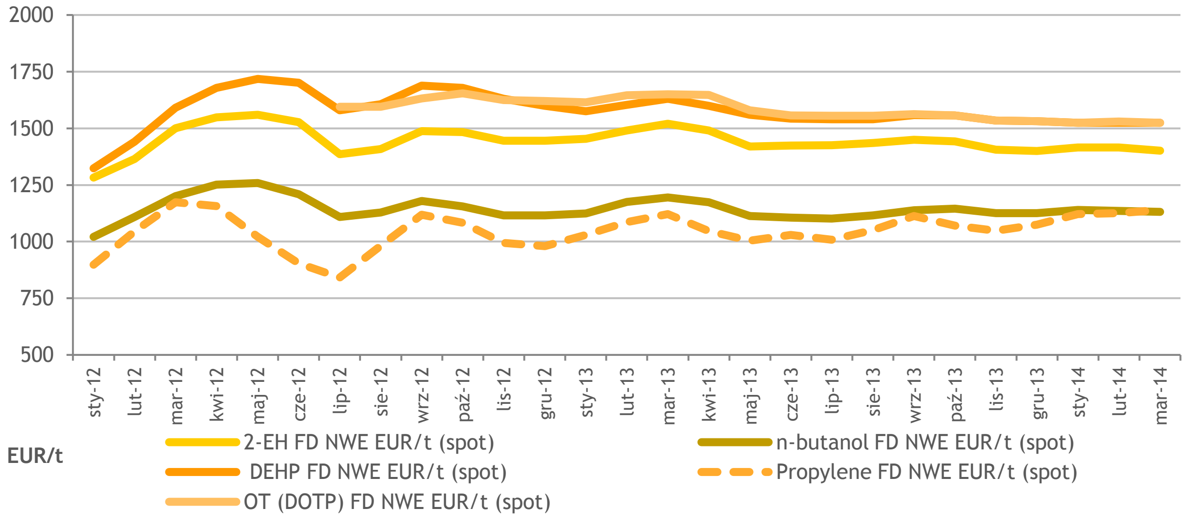
Compared with the corresponding period of the previous year, prices liquid and flaked caprolactam declined. In Q1 2014, the average quarterly price of liquid caprolactam (DDP WE) was EUR 1,903/tonne, compared with EUR 1,922/tonne in the same period of the previous year, while flaked caprolactam prices (CFR N.E.ASIA) stood at USD 2,373/tonne vs. USD 2,429/tonne a year ago.

Polyamide 6 (PA 6)

Q1 2014 saw slightly higher prices of polyamide 6 and a stronger demand on the target markets for polyamide 6-based products, in particular on the automotive market. Polyamide 6 exports from Europe to Asia, in particular to South Korea, have consistently grown. If the trend is confirmed by trade statistics, this may mean a new direction in the global polyamide supply chain. European manufacturers are unsettled as the rapid growth in prices may attract undesirable imports of polyamide 6.
In Q1 2014, average quarterly prices of polyamide 6 (Engineering Resin Virgin Tecnon, DDP) were up year or year, from EUR 1,992/tonne to EUR 2,033/tonne.

Chemicals

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



Source: ICIS.

Propylene

In Q1 2014, propylene prices increased. The supply and demand situation slightly deteriorated due to limited availability of the product on the market resulting from unplanned maintenance shutdowns at several propylene manufacturers at the beginning of the year and reduced output driven by weak demand for ethylene (whose manufacture is closely associated with propylene production).
Propylene prices increased year on year, with the average quarterly price (FD NWE spot) up from EUR 1,079/tonne in Q1 2013 to EUR 1,129/tonne in Q1 2014.

(all figures in PLN ’000, unless indicated otherwise)

Oxo alcohols and plasticizers

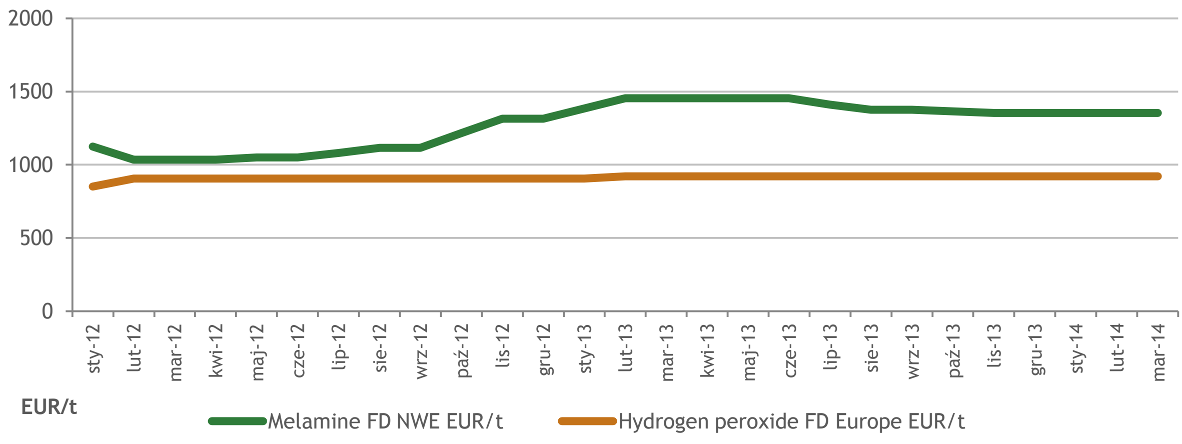
On the plasticizers market, demand for individual products varied. DEHP was in oversupply, while a strong growth in demand for DOTP was seen in Europe. On the other hand, the DEHP market has consistently shrunk. In view of the rising demand for DOTP, a German manufacturer Oxea announced its intention to expand its existing production capacities by 50,000 tonnes per annum. The project is scheduled for completion in Q4 2015.

Demand on the European market for oxo alcohols remained strong. Consumption of 2EH (in the acrylates segment) and 2EHN was stable throughout Q1 2014. A clear change in the structure of the plasticizers market was observed. Lower DEHP consumption was in large part offset by manufacturers of substitute plasticizers, in particular DOTP. Worse economic conditions are reflected in lower industrial output and consumption of finished goods, also in the construction industry, and stronger price pressures from customers. In Europe, large volumes of 2-EH and N-butanol were imported from Russia. The demand for N-butanol in Q1 2014 was stable. The increased availability of non-European products (imports from Russia and South Africa) had a material bearing on the sales of European manufacturers. In Q1 2014, the situation on the isobutanol market was very difficult. The highly fragmented sales structure and strong competition made it impossible to offer favourable prices. Margins on sales to the EU were low and, given the price levels on Asian markets, exports were unprofitable.

Compared with the same period a year ago, prices of OXO alcohols and plasticizers declined; the average quarterly prices were as follows:

	2-EH FD NWE EUR/t (spot)	n-butanol FD NWE EUR/t (spot)	DEHP FD NWE EUR/t (spot)	OT (DOTP) FD NWE EUR/t (spot)
Q1 2013	1,488	1,164	1,603	1,637
Q1 2014	1,410	1,136	1,525	1,527

Prices of melamine and hydrogen peroxide (100% solution)



Source: ICIS, Global Bleaching Chemicals.

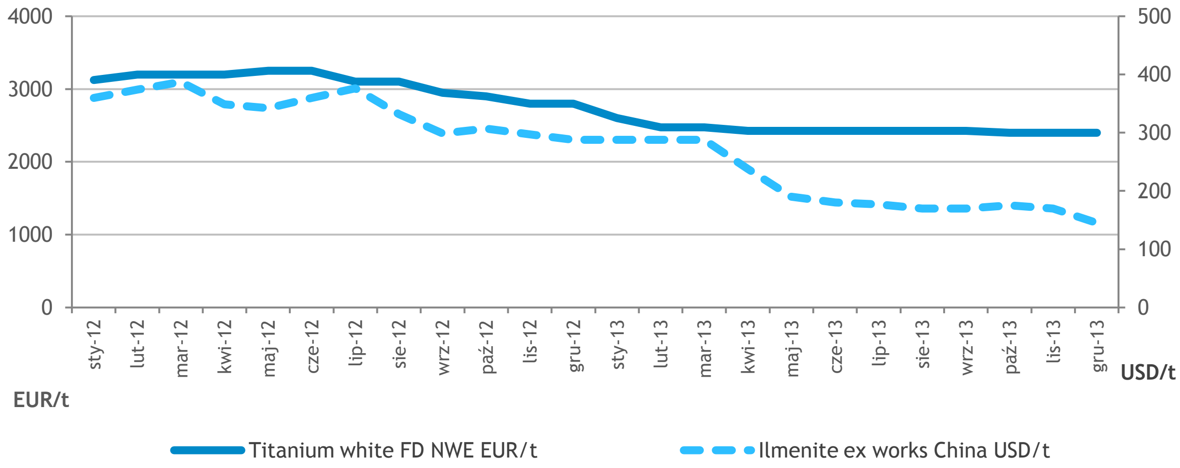
Melamine

In Q1 2014, the European melamine market was balanced. Demand was stable, although weaker than expected. The situation is expected to improve in the next quarter in connection with the anticipated recovery in the construction industry.
At the beginning of the reporting period, a Qatari manufacturer performed a partial plant overhaul, but at the end of the quarter it stopped production again for two weeks due to a failure. In April 2014, Grupa Azoty PUŁAWY will perform maintenance work at its Melamine III Plant. Maintenance work has also been announced by a Linz-based manufacturer. Melamine prices declined year on year, with the average quarterly price (NWE) down from EUR 1,432/tonne in Q1 2013 to EUR 1,353/tonne in Q1 2014.

Hydrogen peroxide

In Q1 2014, the European market for hydrogen peroxide was stable (despite the usual slowdown in the winter season). Supply was adequate while demand was slightly weaker, though balanced.
The stable demand for hydrogen peroxide and continuous availability of the product resulted in the 2014 price negotiations held in January concluding with a price reduction by approximately 3%.
Year on year, prices of hydrogen peroxide grew, with the average quarterly price (FD Europe) up from EUR 915/tonne in Q1 2013 to EUR 920/tonne in Q1 2014.

Market prices of titanium white and ilmenite



Sources: ICIS, CCM.

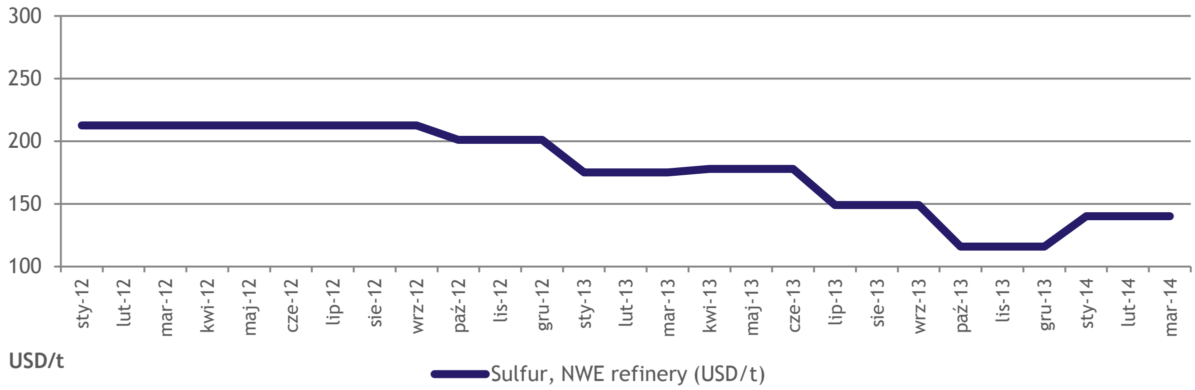
Titanium white

In Q1 2014, there was no significant strengthening of the global titanium white markets. On the markets of largest customers, i.e. in the United States and Europe, the prevailing economic challenges restrained demand for titanium white. One of the largest sources of demand is still the paper industry, which for many years has consistently recorded a decline in paper sales, affecting demand for titanium white. Titanium white prices decreased year on year, with the average quarterly price (FD NWE) down from EUR 2,517/tonne in Q1 2013 to EUR 2,350/tonne in Q1 2014.

Ilmenite

Unfavourable conditions on the titanium white market resulted in a decline in prices of key raw materials on the market of the largest titanium white manufacturer in China (accounting for over 30% of global production).
Ilmenite prices declined year on year, with the average quarterly price (ex works China) down from EUR 228/tonne in Q1 2013 to EUR 128/tonne in Q1 2014.

Sulfur prices



Sources: FERTECON.

Sulfur

Throughout Q1 2014, NWE refinery prices of sulfur remained unchanged. New developments on the sulfur market included a reduction of sulfur production in the Persian Gulf region and China, logistics difficulties in Russia and Canada, and increased sulfur imports by China and India.
Compared with the corresponding period of the previous year, sulfur prices declined, with the average quarterly price (NWE refinery) of USD 140/tonne (Q1 2013: USD 175/tonne).

Energy Segment

Electricity

In the first quarter, electricity prices on the wholesale market followed an upward trend.
The prices and transmission charges applicable to the Grupa Azoty Group are set in the PSE S.A. Electricity Tariff approved by the President of the Energy Regulatory Office for a given calendar year.

Coal

In Q1 2014, the global market continued to struggle with a vast oversupply of coal. The slight increase in prices seen at the end of 2013 was attributable to the start of the heating season and higher coal consumption by CHP plants. Coal mines continue to look for savings by reducing costs or abandoning production from deposits which are difficult to reach, as any stronger demand recovery can hardly be expected in the short-term horizon.

Natural gas

In Q1 2014, natural gas prices on the European market continued to follow a steady downward trend in an environment characterised by falling consumption (warm winter) and full gas storage facilities. Starting from mid-February, gas could be acquired on the European market at prices lower than gas tariff prices in Poland.
According to IHS CERA, in Q1 2014 the average contract price of natural gas fell 2.2%, to 10.74 USD/MMBtu, while the average SPOT price of gas was down by 0.3%, to 10.15 USD/MMBtu.

(all figures in PLN ’000, unless indicated otherwise)

1.2. Key financial data of the Grupa Azoty Group

1.2.1. Consolidated financial information

For Q1 2014, the Grupa Azoty Group posted a positive EBITDA of PLN 325,071 thousand and a net profit of PLN 149,354 thousand.
Year on year, these figures grew by PLN 30,581 thousand and PLN 260,955 thousand, respectively.
The table below compares the key items in the consolidated statement of profit or loss for Q1 2014 and Q1 2013.

Consolidated data

Item	Q1 2014	Q1 2013	change	% change
Revenue	2,702,789	2,677,546	25,243	0.9
Cost of sales	(2,222,325)	(2,171,149)	(51,176)	2.4
Gross profit	**480,464**	**506,397**	**(25,933)**	**(5.1)**
Selling and distribution expenses	(137,746)	(98,000)	(39,746)	40.6
Administrative expenses	(164,310)	(148,973)	(15,337)	10.3
Profit from sales	**178,408**	**259,424**	**(81,016)**	**(31.2)**
Net other income/(expenses)	3,514	(14,609)	18,123	(124.1)
EBIT	**181,922**	**244,815**	**(62,893)**	**(25.7)**
Gain from a bargain purchase	-	174,252	(174,252)	(100)
Operating profit	**181,922**	**419,067**	**(237,145)**	**(56.6)**
Net finance income/(costs)	(4,073)	41,870	(45,943)	(109.7)
Share of profit of equity-accounted associates	2,771	2,389	382	16.0
Profit before tax	**180,620**	**463,326**	**(282,706)**	**(61.0)**
Tax expense	(31,078)	(52,879)	21,801	(41.2)
Net profit from continuing operations	**149,542**	**410,447**	**(260,905)**	**(63.6)**
Loss from discontinued operations	(188)	(138)	(50)	36.2
Net profit	**149,354**	**410,309**	**(260,955)**	**(63.6)**
EBIT	**181,922**	**244,815**	**(62,893)**	**(25.7)**
Depreciation and amortisation	143,149	110,837	32,312	29.2
EBITDA	**325,071**	**355,652**	**(30,581)**	**(8.6)**

Source: Company data.

The year-on-year increase in revenue is attributable to the Grupa Azoty Group having generated higher sales in its Agro Fertilizers, Plastics and Chemicals segments. Although cost of sales grew faster than revenue, the Group earned a gross profit and a net profit for the period. However, due to higher selling, distribution and administrative expenses, the gross profit was lower year on year.
In Q1 2014, the Group posted net other income of PLN 3,514 thousand, which made a positive contribution to its EBIT.
The Group also reported net finance expenses, largely due to payments of interest liabilities.

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

1.2.2. Segment results

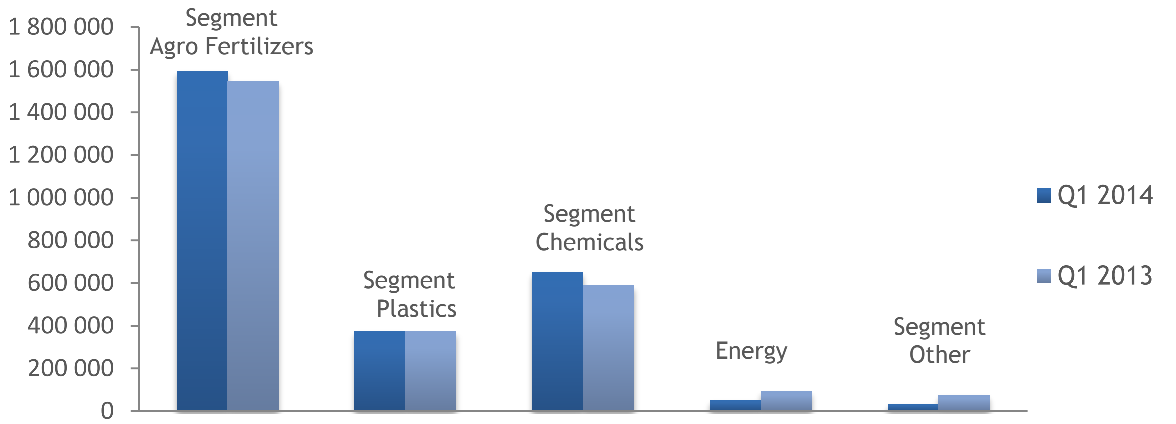
EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities
Revenue	1,592,558	374,955	650,766	51,146	33,364
Share [%]	*58.9*	*13.9*	*24.1*	*1.9*	*1.2*
Net profit on sales	173,508	(13,553)	36,517	(3,039)	(15,025)
EBIT	173,962	(12,891)	39,277	(2,561)	(15,865)

Source: Company data.

Sales of the Grupa Azoty Group's products in Q1 2014 were driven primarily by the market situation in the Agro Fertilizers, Plastics and Chemicals segments. The segments whose year-on-year revenue increase was the most significant included Chemicals (10.5%) and Agro Fertilizers (3.0%). The smallest increase in revenue, of 0.4%, was recorded in the Plastics segment. Energy and Other Activities delivered lower revenue relative to the comparative period. Shares of the individual segments in the overall revenue structure remained relatively unchanged compared with Q1 2013.

Revenue by segment



Source: Company data.

Agro Fertilizers

In Q1 2014, revenue in the Agro Fertilizers segment was PLN 1,592,558 thousand. It accounted for 58.9% of the Group's total revenue and was higher than in Q1 2013 on larger sales volumes generated by the Group companies.
Most of the revenue was derived from the domestic market, which accounted for 73.3% of the total fertilizer sales.

Plastics

In Q1 2014, the Plastics segment posted a revenue of PLN 374,955 thousand. It accounted for 13.9% of the Group's total revenue and remained virtually flat year on year, having grown by a little more than 0.4%. Even though revenue in this segment remained practically unchanged compared with the first quarter of the previous year, operating loss was reduced by over 38%.
More than 91.9% of the segment's revenue was derived from foreign markets.

Chemicals

The Chemicals segment includes the former OXO segment, as well as the new products added to the Grupa Azoty Group's offering following the acquisition of Grupa Azoty PUŁAWY and Grupa Azoty SIARKOPOL. In Q1 2014, revenue in this segment reached PLN 650,766 thousand, which represented 24.1% of the Group's total revenue.
Most of the segment's revenue (55.9%) was derived from foreign markets.

Energy Segment

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

Energy is a new segment: in Q1 2013, the corresponding revenue was reported as part of Other Activities.

In Q1 2014, the Energy segment generated revenue of PLN 51,146 thousand, which accounted for 1.9% of the Group’s total revenue.

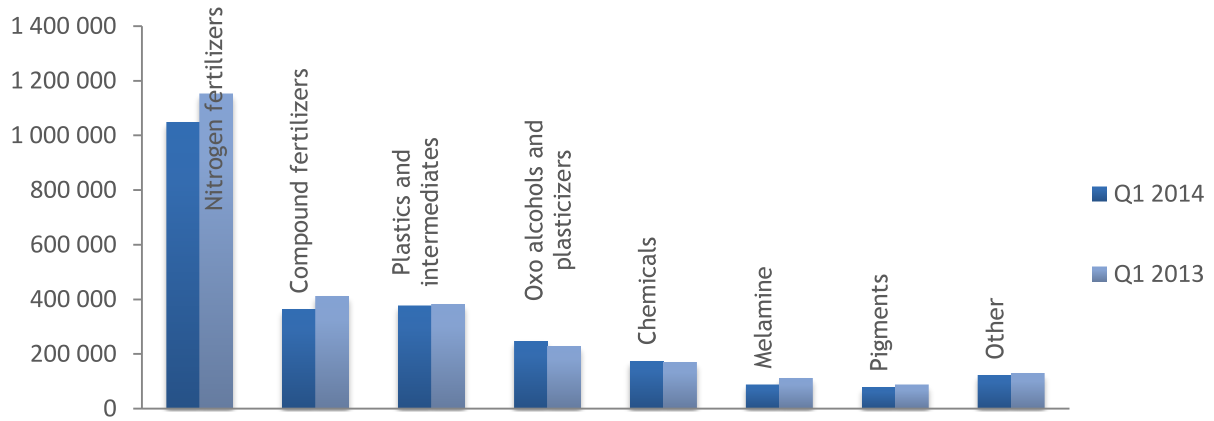
Other Activities

In Q1 2014, revenue of the Other Activities segment decreased year on year, to PLN 33,364 thousand.

The lower revenue, loss on sales and the segment’s other expenses resulted in a negative EBIT. Revenue of the Other Activities segment accounted for 1.2% of the Group’s total revenue.

Sales by product group

Revenue by product group



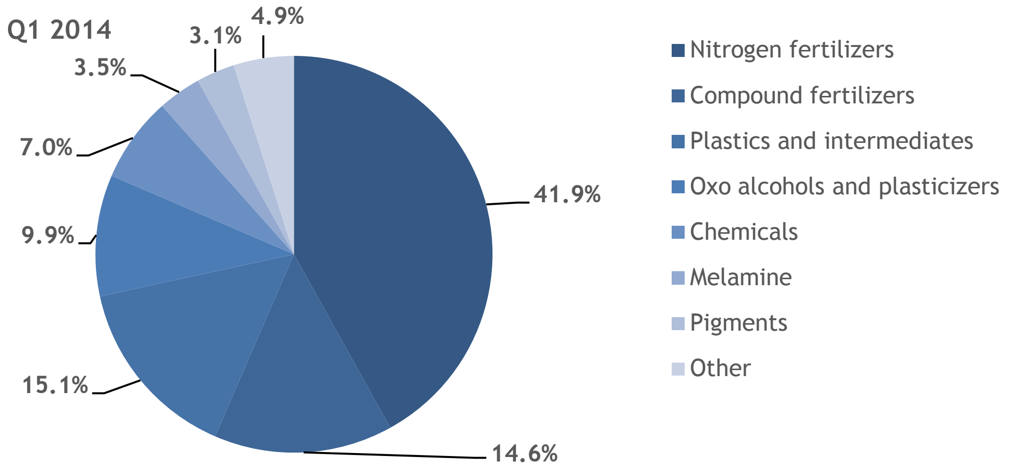
Source: Company data.

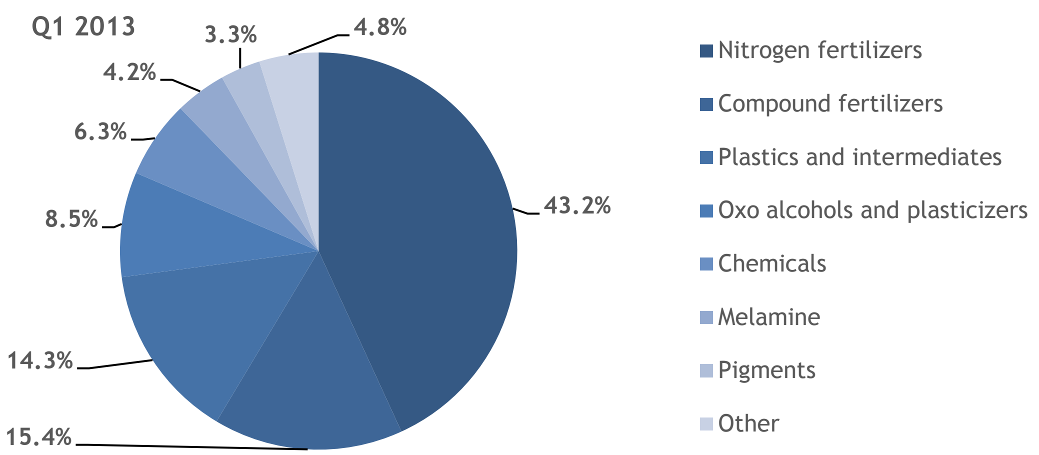
The key revenue drivers in the Grupa Azoty Group’s sales are nitrogen fertilizers and compound fertilizers. The share of plastics and intermediates, oxo alcohols and plasticizers in the revenue is also significant.

Compared with the same period of the previous year, in Q1 2014 revenue from sale of nitrogen and compound fertilizers fell slightly, but the decrease did not affect the total revenue of the Agro Fertilizers segment, which was higher than in the comparative period.

The remaining portion of the revenue is derived from sales of chemicals, other products, melamine and pigments.

Revenue by product group





Source: Company data.

Compared with Q1 2013, the share of nitrogen fertilizers in revenue decreased from 43.2% to 41.9%. Other products which accounted for a lower share of the total revenue included compound fertilizers (down from 15.4% to 14.6%), melamine (from 4.2% to 3.5%) and pigments (down from 3.3% to 3.1%). To note, however, these products continue to contribute considerably to the Grupa Azoty Group's total revenue.

1.2.3. Operating expenses

In Q1 2014, operating expenses were PLN 2,416,028 thousand, up by PLN 151,281 thousand year on year. Costs of services rose significantly, by PLN 73,028 thousand. Costs of raw material and consumables used, the largest item of expenses, decreased by PLN 46,982 thousand.

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

Operating expenses by nature

	Q1 2014	Q1 2013	change	% change
Depreciation and amortisation	143,149	110,837	32,312	29.2
Raw material and consumables used	1,650,457	1,697,439	(46,982)	(2.8)
Services	216,868	143,840	73,028	50.8
Salaries and wages, including overheads, and other benefits	275,423	235,698	39,725	16.9
Taxes and charges	91,452	57,304	34,148	59.6
Other expenses	38,679	19,629	19,050	97.1
Total	**2,416,028**	**2,264,747**	**151,281**	**6.7**

Source: Company data.

Raw material and consumables used

In Q1 2014, the cost of raw material and consumables used was 2.8% lower year on year. Among other factors, this decrease was attributable to lower prices of basic commodities.

Raw material and consumables used

	Q1 2014	Q1 2013	change	% change
Parent	246,607	285,486	(38,879)	(13.6)
Group				
Grupa Azoty ZAK S.A.	381,772	374,329	7,443	2.0
Group				
Grupa Azoty POLICE Group	366,616	521,564	(154,948)	(29.7)
Group				
Grupa Azoty PUŁAWY	590,336	500,303	90,033	18.0
Other Grupa Azoty Group companies	65,126	15,757	49,369	313.3
Total	**1,650,457**	**1,697,439**	**(46,982)**	**(2.8)**

Source: Company data.

The Grupa Azoty PUŁAWY Group accounted for the largest share of raw material and consumables used in Q1 2014, which translated into its largest share in the corresponding costs (35.8% of the total costs incurred by the Grupa Azoty Group).

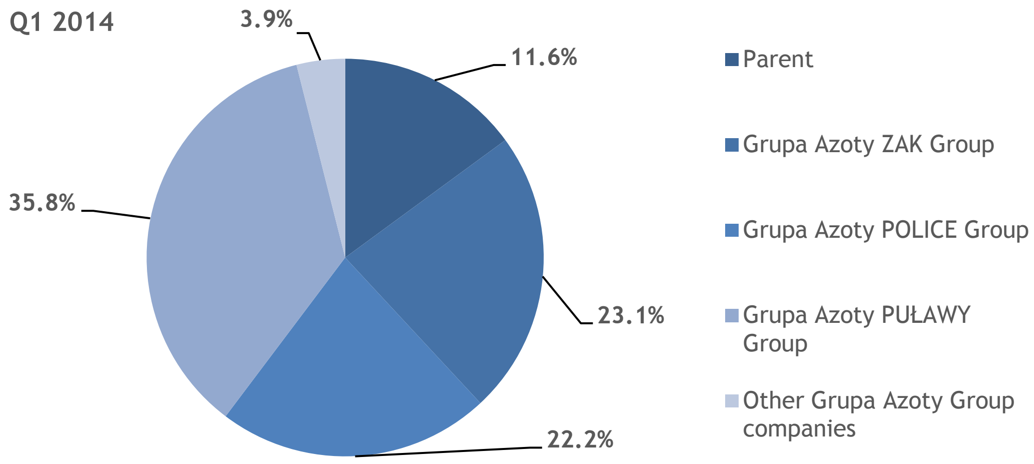
Grupa Azoty ZAK Group and Grupa Azoty POLICE Group incurred costs of PLN (381,772) thousand and (366,616) thousand respectively, which in aggregate accounted for 45.3% of the total costs.

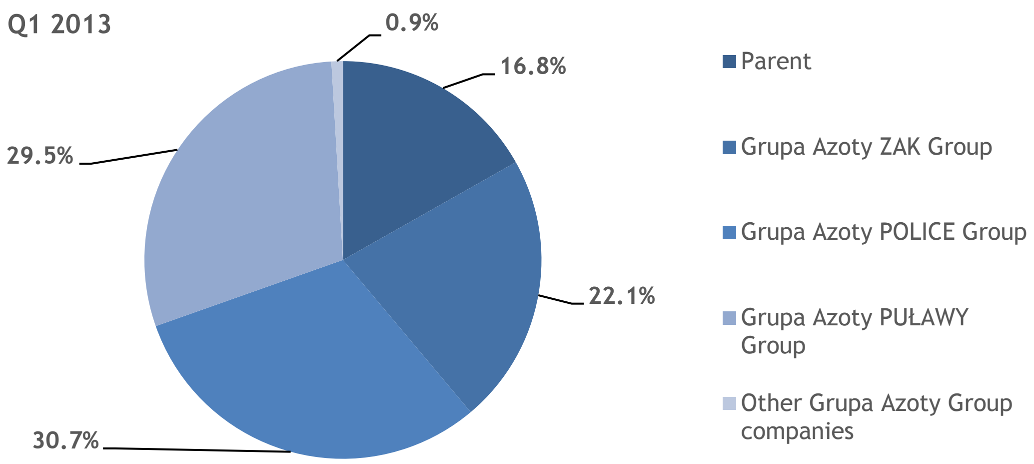
Compared with Q1 2013, this items of the Parent's costs fell 13.6% year on year, to PLN (246,607) thousand.

Other Group companies accounted for 3.9% of the total costs.

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

Raw material and consumables used





Source: Company data.

Other expenses

Net of raw material and consumables used, in Q1 2014 other expenses represented 31.7% of total expenses (in Q1 2013 – 25.0% of total expenses).

Other expenses [%]

	Q1 2014	Q1 2013
Depreciation and amortisation	5.9	4.9
Services	9.0	6.4
Salaries and wages, including overheads, and other benefits	11.4	10.4
Taxes and charges	3.8	2.5
Other expenses	1.6	0.9
Total	**31.7**	**25.0**

Source: Company data.

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

- higher share of depreciation/amortisation in the global cost structure,
- higher costs of services,
- higher costs of labour.

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

1.2.4. Structure of assets, equity and liabilities

In Q1 2014, the Group's assets rose to PLN 9,892,101 thousand, up 13.4% on the end of Q1 2013. As at March 31st 2014, non-current assets were PLN 6,613,138 thousand, and current assets were PLN 3,278,963 thousand.
The most significant year-on-year changes in assets in Q1 2014 included:

- a 65.8% increase in intangible assets,
- a 15.3% increase in property, plant and equipment,
- a 12.5% increase in inventory,
- a 15.1% decrease in other assets.

Structure of assets

	Q1 2014	Q1 2013	change	% change
Non-current assets, including:	**6,613,138**	**5,646,148**	**966,990**	**17.1**
Property, plant and equipment	5,787,766	5,020,553	767,213	15.3
Investment property	52,498	54,018	(1,520)	(2.8)
Intangible assets	499,835	301,491	198,344	65.8
Investments in subordinated entities	131,418	130,444	974	0.7
Available-for-sale financial assets	21,193	21,460	(267)	(1.2)
Current assets, including:	**3,278,963**	**3,079,062**	**199,901**	**6.5**
Inventory	1,135,564	1,009,467	126,097	12.5
Other financial assets	24,619	4,156	20,463	492.4
Trade and other receivables	1,323,409	1,299,412	23,997	1.8
Cash and cash equivalents	711,837	710,513	1,324	0.2
Other non-current assets	45,026	53,045	(8,019)	(15.1)
Total assets	**9,892,101**	**8,725,210**	**1,166,891**	**13.4**

Source: Company data.

Year on year, the most significant changes in equity and liabilities in Q1 2014 included:

- an 84.6% increase in non-current borrowings,
- a 12.6% decrease in other long-term provisions,
- a 70.0% increase in other short-term provisions,
- a 208.9% increase in current liabilities under borrowings,
- an 8.1% increase in trade and other payables.

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

Structure of equity and liabilities

Item	Q1 2014	Q1 2013	change	% change
Equity	**6,423,348**	**6,255,939**	**167,409**	**2.7**
Non-current liabilities, including:	**1,379,163**	**923,569**	**455,594**	**49.3**
Borrowings	604,613	327,440	277,173	84.6
Employee benefit obligations	254,516	236,187	18,329	7.8
Other non-current liabilities	93,293	3,440	89,853	2 612.0
Other provisions	112,172	128,271	(16,099)	(12.6)
Current liabilities, including:	**2,089,590**	**1,545,702**	**543,888**	**35.2**
Borrowings	480,909	155,669	325,240	208.9
Trade and other payables	1,210,640	1,119,871	90,769	8.1
Other provisions	260,693	153,320	107,373	70.0
Other financial liabilities	67,543	68,478	(935)	(1.4)
Total liabilities	**3,468,753**	**2,469,271**	**999,482**	**40.5**
Total equity and liabilities	**9,892,101**	**8,725,210**	**1,166,891**	**13.4**

Source: Company data.

1.2.5. Financial ratios

Profitability

In Q1 2014, the profitability ratios deteriorated when compared with the same period of 2013. Gross margin fell by 1.1 pp, following a 0.9% revenue increase combined with a 5.1% decrease in gross profit. Lower EBIT and EBITDA margins are attributable to the decline in operating profit (EBIT), which was down 25.7%, and a simultaneous increase in revenue.

Net margin changed on the back of similar factors: its decline was attributable to lower net profit and with higher revenue.

The return on assets followed a similar pattern: lower net profit and a less dynamic increase in assets resulted in a lower ROA.

In the reporting period, return on capital employed fell, mainly as a result of EBIT growing slower than the capital employed.
Other ratios increased, as net profit grew more dynamically than both equity and non-current assets.

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

Profitability ratios

	Q1 2014	Q1 2013
Gross margin	17.8 %	18.9 %
EBIT margin	6.7 %	9.1 %
EBITDA margin	12.0 %	13.3 %
Net margin	5.5 %	15.3 %
Return on assets	1.5 %	4.7 %
Return on capital employed	2.3 %	3.4 %
ROE	2.3 %	6.6 %
Return on non-current assets	2.3 %	7.3 %

Source: Company data.

Ratio formulas:

Gross margin = gross profit (loss) on sales / revenue (statement of comprehensive income in multiple-step format)
EBIT margin = EBIT / revenue
EBITDA margin = EBITDA / revenue
Net profit margin = net profit (loss) / revenue from sales
Return on assets = net profit (loss) / total assets
Return on capital employed (ROCE) = EBIT / total assets less current liabilities (TALCL), that is EBIT / total assets less current liabilities
Return on equity = net profit (loss) / equity
Return on non-current assets = net profit (loss) / non-current assets

Liquidity

At the end of Q1 2014, the liquidity ratios declined slightly following a strong increase in current liabilities.

Liquidity ratios

	Q1 2014	Q1 2013
Current ratio	1.6	2.0
Quick ratio	1.0	1.3
Cash ratio	0.4	0.5

Source: Company data.

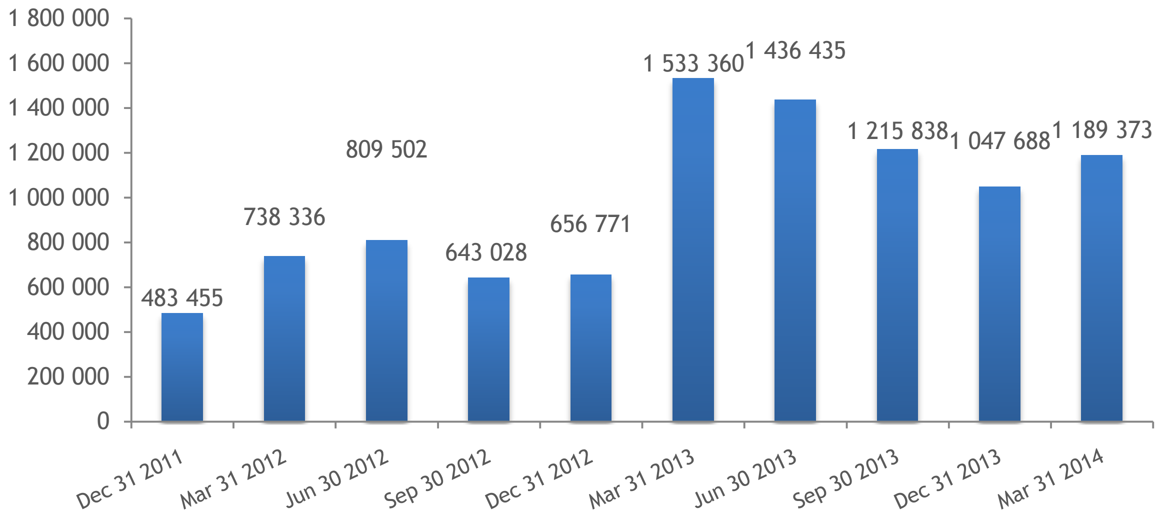
Ratio formulas:

Current ratio = current assets / current liabilities
Quick ratio = (current assets - inventory - current accruals) / current liabilities
Cash ratio = (cash and cash equivalents + other financial assets) / current liabilities

As a result of the changes in current assets and liabilities, as at March 31st 2014 working capital was PLN 1,189,373 thousand.

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

Changes in working capital



Source: Company data.

Operating efficiency

Inventory turnover increased primarily due to an increase in inventory. The collection period remained unchanged. At the same time, higher payables turnover, caused mainly by an increase in payables against cost of sales, led to a decrease in the cash conversion cycle to 41 days, which is a positive change, also reflected in the liquidity ratios.

Operating efficiency ratios

	Q1 2014	Q1 2013
Inventory turnover	46	42
Average collection period	44	44
Average payment period	49	46
Cash conversion cycle	41	39

Source: Company data.

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

Debt

During the reporting period the main source of financing of the Company's assets and operations was equity. Stable leverage was maintained throughout the period, which was financially effective and safe in terms of the financing risk. Throughout the period, the interest cover ratio remained at a level ensuring the Group's good credit standing and full ability to service debt.

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

Debt ratios

Ratio	Q1 2014	Q1 2013
Total debt ratio	35.1 %	28.3 %
Long-term debt ratio	13.9 %	10.6 %
Short-term debt ratio	21.1 %	17.7 %
Equity-to-debt ratio	185.2 %	253.4 %
Interest cover ratio	1,646.8 %	7,107.4 %

Source: Company data.

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

1.3. Significant agreements

In Current Report No. 2/2014 of January 9th 2014, the Parent's Management Board announced that the value of commercial transactions between the Grupa Azoty Group and the Pfleiderer Group of Germany had reached the significance threshold.
The value of the transactions made in the 12 months preceding the date of the report totalled PLN 1,060,000 thousand (including the estimated value of products and services contracted for delivery over a five-year period, of PLN 694,200 thousand, VAT-exclusive).

The highest value contract was a contract for the supply of prilled urea 46% and crystalline urea, executed on January 9th 2014 between Grupa Azoty ZAK S.A. (the Parent's subsidiary) and Silekol Sp. z o.o. of Kędzierzyn-Koźle, a member of the Pfleiderer Group. The estimated value of the contract over its term of about five years is approximately PLN 694,200 thousand (exclusive of VAT), which makes it the highest value contract among the agreements/annexes concluded between the Parent and the Pfleiderer Group in the period of the past 12 months.

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

Annex to receivables discounting agreement with mBank S.A. (formerly BRE Bank S.A.)

On January 21st 2014 and March 31st 2014, the Parent and mBank S.A. (formerly BRE Bank S.A.) executed annexes to the receivables discounting agreement of July 30th 2010, under which the financing limit was raised to EUR 18,000 thousand, and the flexibility of settlements under the agreement was improved.

Annexes to investment credit facility agreement between the Parent and BGŻ S.A.

On January 14th 2014, the Parent and BGŻ S.A. executed an annex to the investment credit facility agreement of March 30th 2012 for financing of the Modernisation of Sulfuric Acid Unit, whereby individual payments were proportionately reduced to reflect partial use of the facility.

Annex to overdraft facility agreement with PKO Bank Polski S.A.

On February 19th 2014, the Parent, acting also on behalf of the other Group companies, executed another annex to the virtual cash-pooling agreement; the scope of the agreement was extended to include Grupa Azoty SIARKOPOL.
Subsequent to the end of the reporting period, on April 16th 2014, the Parent, acting also on behalf of the other Group companies, executed an annex to the overdraft facility agreement; the scope of the agreement was extended to include Grupa Azoty SIARKOPOL as a potential borrower, and to adjust the amounts of available sub-limits to their most recent allocation for the period April 1st–October 1st 2014.

(all figures in PLN ’000, unless indicated otherwise)

Material financing agreements executed or annexed in Q1 2014 and subsequent to the end of the reporting period

	Agreement date	Annex date	Currency	Amount	Maturity
Annex to investment credit facility agreement between the Parent and BGŻ S.A.	Mar 30 2012	Jan 14 2014	PLN	43,662	from Mar 31 2014 to Dec 31 2018
Annex to Parent’s receivables discounting agreement with mBank S.A. (formerly BRE Bank S.A.)	Jul 30 2010	Jan 21 2014 Mar 31 2014	EUR	18,000	Sep 5 2014
Multi-purpose credit facility agreement between Grupa Azoty POLICE AIG and BNP Paribas Polska	Feb 18 2014	-	EUR	8,000	Feb 17 2016
Annex to overdraft facility agreement between the Grupa Azoty Group companies and PKO Bank Polski S.A.	Oct 1 2010	Apr 16 2014	PLN	302,000	Sep 30 2016

1.4. Use of issue proceeds and achievement of issue objectives

The Parent had spent the proceeds from Public Offerings by the end of H1 2013. The proceeds were used in line with the original issue objectives.

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

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

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

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

(all figures in PLN ’000, unless indicated otherwise)

2. Other information

2.1. Organisational structure

For a description of the Group’s organisational structure see section 1.1 of the Financial Statements.

Parent’s direct shareholdings in subsidiaries as at March 31st 2014

(currency)

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

As at March 31st 2014, the Parent also held non-controlling interests in 11 entities. Parent’s non-controlling interests are presented below.

Parent’s non-controlling interests as at March 31st 2014

Company	Ownership interest (%)
Centrum Naukowo-Produkcyjne Materiałów Elektronicznych CEMAT’70 S.A.	1.24
INWESTSTAR S.A.	0.06
Konsorcjum Rozwoju Eksploatacji Majątku Trwałego EKSPLOSYSTEM Sp. z o.o.	3.36
LEN S.A. w Likwidacji	0.29
Tarnowska Agencja Rozwoju Regionalnego S.A.	0.06
Tarnowski Klaster Przemysłowy S.A.	0.11
Tarnowskie Wodociągi Sp. z o.o.	12.39
Tłocznia Metali PRESSTA S.A. w Upadłości Likwidacyjnej (in bankruptcy by liquidation)	0.02
Wytwórnia Silników PZL MIELEC Sp. z o.o. w Upadłości (in bankruptcy)	0.12
Zakłady Tworzyw Sztucznych PRONIT S.A. w Upadłości (in bankruptcy)	0.28
Zakłady Włókien Chemicznych WISTOM S.A. w Upadłości (in bankruptcy)	9.83

(all figures in PLN ’000, unless indicated otherwise)

2.2. Changes in the Group’s organisation

For information on the effects of changes in the Group’s organisation during the reporting period, including the effects of business combinations, acquisitions or disposals of the Grupa Azoty Group companies, or long-term investments, demergers, restructuring or discontinuation of operations, see section 1.2 of the Interim condensed consolidated financial statements for the three months ended March 31st 2014.

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

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

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

Shareholding structure as at March 21st 2014 (issue date of the most recent report)

Shareholder	Shares	Ownership interest (%)	Voting rights	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
Norica Holding S.à.r.l and Cliffstone Holdings Limited	15,216,094	15.34	15,216,094	15.34
ING Pension Fund	9,883,323	9.96	9,883,323	9.96
TFI PZU S.A.	8,689,591	8.76	8,689,591	8.76
Aviva OFE Aviva BZ WBK	7,800,000	7.86	7,800,000	7.86
EBRD	5,700,000	5.75	5,700,000	5.75
Other	19,171,967	19.33	19,171,967	19.33
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

In the period from March 21st 2014 to the date of this report, the Parent has not been notified of any changes in the large holdings of its shares.

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

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

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

Grupa Azoty held by supervisory personnel

	Number of shares/voting rights		
	As at Jan 1 2014	As at Mar 31 2014	As at 12.05.2014
Tomasz Klikowicz	190	190	190

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

2.6. Litigation

There are no proceedings pending at the Grupa Azoty Group companies concerning liabilities or debt claims whose individual or aggregate value would represent 10% of the Parent's equity, i.e. would satisfy the materiality criteria specified in Par. 87.7.7 of the Regulation of the Minister of Finance of February 19th 2009 on current and periodic information.
At present, proceedings are pending against the Parent concerning reverse transfer of ownership of shares in Grupa Azoty ATT Polymers GmbH, which is discussed in section 4.3 Contingent assets and liabilities, sureties, guarantees and other collaterals of this report.

2.7. Related parties

For information on related-party transactions, see section 4.4 of the Interim condensed consolidated financial statements for the three months ended March 31st 2014.

2.8. Sureties on borrowings, guarantees granted

In Q1 2014, the Grupa Azoty Group did not issue any sureties or guarantees whose value would exceed 10% of the Parent's equity.

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

2.9.1. Investment projects approved for execution

On March 28th 2014, the Management Board of the Parent obtained all the necessary corporate approvals required to commence its two investment projects located in Tarnów, with the projects' aggregate capital expenditure amounting to approximately PLN 460m.

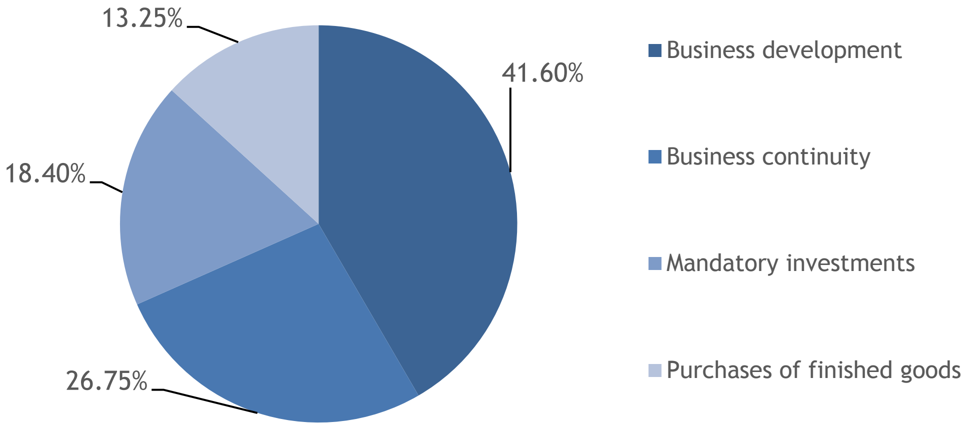
- Polyamide 6 Plant with an annual production capacity of 80,000 tonnes − the project with a total cost of up to PLN 320m will be financed with own funds and a credit facility. The new facility will be erected directly next to the existing PA6 plant in the now extended subzone of the Special Economic Zone, and will cover an area of 3.5ha. The decision to construct the facility followed from the consolidation of caprolactam production capacities at the Grupa Azoty Group, and was made in the context of an abrupt change seen recently on the global caprolactam market.
- Granulation Plant II − according to the Parent's strategy, the new facility will help optimise fertilizer offering and add further value to ammonium sulfate production. Its cost is estimated at PLN 141m and, similarly to the Polyamide 6 Plant, it will be financed with own funds and bank borrowings. The project is an element of the Group's activities designed to maintain its competitive position on the CAN market, started in 2006−2009 with the construction of the first granulation plant.

2.9.2. Execution of key investment projects

The total capital expenditure incurred by the Grupa Azoty Group in the period January 1st–March 31st 2014 was PLN 95,118 thousand. Structure of capital expenditure:

- Business development PLN 39,575 thousand,
- Business continuity PLN 25,441 thousand,
- Mandatory investments PLN 17,499 thousand,
- Purchase of finished goods PLN 12,603 thousand.

Structure of the Grupa Azoty Group's capital expenditure in Q1 2014



Source: Company data.

Capital expenditure at the Grupa Azoty Group in Q1 2014:

- Parent PLN 8,533 thousand,
- Grupa Azoty PUŁAWY Group PLN 55,103 thousand,
- Grupa Azoty ZAK Group PLN 7,997 thousand,
- Grupa Azoty POLICE Group PLN 18,076 thousand,
- Grupa Azoty PKCh Sp. z o.o. PLN 1,812 thousand,
- Grupa Azoty KOLTAR Sp. z o.o. PLN 304 thousand,
- Grupa Azoty SIARKOPOL PLN 3,293 thousand.

Parent

The key investment projects in Q1 2014 included:

- Upgrade of the interior of ammonia synthesis reactors – the project's budget is PLN 18,600 thousand. Expenditure incurred so far is PLN 10,536 thousand, of which PLN 314 thousand was spent in Q1 2014.
- Purchase and assembly of a new circulating hydrogen compressor for the phenol hydrogenation unit at the PD catalyst – the project's budget is PLN 16,200 thousand. Expenditure incurred so far is PLN 12,059 thousand, of which PLN 509 thousand was spent in Q1 2014.

- Consolidation of IT systems of Grupa Azoty Group companies − the project’s budget is PLN 9,800 thousand. Expenditure incurred so far is PLN 9,183 thousand, of which PLN 118 thousand was spent in Q1 2014.
- Bulk fertilizer storage facility − the project’s budget is PLN 43,000 thousand. Expenditure incurred so far is PLN 630 thousand, of which PLN 265 thousand was spent in Q1 2014.

Grupa Azoty PUŁAWY

The key investment projects in Q1 2014 included:

- Construction of ammonia storage and distribution facilities − the project’s budget is PLN 108,500 thousand. Expenditure incurred so far is PLN 88,618 thousand, of which PLN 5,498 thousand was spent in Q1 2014.
- Construction of unit for manufacture of solid fertilizers based on urea and ammonium sulphate − the project’s budget is PLN 137,500 thousand. Expenditure incurred so far is PLN 106,916 thousand, of which PLN 18,216 thousand was spent in Q1 2014.
- Purchase and assembly of three-layer plastic film extrusion line − the project’s budget is PLN 12,760 thousand. Expenditure incurred so far is PLN 3,238 thousand, of which PLN 18 thousand was spent in Q1 2014.
- Biological Wastewater Treatment Plant’s precipitate dehydration unit − the project’s budget is PLN 15,400 thousand. Expenditure incurred so far is PLN 10,324 thousand, of which PLN 2,124 thousand has been was spent in 2014.
- Construction of NOx reduction units at two boilers at the CHP plant − the project’s budget is PLN 16,000 thousand. Expenditure incurred so far is PLN 13,469 thousand, of which PLN 559 thousand was spent in Q1 2014.

Grupa Azoty ZAK S.A.

The key investment projects in Q1 2014 included:

- Upgrade of waste treatment facilities − the project’s budget is PLN 6,580 thousand. Expenditure incurred so far is PLN 6,195 thousand, of which PLN 793 thousand was spent in Q1 2014.
- Replacement of a LaMont boiler at the TK IV nitric acid unit − the project’s budget is PLN 8,120 thousand. Expenditure incurred so far is PLN 5,735 thousand, of which PLN 2,705 thousand was spent in Q1 2014.
- Launch of OXOPLAST® OT continuous-flow production − the project’s budget is PLN 62,300 thousand. Expenditure incurred so far is PLN 3,299 thousand, of which 1,262 thousand was spent in Q1 2014.

Grupa Azoty POLICE Group

The key investment projects in Q1 2014 included:

- Exhaust gas treatment unit and upgrade of the EC II CHP plant − the project’s budget is PLN 163,700 thousand. Expenditure incurred so far is PLN 57,809 thousand, of which PLN 8,035 thousand was spent in Q1 2014.
- Upgrade of the ammonia unit − the project’s budget is PLN 155,600 thousand. Expenditure incurred so far is PLN 467 thousand, all of which was spent in Q1 2014.
- Upgrade of ammonia synthesis reactors − the project’s budget is PLN 24,400 thousand. Expenditure incurred so far is PLN 11,662 thousand, of which PLN 117 thousand was spent in Q1 2014.
- Purchase and assembly of the second 63-7 roller mill facility − the project’s budget is PLN 5,390 thousand. Expenditure incurred so far is PLN 4,100 thousand, of which PLN 414 thousand was spent in Q1 2014.
- Production of POLIFOSKA® 21 and ammonium sulfate at the DAP facility − the project’s budget is PLN 11,500 thousand. Expenditure incurred so far is PLN 9,935 thousand, of which PLN 546 thousand was spent in Q1 2014.
- Construction of industrial wastewater neutralisation unit at the titanium white plant − the project’s budget is PLN 20,000 thousand. Expenditure incurred so far is PLN 542 thousand; no expenditure was incurred in Q1 2014.

2.9.3. Financial liquidity

The Parent and the Group's leading companies are fully solvent, with good credit standing. This means that the Group is able to pay its liabilities as they fall due and to hold and generate free operating cash flows to further support payment of such liabilities.
The liquidity management policy operated by the Grupa Azoty Group consists in maintaining cash surpluses and available credit facilities that are safe and adequate to the scale of its business.

2.9.4. Borrowings

In Q1 2014, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.
The Grupa Azoty Group has access to overdraft limits under virtual cash pooling, which may be used by the Parent at times of increased demand for funding by Group companies. In addition, the Group also has access to free multi-purpose credit lines that are available to the Parent and the Group companies.
The Group complies with the uniform covenants of its facility agreements which provide it with an ability to significantly increase financial debt when and as needed.
The aggregate value of available overdraft limits and multi-purpose credit lines available to the Group at March 31st 2014 was PLN 461m. The Group also had access to free factoring limits totalling PLN 84m, and available investment credit facilities totalling PLN 147m.
The Group's strategic lenders view its financial standing as sound, and there are no significant threats or risks of the strong position deteriorating in the future.

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

Parent's Management Board
As at March 31st 2014, the composition of the Management Board was as follows:
- Paweł Jarczewski – President of the Management Board,
- Andrzej Skolmowski – Vice-President of the Management Board,
- Witold Szczypiński – Vice-President of the Management Board,
- Marek Kapłucha – Vice-President of the Management Board,
- Marian Rybak – Vice-President of the Management Board,
- Krzysztof Jałosiński – Vice-President of the Management Board,
- Artur Kopeć – Member of the Management Board.

As at March 31st 2014, the composition of the Parent's Management Board and the powers and responsibilities of its members were as follows:
- Paweł Jarczewski – President of the Management Board,
- Andrzej Skolmowski – Vice-President of the Management Board, responsible for finance and IT at the Grupa Azoty Group,
- Witold Szczypiński – Vice-President of the Management Board, responsible for integration of production processes, plastics and organic synthesis at the Grupa Azoty Group,
- Marek Kapłucha – Vice-President of the Management Board, responsible for supply chain management at the Grupa Azoty Group,
- Marian Rybak – Vice-President of the Management Board, responsible for investments at the Grupa Azoty Group,
- Krzysztof Jałosiński – Vice-President of the Management Board, responsible for strategy and development at the Grupa Azoty Group,
- Artur Kopeć – Member of the Management Board, responsible for social dialogue, technical safety and environmental protection at the Grupa Azoty Group.

At the beginning of April 2014, the Management Board of Grupa Azoty appointed Mr Witold Szczypiński, Vice-President of the Management Board, to serve as Director General of the Parent. The role of the Director General is to initiate and coordinate activities related to the day-to-day operational management of the Parent in cooperation with other Vice-Presidents and the Managing

Director. In line with the division of powers in the Management Board, Mr Szczypiński will continue to be responsible for managing and coordinating production processes, planning overhauls and maintenance shut-downs, and initiating development and investment projects. He will also manage the Parent's core businesses area and the support area, supervise the operations of the Plastics Business Segment as well as other organisational units, oversee and coordinate the restructuring processes being implemented at the Parent, and approve reports, documents and protocols related to the areas under his supervision.

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

The powers and responsibilities of the Parent's Management Board are defined in Article 21 of the Parent's Articles of Association.

Powers and responsibilities of the Management Board members
For detailed information on the division of authority among members of the Management Board, as per Resolution No. 467/IX/2013 of August 20th 2013, see p. 101 of the Grupa Azoty Group's half-year 2013 consolidated report.

Supervisory Board
In Q1 2014, there were no changes in the composition of the Supervisory Board.
Composition of the Parent's Supervisory Board as at March 31st 2014:
- Monika Kacprzyk-Wojdyga – Chairperson of the Supervisory Board,
- Jacek Obłękowski – Deputy Chairman,
- Ewa Lis – Secretary,
- Robert Kapka – Member,
- Tomasz Klikowicz – Member,
- Artur Kucharski – Member,
- Marek Mroczkowski – Member,
- Zbigniew Paprocki – Member,
- Ryszard Trepczyński – Member.

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

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

To streamline work and improve control over the Parent and the Group, on July 4th 2013 the Supervisory Board adopted Resolution No. 21/IX/2013 on appointment of the Audit Committee, whose composition was the same as of the Audit Committee of the Supervisory Board in the previous term, namely:
- Jacek Obłękowski – Chairperson,
- Tomasz Klikowicz,
- Marek Mroczkowski.

The rules of operation of the Audit Committee are provided for in the Rules for the Audit Committee, drawn up with based on Annex I, sec. 4 (Audit Committee) to the European Council Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (Official Journal of the European Union L 52/52), and Art. 86 of the Act on Qualified Auditors, Their Self-Government, Entities Qualified to Audit Financial Statements and Public Supervision of May 7th 2009. The Rules were adopted by the Supervisory Board by way of Resolution No. 22/VIII/2011 of January 4th 2011. Under the Rules, the main tasks of the Committee are:

- monitoring of the financial reporting process,
- monitoring of the effectiveness of internal control systems,
- monitoring of financial audit,
- monitoring of the independence of the auditor and the entity qualified to audit financial statements,
- monitoring the audit of annual and consolidated financial statements,
- monitoring the work of the internal audit team,
- monitoring the work and reports of the independent statutory auditor.

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

2.10.1. Exchange rates

Lasting economic recovery in Poland paired with signs of growth seen in the leading global economies (including the US and the eurozone) offsets political risks related to the Ukraine crisis and Russia's territorial expansion, given the EU's current limited involvement in the conflict.
With certain indicators suggesting that the European Central Bank may continue to loosen its monetary policy in the eurozone, whereas FED is likely to taper its stimulus measures, it is probable that the prevailing trend of EUR appreciating against USD will gradually reverse, with USD strengthening against EUR throughout 2014.
The accelerating GDP growth in Poland, accompanied by low inflation, offers a positive medium-term outlook for the PLN exchange rates against USD and EUR, as well as higher probability of the currency's limited strengthening. On the other hand, PLN may face short-term pressures to depreciate, depending on the further development of the Ukraine conflict.
It may thus be expected that in Q2 2014 the PLN/EUR exchange rate will remain unchanged in the medium-term (at PLN 4.10-4.20), but may appreciate if the European Central Bank maintains its current loose monetary policy; or may depreciate in the short-term horizon if the Ukrainian crisis continues to escalate at a rapid pace. The PLN/USD exchange rate will continue to trail the EUR/USD exchange rates.
The current and anticipated PLN/USD and PLN/EUR exchange rate fluctuations are unlikely to pose a risk to the Group's performance in Q2 2014, since the medium-term gradual strengthening of PLN is offset by short-term adjustments related to the political risks discussed above.

2.10.2. Interest rates in Poland

Domestic interest rates remained stable throughout Q1 2014, in line with the Monetary Policy Council's announcement that any potential increases would only be considered over the long-term horizon. The announcement reflected the fact that the current economic recovery in Poland is not accompanied by inflationary pressures, which allows the Council to postpone its decisions until the recovery has stabilised. In this context, it is expected that interest rates will remain unchanged in the medium-term perspective (until the end of 2014), which means that the Group's basic reference rate (1M WIBOR) should also remain flat at 2.60%. This trend will help improve the stability of the Group's borrowing costs by keeping them relatively low and facilitate debt service if the Group decides to increase debt to finance investing activities.
The acceleration of global economic growth, including the recovery in leading EU economies, is not accompanied by higher inflation rates, with some eurozone economies even facing deflation. Given that the European Central Bank may decide to cut interest rates once more or to adopt non-standard solutions (quantitative easing) to avoid deflation, the Group expects that EUR interest rates will stay very low at least until the end of 2014.

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

In summary, it is relatively unlikely that any adverse changes in the presently low interest rates for the Grupa Azoty Group’s principal currencies (PLN, EUR and USD) will occur by the end of 2014, so the risk of the Group’s funding costs adversely affecting its financial position or performance is limited.
Any increase in EURIBOR, LIBOR, and WIBOR rates would have to be preceded by six to nine months of positive growth trends in the eurozone, the US and Poland, as well as emergence of inflationary pressures.
In terms of market rates, a relatively narrow spread between credit and deposit rates available to the Group is expected to continue.
Interest income earned by the Group on free cash under cash pooling and fixed-term deposits will partially offset the cost of funding.

2.10.3. Raw material and product price dynamics

Nitrogen fertilizers

It is the spring fertilizer application period when prices of nitrogen fertilizers reach their all-year highs. The fertilizer market will also be affected by the continuing high rate of disbursement of direct subsidies by the Agency for Restructuring and Modernisation of Agriculture, weather patterns during the season, as well as the intensity of activities in the agricultural sector relating to spring sowing of grains. The future trends in agricultural produce prices are also material, as they affect the agricultural sector’s purchasing power. Market players believe that this year’s spring period of intensified activity in the agricultural sector may bring about shortening of the fertilizer application period, which might, in turn, force fertilizer producers to reduce prices to support the demand.
On the UAN market, logistics and delivery dates will be of key importance in the next quarter. In the second quarter, a small portion of purchases will represent fertilizers bought for the then current fertilizer application period; consequently, price reductions and weaker demand for UAN should be expected.

NPK fertilizers

Given the ending spring period (usually at the turn of April and May), demand for NPK fertilizers will shrink in May and June. Consequently, post-season fertilizer price reductions should be expected, and distributors are likely to be encouraged to stockpile fertilizers for the autumn fertilizer application period.
In Q2 2014, the prices of key feedstock (phosphate rock and potassium chloride) for the production of NPK compound fertilizers are not expected to change significantly.

Ammonia

The price of ammonia is expected to grow until May, when the stronger demand for the product on the US agricultural market subsides. The price of ammonia is expected to decrease after that. The situation in Ukraine, one of the largest global ammonia exporters, remains uncertain.

Caprolactam

The overhauls planned by caprolactam producers for the next quarter might contribute to stabilisation of the product prices over that period or even push the prices slightly upward.
In Western and Central Europe, production capacities are expected to be reduced by ca. 40% due to the planned overhauls of production units. Overhaul shut-downs are also expected in Asia; for instance, a Taiwanese manufacturer announced a shut-down of one line at its production unit. In late March 2014, a Japanese manufacturer permanently shut down its production unit with an annual production capacity of 93 thousand tonnes. The closure was forced by reduced demand for caprolactam and PA6.
On the other hand, the launch of a new caprolactam production line, with the annual production capacity of 100 thousand tonnes, was planned in China for April 2014. The launch of further two lines of the same capacity is also planned in country. This may result in China soon becoming self-sufficient with respect to producing caprolactam.

Petroleum raw materials

Both the global political situation, including in Ukraine and Syria, and speculative behaviours may affect the market prices of crude oil and thus the future prices of benzene, phenol and the other petroleum raw materials used by the Grupa Azoty Group.

OXO products

The situation on the market of OXO products is mainly driven by prices of petrochemical feedstock used in the manufacture of OXO alcohols and plasticizers. In Q2 2014, the manufacturers expect an increased demand for their products.

Sulfur

In Q2 2014, the price of sulfur on the European market is expected to rise, as a number of overhaul shut-downs of FDG units have been planned in Europe, which will reduce sulfur supply.

Pigments

The low stocks of titanium white at manufacturers and users might drive pigment prices up.

Technical grade urea

The development of new non-fertilizer applications for fertilizer products may be an opportunity for increasing urea production. Urea is mainly used in the manufacture of glues for the furniture industry and in AdBlue®blending.

Demand for AdBlue® grows in response to the growing number of new vehicles meeting the new emission standards (Euro 6); the AdBlue® distribution network in Europe is also been expanding. The most developed distribution networks are in Germany (1,086 stations), France (643 stations) and Spain (632 stations). In January 2014, Yara acquired the German leader of the SCR technology used in sea vessels, while an Irish AdBlue® manufacturer launched a new blending plant.

As of March 1st 2014, Hong Kong started to implement measures designed to withdraw older vehicles which do not meet the Euro standards from the market. The plans provide for removing the vehicles which do not meet the pre-Euro standards by the end of 2015, those not meeting the Euro 1 standards by the end 2016, Euro 2 − by the end of 2017 and Euro 3 − by the end of 2019.

In the next quarter, average prices of AdBlue® on both European and Polish markets should stabilise. Since November 1st 2013, the Grupa Azoty Group has been marketing 32.5% urea solution under the name of NOXy.

Natural gas

As of January 2014, after the Ukrainian authorities had decided not to sign the association agreement with the EU, Russia reduced the price of natural gas supplied to Ukraine to USD 268.5. Following the recent developments in the Ukrainian crisis, since Q2 2014, Ukraine will pay USD 485.5/Tm ^{3}for Russian natural gas. Transit charges for the transport of the Russian gas through Ukraine will also increase (by 10%). Russian officials justify the price increase with Ukraine's default in payments due for the imported gas (the debt currently totals USD 1.7bn). With effect as of April 1st 2014, the Ukrainian State Energy Supervision Commission raised natural gas prices for industrial customers by 29.1% and for enterprises financed from the central or local budgets by 64.2%.

2.10.4. Laws governing international trade

Ammonium nitrate

The European Commission continues to examine the advisability of maintaining customs duties on ammonium nitrate manufactured by two Russian producers, Acron and Eurochem. This means that the customs duty which was to be abolished on July 13th 2013 will remain in effect until the examination is closed; after that, the European Commission will recommend the duty to either continue in effect for another five years or to be abolished. Currently, the anti-dumping import duty on ammonium nitrate from Russia remains within the range from EUR 41.42/tonne to EUR 47.07/tonne.

Caprolactam

With effect as of October 22nd 2011, China imposed an anti-dumping duty on caprolactam imports from the European Union and the United States, to be effective for five years. The 4.4% duty also applies to caprolactam manufactured by the Parent. Since January 1st 2012, the Chinese government has maintained a 9% custom duty on imported caprolactam, justifying it with the need to protect the domestic manufacturers.

Melamine

On May 13th 2011, Council Implementing Regulation (EU) No. 457/2011 of May 10th 2011 was published, imposing a definitive anti-dumping duty and collecting definitively the provisional duty imposed on imports of melamine originating in the People's Republic of China. The anti-dumping proceedings against the imports of melamine from China to the European Union were initiated on January 4th 2010 by EU manufacturers, Borealis Agrolinz Melamine GmbH, DSM Melamine B.V. and Grupa Azoty PUŁAWY, jointly representing the majority (over 50%) of the total melamine production in the European Union.

The provisional duty rate ranged from 44.9% to 65.2%. The anti-dumping proceedings resulted in a change in the form of measures used, by imposing definitive measures in the form of minimum import price for cooperating exporters which were granted Individual Treatment (IT) and a fixed duty of EUR 415/tonne (net weight) for the other exporters. Imports from cooperating exporters which were granted IT (Sichuan Jade Elephant Melamine S&T Co. Ltd, Shandong Lither Chemical Industry Co. Ltd and Henan Junhua Development Company Ltd) are subject to the minimum import price of EUR 1,153 per tonne of net product weight. The duty will remain in effect until May 13th 2016.

TDI

The European Commission has commenced a review of the EU market protection instruments. The European Commission aims at freeing the market and opening it wider for imports. At the current stage, the provisions have been retained which protect the EU market against disruptions on raw material markets in the countries where the imports are sourced. This way the EU market is protected against imports from countries where, for instance, dual pricing of raw materials occurs.

Transatlantic Trade and Investment Partnership (TTIP) agreement with the US

The work on the agreement has gained momentum, especially after the recent developments in Ukraine, which have proved the need to diversify supply sources of certain raw materials, including natural gas. However, given the major differences between regional policies, including in particular in the areas of environmental protection, product safety, production costs (in certain economy sectors), as well as trade protectionism practices followed, discrepancies abound, which translates into differentiated competition models. For instance, in the chemical sector, the competitiveness of European production units using BAT depends on differentiated prices of natural gas. The agreement is not expected to be concluded soon, and the negotiating teams have much work to do; the work will resume after European Parliamentary election.

Consolidated interim report of the Grupa Azoty Group for Q1 2014 contains 72 pages.

Signatures of the Members of the Management Board

…………………………………… Paweł Jarczewski *President of the Management Board*	…………………………………… Andrzej Skolmowski *Vice-President of the Management Board*
…………………………………… Witold Szczypiński *Vice-President of the Management Board* *Director General*	…………………………………… Marek Kapłucha *Vice-President of the Management Board*
…………………………………… Marian Rybak *Vice-President of the Management Board*	…………………………………… Krzysztof Jałosiński *Vice-President of the Management Board*
…………………………………… Artur Kopeć *Member of the Management Board*	

Person entrusted with maintaining accounting records

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

Tarnów, May 12th 2014