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1. Basic information concerning Grupa Azoty

1.1. Description of Grupa Azoty structure

As at the 31 December 2012, Grupa Azoty comprised Zakłady Azotowe w Tarnowie-Mościcach S.A. - the Parent, and:

- 5 subsidiaries (with interest exceeding 50%), including:
  - Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (hereinafter Grupa Azoty ZAK S.A.),
  - Zakłady Chemiczne Police S.A. (hereinafter ZCh Police S.A.),
  - ATT Polymers GmbH,
  - Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. (hereinafter Grupa Azoty PKCh Sp. z o.o.),
  - Grupa Azoty KOLTAR Sp. z o.o.,
- 1 associate - Navitrans (with a 26.4% interest),

furthermore:

- Grupa Azoty ZAK S.A. is the parent of three subsidiaries and two associates,
- ZCh Police S.A. is the parent of six subsidiaries and two associates,
- Grupa Azoty PKCh Sp. z o.o. is the parent of three subsidiaries.

Parent - Zakłady Azotowe w Tarnowie-Mościcach S.A.
The Parent was entered into the register of companies of the National Court Register (entry no. KRS 0000075450) on 28 December 2001 pursuant to a ruling of the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register, of 28 December 2001. On 8 March 2013 the extraordinary general meeting is set to vote on amendments to the articles of association, including a change of the Parent’s name. Once this change is voted in and subsequently registered, the Parent will trade under the name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).

Field of operations: manufacture and sale of chemicals and plastics (PKD 2014Z).

Grupa Azoty subsidiaries

Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.
The company was entered into the register of companies of the National Court Register held by the District Court in Opole, 8th Commercial Division of the National Court Register, entry no. KRS 0000008993. The company has its registered office in Kędzierzyn-Koźle at ul. Mostowa 30A. Since 11 January 2013 it trades as Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna (abbreviated to Grupa Azoty ZAK S.A.), formerly Zakłady Azotowe Kędzierzyn S.A.
The company’s primary activity is the manufacture of fertilisers and nitrogen compounds, organic and non-organic chemicals and other chemical products (PKD 2014Z).

ZCh Police S.A.
The company was entered into the register of companies of the National Court Register held by the District Court in Szczecin-Centrum, 13th Commercial Division of the National Court Register, entry no. 0000015501. The company has its registered office in Police at ul. Kuźnicka 1. The company trades as Zakłady Chemiczne Police Spółka Akcyjna (abbreviated to ZCh Police S.A.).
The main area of the company’s operations is the manufacture of fertilisers and nitrogen compounds (PKD 2015Z), together with the manufacture of dyes and pigments (PKD 2012Z). Auxiliary operations: manufacture of other inorganic basic chemicals (PKD 2013Z) and manufacture of other chemical products not elsewhere classified (PKD 2059Z).

ATT Polymers GmbH
Entered into the Commercial Register of the District Court in Cottbus on 2 February 2006, entry number HRB 7461 CB. As of 27 January 2010 the Parent became the sole shareholder in the company, which was confirmed by notary public Dr Gero Pfennig on 29 January 2010. The company’s share capital amounts to EUR 9 000 000 and is fully paid-in.
Field of operations: manufacture and trade in plastics (polymers), their intermediate products and derivative products.

**Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o.**

The company was registered on 23 December 2008. Its registered office is located in Tarnów, ul. E. Kwiatkowskiego 7. The company was entered into the National Court Register (entry no. KRS 0000319998) on 19 February 2009 by the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register.

Since 28 February 2013 the company has been trading as Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o.), formerly Polskie Konsorcjum Chemiczne Sp. z o.o. Its operations were expanded after the merger with BIPROZAT Sp. z o.o. on 31 July 2012. Grupa Azoty PKCh Sp. z o.o.’s operations cover:

- investment coordination, including:
  - design and engineering services for the chemical, petrochemical, construction and energy industries, together with environmental performance
  - industrial process coordination,
  - investment projects and technical and engineering works in the area of automation
  - design, contracting, coordination and maintenance of industrial measurement and control systems
  - specialised design activities,
  - process visualisation
  - thermographic measurement and audits, together with technical advisory, analysis, design and workshops,
  - technical testing and analysis
  - engineering activities and related technical consultancy
  - activities of head offices and holding companies with the exception of financial holding companies,
  - management consultancy,
  - business and other management consultancy activities,
  - printing and service activities related to printing
  - data processing, hosting and related activities; web portals

**Grupa Azoty KOLTAR Sp. z o.o.**

The company was registered on 7 December 1999. Its registered office is located in Tarnów at ul. E. Kwiatkowskiego 8. The company was entered into the National Court Register (entry number KRS 0000206663) on 12 May 2004 by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register.

Since 6 March 2013 the company has been trading as Grupa Azoty KOLTAR Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty KOLTAR Sp. z o.o.), formerly Przedsiębiorstwo Transportu Kolejowego "KOLTAR" Sp. z o.o.

Field of operations: freight support connected with the handover and acceptance of rail transport freight, loading services, cleaning of tanks and wagons and their inspection, trade, maintenance of railway lines connected with operating an on-site railway station (PKD 4920Z).

**Associate**

**Navitrans Sp. z o. o.**

The company was registered on 29 June 1992. Its registered office is in Gdynia at ul. Świętojańska 18/5. The company was entered into the National Court Register (entry no. 0000062936) on 20 November 2001 by the District Court in Gdansk-Północ, VIII Commercial Division of the National Court Register.

Field of operations: other transport agency activities (PKD 6340C).
Table 1. Parent’s shareholding in subsidiaries as at 31 December 2012

<table>
<thead>
<tr>
<th>Company name</th>
<th>Registered office / address</th>
<th>Share capital</th>
<th>% of shares directly attributable</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATT Polymers GmbH</td>
<td>Forster Straße 72 D 03172 Guben Germany</td>
<td>EUR 9 000 000</td>
<td>100.00</td>
</tr>
<tr>
<td>Grupa Azoty KOLTAR Sp. z o.o.</td>
<td>ul. Kwiatkowskiego 8 33-101 Tarnów</td>
<td>PLN 32 760 000</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>ul. Mostowa 30 A PO Box 163</td>
<td>PLN 285 064 300</td>
<td>93.48</td>
</tr>
<tr>
<td>Grupa Azoty ZAK S.A.</td>
<td>47-220 Kędzierzyn -Koźle</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZCh Police S.A.</td>
<td>ul. Kuźnicka 1 72-010 Police</td>
<td>PLN 750 000 000</td>
<td>66.00</td>
</tr>
<tr>
<td>Grupa Azoty PKCh Sp. z o.o.</td>
<td>ul. Kwiatkowskiego 7 33-101 Tarnów</td>
<td>PLN 85 630 550</td>
<td>63.27</td>
</tr>
<tr>
<td>Associates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Navitrans Sp. z o.o.</td>
<td>ul. Świętojańska 18/5 81-368 Gdynia</td>
<td>PLN 75 625</td>
<td>26.45</td>
</tr>
</tbody>
</table>

Events after the end of the reporting period

On 16 January 2013 the Parent, which had previously held 10.3% of shares in ZA Puławy S.A., acquired a further 73.4% interest, significantly expanding Grupa Azoty.

At the extraordinary general meeting of ZA Puławy S.A. planned for 15 March 2013, voting will be held on an amendment to the articles of association changing the company's name. After voting and subsequent registration of the amendment, the company will trade as Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna (abbreviated to Grupa Azoty Zakłady Azotowe Puławy S.A.).

The company was entered into the register of companies of the National Court Register held by the District Court for Lublin-Wschód in Lublin, with its seat in Świdnik, 6th Commercial Division of the National Court Register, entry no. KRS 0000011737. The company's registered office is in Puławy at Al. Tysiąclecia Państwa Polskiego 13.

Scope of operations: manufacture of basic chemicals, fertilisers and nitrogen compounds, plastics and synthetic rubber in primary forms (PKD group 20.1), manufacture of other chemical products (PKD group 20.5), manufacture of man-made fibres (PKD 20.6), and manufacture of rubber and plastic products (PKD section 22).
**Group diagram covering consolidated and non-consolidated entities as at 31 December 2012**

**Key:**
- Parent
- Companies / groups consolidated by the Parent
- Indirectly consolidated companies
- Non-consolidated companies

* Grupa Azoty PKCh - stakes held by ZAT and ZAK
** EKOTAR - stakes held by JRCH and PROReM (12% each)
*** ZAKSA - stakes held by ZAK (50%) and Chemkol (4.7%)

Grupa Azoty
Table 2. Parent’s minority shareholdings as at 31 December 2012

<table>
<thead>
<tr>
<th>Company name</th>
<th>% of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZA Puławy S.A.</td>
<td>10.30 %</td>
</tr>
<tr>
<td>Centrum Naukowo - Produkcyjne Materialów Elektronicznych „CEMAT”70” S.A.</td>
<td>1.24 %</td>
</tr>
<tr>
<td>Francusko-Polskie Przedsiębiorstwo Instalacji Przemysłowych „POLSNIG” Sp. z o.o.</td>
<td>2.67 %</td>
</tr>
<tr>
<td>INWESTSTAR S.A.</td>
<td>0.06 %</td>
</tr>
<tr>
<td>Konsorcjum Rozwoju Eksploatacji Mążatu Trwałego „EKSPLOSYSTEM” Sp. z o.o.</td>
<td>3.36 %</td>
</tr>
<tr>
<td>Tarnowska Agencja Rozwoju Regionalnego S.A.</td>
<td>0.289 %</td>
</tr>
<tr>
<td>Tarnowski Klaster Przemysłowy S.A.</td>
<td>0.1077 %</td>
</tr>
<tr>
<td>Tarnowskie Wodociągi Sp. z o.o.</td>
<td>12.55 %</td>
</tr>
<tr>
<td>Tłocznia Metali “PRESSTA” S.A. w Upadłości Likwidacyjnej</td>
<td>0.019 %</td>
</tr>
<tr>
<td>Wytwórnia Silników “PZL MIELEC” Sp. z o.o. w Upadłości</td>
<td>0.12 %</td>
</tr>
<tr>
<td>Zakłady Tworzyw Sztucznych “PRONIT” S.A. w Upadłości</td>
<td>0.28 %</td>
</tr>
<tr>
<td>Zakłady Włókien Chemicznych „WISTOM” S.A. w Upadłości</td>
<td>9.83 %</td>
</tr>
</tbody>
</table>

The following changes took place during and after the end of the reporting period:

- Zakłady Przemysłu Dziewiarskiego "Karo" S.A. w likwidacji - on 2 February 2012 the company was removed from the National Court Register after the completion of liquidation proceedings.
- Południowe Zakłady Przemysłu Skórzanego “Chełmek” Spółka Akcyjna w Upadłości Likwidacyjnej - on 10 May 2012 the company was removed from the National Court Register in connection with the completion on 15 February 2012 of bankruptcy proceedings.
- ZA Puławy S.A. - on 21 August 2012 the Parent completed a tender offer, acquiring 1 968 083 shares in ZA Puławy S.A., i.e. 10.3% of its share capital, carrying 10.3% of votes at the company’s general meeting. On 16 January 2012 the Parent increased its stake in ZA Puławy S.A.’ share capital from 10.3% to 83.7%. Detailed information can be found under point 3.5 Equity and debt issues of this report.

1.2. Description of changes in Grupa Azoty structure

Grupa Azoty - a new brand
Since 5 December 2012 all Group companies have been trading under a new brand - *Grupa Azoty*. This modern brand, to be used by all Group companies, is aimed at clearly identifying Grupa Azoty, its market position and product offering. (details can be found in point 4.10 of this report Significant events).

Consolidation of Grupa Azoty PKCh Sp. z o.o.

In accordance with the adopted strategy, Grupa Azoty PKCh Sp. z o.o. has completed the process of internal consolidation and restructuring of the operations of its subsidiaries. Companies in Kędzierzyn-Koźle and Tarnów were merged. Consolidation was conducted in line with the companies’ operating profiles.

The consolidation process covered the following entities:

- merger between Grupa Azoty PKCh Sp. z o.o. (acquirer) and subsidiary BIPROZAT Sp. z o.o. (target),
- PROReM Sp. z o.o. (acquirer) and ZAK Serwis Sp. z o.o. (target) and Zakład Remontowy REKOM Sp. z o.o. (target) - mechanics and machine services,
- JRCh Sp. z o.o. (acquirer) and CHEMZAK Sp. z o.o. (target) - laboratory services and small-scale manufacture of chemicals,
- Automatyka Sp. z o.o. (acquirer) and Aster ZAK Sp. z o.o. (target) - automation and control systems.
Table 3. Consolidation timetable

<table>
<thead>
<tr>
<th>Area</th>
<th>Deadline for submission of merger plan to the National Court Register</th>
<th>Date of EGM of the company</th>
<th>Data of entry in the National Court Register</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grupa Azoty PKCh Sp. z o.o.</td>
<td>16 May 2012</td>
<td>19 July 2012</td>
<td>31 July 2012</td>
</tr>
<tr>
<td>+BIPROZAT Sp. z o.o.</td>
<td>28 June 2012</td>
<td>30 July 2012</td>
<td>31 August 2012</td>
</tr>
<tr>
<td>Mechanics and machinery</td>
<td>28 June 2012</td>
<td>1 August 2012</td>
<td>31 August 2012</td>
</tr>
<tr>
<td>Laboratories and small-scale chemical manufacturing</td>
<td>28 June 2012</td>
<td>31 August 2012</td>
<td></td>
</tr>
<tr>
<td>Automation and control systems</td>
<td>19 July 2012</td>
<td>2 October 2012</td>
<td>31 October 2012</td>
</tr>
</tbody>
</table>

Details of consolidation can be found in the consolidated quarterly report for Q3 2012, p. 71.
Furthermore, on 29 October 2012 the extraordinary general meeting of ZCh Police S.A. approved the transfer to Grupa Azoty PKCh Sp. z o.o. of corresponding assets belonging to ZCh Police S.A. through the contribution of shares in Koncept Sp. z o.o., Remech Sp. z o.o. and Automatika Sp. z o.o. and the acquisition by ZCh Police S.A. of 596 538 shares in the increased share capital of Grupa Azoty PKCh Sp. z o.o. in exchange for a total non-cash contribution valued at PLN 29 826 900.
Work is also on-going on the development of a logistics operator dedicated to serving the entire Group.

Merger of two ZCh Police S.A. subsidiaries
On 29 February 2012 two subsidiaries of ZCh Police S.A. merged: Centrum Elektrotechnika Instalacje Serwis Sp. z o.o. as the acquiree and AUTOMATIKA Usługi Kontrolno-Pomiarowe Sp. z o.o. as the acquirer. The merger was executed through transferring the assets of Centrum Elektrotechnika Instalacje Serwis Sp. z o.o. in their entirety to AUTOMATIKA Usługi Kontrolno-Pomiarowe Sp. z o.o. As of the merger date, Centrum Elektrotechnika Instalacje Serwis Sp. z o.o. was removed from KRS. On 27 April 2012 a general meeting of AUTOMATIKA Usługi Kontrolno-Pomiarowe Sp. z o.o. took place, where the company’s share capital was increased by PLN 5 486 000 through creation of 10 972 new shares with a nominal value of PLN 500 each. As a result of the increase AUTOMATIKA Usługi Kontrolno-Pomiarowe Sp. z o.o.’s capital now amounts to PLN 7 157 500. All shares were acquired by ZCh Police S.A. On 13 June 2012 the share capital increase was registered in KRS.

Attempt to dispose of the assets of Supra Sp. z o.o. w likwidacji
The company’s receiver made attempts to sell all of its assets. The tender procedures ended without success due to a lack of buyer interest.

Resolution on dissolution of Infrapark Police S.A.
On 30 April 2012 the ordinary general meeting of Infrapark Police S.A., a subsidiary of ZCh Police S.A., adopted a resolution on company dissolution and commencement of liquidation on the resolution adoption date, together with appointment of two receivers.

Liquidation bankruptcy announcement at Budchem Sp. z o.o.
On 19 July 2012, pursuant to a decision issued by the District Court for Szczecin-Centrum in Szczecin, Budchem Sp. z o.o. was declared bankrupt and its assets subject to liquidation.

Commencement of the process to sell ZAK S.A. subsidiaries
On 23 March 2012 the Management Board of ZAK S.A. agreed to commence the sale of subsidiaries PTS AUTOZAK Sp. z o.o., Hotel ORW Azoty Sp. z o.o. and Hotel Centralny Sp. z o.o. in relation to the hotel businesses, on 3 August 2012 the Management Board of ZAK S.A. ruled to end the tender procedure without conclusion in connection with the bidder’s withdrawal from the procedure, On 19 September 2012 extraordinary general meetings of shareholders of the above companies took place, at which resolutions were adopted on changing the companies’ articles of association relating to liquidation of their supervisory boards and, in the case of Hotel Centralny Sp. z o.o., expansion of
its areas of business activity. Simultaneously, all supervisory board members at these companies were dismissed. The above amendments entered into force on registration of the new articles of association in the National Court Register.

On 22 October 2012 the Management Board of Grupa Azoty ZAK S.A. approved re-commencement of the process of selling Hotel ORW "Azoty" Sp. z o.o. It was accepted that the process will be conducted as a tender procedure not covered by the Public Procurement Act but based on the sales procedure for stakes in Grupa Azoty ZAK S.A. subsidiaries.

Initial bids for acquisition of a 100% stake in the company have been received and due diligence is being conducted by potential investors.

Where PTS Autozak Sp. z o.o. is concerned, after preparing the company for sale, on 19 December 2012 an agreement was signed on sale of its shares to Solaris Sp. z o.o., containing certain provisions concerning provision of transport services to Grupa Azoty ZAK S.A.

Sale of ZWRI Sp. z o.o.
On 9 March 2012 Polskie Konsorcjum Chemiczne Sp. z o.o. sold a 100% stake in ZWRI Sp. z o.o. Przedsiębiorstwo Produkcyjno-Handlowo-Uslugowe WIET-POL Piotr Wietecha, having its registered office in Krośno, became the new owner of ZWRI Sp. z o.o.

Other changes at Grupa Azoty PKCh Sp. z o.o.
Three entities within Grupa Azoty (subsidiaries of subsidiaries) were removed from the National Court Register in connection with completion of the liquidation process:

- AIR CENTER Sp. z o.o. w likwidacji (subsidiary of PROReM Sp. z o.o., formerly Zakład Remontowy REKOM Sp. z o.o. - 50.87%) - date of removal: 30 October 2012,
- BRA SOL Sp. z o.o. w likwidacji (subsidiary of JRCh Sp. z o.o. formerly CHEMZAK Sp. z o.o. - 100%) - date of removal: 6 November 2012,
- S+R Gazy Sp. z o.o. w likwidacji (associate of JRCh Sp. z o.o.) - date of removal: 21 February 2013.

After subsequent transactions by JRC Sp. z o.o. to purchase shares in Regionalne Laboratorium Oceny Mleka Sp. z o.o. from its previous owner between 18 December 2012 and 11 January 2013, JRCh Sp. z o.o. reached a 100% stake in the company's share capital.

1.3. Information on organisational and equity ties between Grupa Azoty companies and other entities

Grupa Azoty companies' share in the capital of other entities as at 31 December 2012

<table>
<thead>
<tr>
<th>Grupa Azoty PKCh Sp. z o.o.</th>
<th>Company name</th>
<th>Share in capital (%)</th>
<th>Share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUTOMATYKA Sp. z o.o.</td>
<td>78.90 %</td>
<td>4 547</td>
<td></td>
</tr>
<tr>
<td>JRCh Sp. z o.o.</td>
<td>100.00 %</td>
<td>21 749</td>
<td></td>
</tr>
<tr>
<td>PROReM Sp. z o.o.</td>
<td>100.00 %</td>
<td>11 567</td>
<td></td>
</tr>
</tbody>
</table>

The following companies have been excluded from consolidation due to their insignificance:
- Regionalne Laboratorium Oceny Mleka Sp. z o.o.
- Konsorcjum EKO TECHNOLOGIES
- S+R Gazy Sp. z o.o. w likwidacji
- PIW UNISIL Sp. z o.o.
- EKOTAR Sp. z o.o.
Grupa Azoty ZAK S.A.

Company name | Share in capital (%) | Share capital
---|---|---
Hotel Centralny Sp. z o.o. | 100.00 % | 6 290
Hotel ORW „Azoty” Sp. z o.o. | 100.00 % | 8 080
ZAKSA S.A. | 50.00 % | 1 000
CTL Chemikol Sp. z o.o. | 49.00 % | 4 000
Grupa Azoty PKCh Sp. z o.o. | 36.73 % | 85 631
Kędzierzyńsko – Koziełski Park Przemysłowy Sp. z o.o. | 14.21 % | 16 612
Mostostal Zabrze - Holding S.A.* | 0.009 % | 149 131

*13 285 ordinary shares in Mostostal Zabrze-Holding S.A. held by Grupa Azoty ZAK S.A. were sold on 15 January 2013.

The following companies were excluded from consolidation due to their insignificance:
- ZAKSA S.A.
- PTS Autozak Sp. z o.o. – due to the sale of a 100% stake on 19 December 2012, the company was excluded from consolidation.

ZCh Police S.A.

Company name | Share in capital (%) | Share capital
---|---|---
AUTOMATyKA Usługi Kontrolno - Pomiarowe Sp. z o.o. | 100.00 % | 7 168
KONCEPT Sp. z o.o. | 100.00 % | 511
REMECH Grupa Remontowo - Inwestycyjna Sp. z o.o. | 100.00 % | 6 212
TRANSTECH Usługi Sprzętowe i Transportowe Sp. z o.o. | 100.00 % | 9 783
Zarząd Portu Morskiego Police Sp. z o.o. | 90.00 % | 50
Budchem Sp. z o.o. w upadłości likwidacyjnej | 48.96 % | 1 201
KEMIPOŁ Sp. z o.o. | 33.99 % | 3 445

Companies subject to liquidation

Supra Agrochemia Sp. z o.o. w likwidacji | 100.00 % | 19 721
Infrapark Police S.A. w likwidacji | 54.43 % | 14 986

The following company has been excluded from consolidation due to its insignificance:
- Supra Agrochemia Sp. z o.o. w likwidacji

1.4. Information on branches (facilities) owned by the Parent

The Parent does not operate non-local branches or facilities.
1.5. Information concerning employment

Table 4. Employment level at the Group

<table>
<thead>
<tr>
<th>Employee group</th>
<th>As at 31-12-2012</th>
<th>As at 31-12-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>5,757</td>
<td>6,245</td>
</tr>
<tr>
<td>white collar employees</td>
<td>2,850</td>
<td>3,077</td>
</tr>
<tr>
<td>Total</td>
<td>8,607</td>
<td>9,322</td>
</tr>
</tbody>
</table>

Table 5. Employment level at consolidated subsidiaries

<table>
<thead>
<tr>
<th>Employee group</th>
<th>As at 31-12-2012</th>
<th>As at 31-12-2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>4,515</td>
<td>4,885</td>
</tr>
<tr>
<td>white collar employees</td>
<td>2,113</td>
<td>2,202</td>
</tr>
<tr>
<td>Total</td>
<td>6,628</td>
<td>7,087</td>
</tr>
</tbody>
</table>

Table 6. Average annual employment level at the Group and employment at the end of 2012

<table>
<thead>
<tr>
<th>Employee group</th>
<th>Average employment</th>
<th>Employment at year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>5,918</td>
<td>5,757</td>
</tr>
<tr>
<td>white collar employees</td>
<td>2,853</td>
<td>2,850</td>
</tr>
<tr>
<td>Total</td>
<td>8,771</td>
<td>8,607</td>
</tr>
</tbody>
</table>

Table 7. Average annual employment level at consolidated subsidiaries and employment at the end of 2012

<table>
<thead>
<tr>
<th>Employee group</th>
<th>Average employment</th>
<th>Employment at year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>4,606</td>
<td>4,515</td>
</tr>
<tr>
<td>white collar employees</td>
<td>2,114</td>
<td>2,113</td>
</tr>
<tr>
<td>Total</td>
<td>6,720</td>
<td>6,628</td>
</tr>
</tbody>
</table>

Table 8. Employee rotation in the period 1 January to 31 December 2012

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of new workers</td>
<td>282</td>
</tr>
<tr>
<td>Number of workers made redundant</td>
<td>481</td>
</tr>
</tbody>
</table>

Table 9. Employment by education

<table>
<thead>
<tr>
<th>Description</th>
<th>Year</th>
<th>Total employment</th>
<th>Higher</th>
<th>Secondary</th>
<th>Vocational</th>
<th>Basic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>2012</td>
<td>8,607</td>
<td>1,879</td>
<td>3,347</td>
<td>2,721</td>
<td>660</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2011</td>
<td>9,322</td>
<td>1,899</td>
<td>3,591</td>
<td>3,118</td>
<td>714</td>
</tr>
</tbody>
</table>

Table 10. Employment by length of service

<table>
<thead>
<tr>
<th>Description</th>
<th>Year</th>
<th>up to 5 years</th>
<th>6-10 years</th>
<th>11-20 years</th>
<th>above 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>2012</td>
<td>518</td>
<td>663</td>
<td>1,700</td>
<td>4,726</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2011</td>
<td>6.0%</td>
<td>7.7%</td>
<td>19.7%</td>
<td>66.6%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2012</td>
<td>838</td>
<td>765</td>
<td>1,642</td>
<td>6,077</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2011</td>
<td>9.0%</td>
<td>8.2%</td>
<td>17.6%</td>
<td>65.2%</td>
</tr>
</tbody>
</table>
2. Grupa Azoty management principles

2.1. Grupa Azoty organisational chart

[Organisational chart of Grupa Azoty]

Management Board

Corporate Internal Audit Office

Managing Director

Corporate HR Department
Corporate Finance Department
Corporate Production Coordination and Safety Department
Corporate Strategy and Development Department
Corporate Fertiliser Trading Department
Corporate Procurement and Logistics Department

Corporate Strategic Marketing Office
Corporate IT Office
Chemical Technology Research and Development Centre Preparation Office

Plastics Business Unit
Fertilisers Business Unit
Catalyser Production Plant

Business Energy Unit
Infrastructure Centre
Infrastructure Centre

Zakłady Azotowe
w Tarnowie-Mościcach S.A.
2.2. Changes in key management principles

Acquisitions made to date, in particular those of Grupa Azoty ZAK S.A. and ZCh Police S.A., have enabled the development of a model for Group management which envisages that the Parent’s Management Board functions as Management Board for the Group, and the participation of the CEOs of key subsidiaries within the Group’s Management Board provides a guarantee that the strategy and strategic objectives will be directly communicated and implemented. The key objective of this management model is growth in the value of Grupa Azoty. In operations, this model assumes the assignment to the Parent’s Management Board of corporate departments and business and support areas.

Competences to manage Grupa Azoty are assigned to the Parent’s corporate departments, which play a dual role - performing tasks for Grupa Azoty and for the Parent. The model assumes the centralisation of areas, ensuring the highest synergy effects and the management of key business processes at Group level. Fulfilling the role of process leaders, Management Board members ensure efficient process implementation and performance, and also impact the vertical organisational structure in the event that the implementation of specific processes is interrupted.

A communications system has also been developed within Grupa Azoty, ensuring compliance with listed-company disclosure requirements. Detailed solutions and operating procedures are included in framework agreements between Grupa Azoty companies.

In a drive to continuously improve operating efficiency, operations are conducted using management systems based on ISO 9001:2008, ISO 14001:2004, PN-N 18001:2004 and BS OHSAS 18001:2007, HACCP and IT procedures.

2.3. Organisational changes at the Parent in 2012

In connection with the necessity to adapt the Parent’s structure to the requirements of modern management for a large group of companies, the Parent’s structure was subject to a wide range of organisational changes. The most significant of these include:

Introduction of standardised rules for the Central Contract Register

In order to introduce standardised rules for the recording, storage and processing of the data included in contracts and agreements, a Central Contract Register was introduced at Grupa Azoty at the end of 2011. The date for implementation of the Central Contract Register at the Parent and ZAK S.A. was established as 1 February 2012, whereas for other Group companies the implementation date was set as 1 April 2012.

Information security policy at Grupa Azoty

In accordance with the Personal Data Protection Act of 29 August 1997 (Polish Journal of Laws of 2002, no. 101, item 926, consolidated text as amended) and the Ordinance of the Minister of the Interior and Administration of 29 April 2004 on documenting the processing of personal data and the technical and organisational conditions to which IT equipment and systems used for the processing of personal data should correspond (Polish Journal of Laws of 2004, no. 100, item 1024), an Information Security Policy for the Zakłady Azotowe w Tarnowie-Mościcach S.A. Group was implemented on 3 February 2012.
3. Information on the Parent’s shares and other securities, together with significant shareholders

3.1. Total number and nominal value of Parent shares, their ownership by supervisory and management personnel and such persons’ shares in the Parent’s related entities

Number and nominal value of shares as at the publication date of this report:

- 24 000 000 series AA shares at a nominal value of PLN 5 each,
- 15 116 421 series B shares with a nominal value of PLN 5 each,
- 24 999 023 series C shares with a nominal value of PLN 5 each,
- 35 080 040 series D shares with a nominal value of PLN 5 each (issued in 2013).

The total number of ordinary bearer shares in the Parent is 99 195 484, ISIN code PLZATRM00012 (as at 31 December 2012: 64 115 444).

### Table 11. Parent shares held by management personnel

<table>
<thead>
<tr>
<th>Number of shares / votes</th>
<th>As at 01-01-2012</th>
<th>As at 31-12-2012</th>
<th>As at 06-03-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>-</td>
<td>2 000</td>
<td>2 000</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>639</td>
<td>639</td>
<td>639</td>
</tr>
</tbody>
</table>

### Table 12. Parent shares held by supervisory personnel

<table>
<thead>
<tr>
<th>Number of shares / votes</th>
<th>As at 01-01-2012</th>
<th>As at 31-12-2012</th>
<th>As at 06-03-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomasz Klikowicz</td>
<td>190</td>
<td>190</td>
<td>190</td>
</tr>
</tbody>
</table>

On 18 January 2012 Jerzy Marciniak, President of the Management Board and Managing Director, acquired 2 000 shares in the Parent.

The shareholdings of the Parent’s other management and supervisory personnel has not changed.

Other management and supervisory personnel at the Parent did not hold shares in the Parent as at the end of the reporting period, i.e. as at 31 December 2012.

3.2. Information on agreements known to the Parent under which change may occur in the proportions of shares held by current share- and bondholders

In connection with the acquisition of ZA Puławy S.A., on 16 January 2013 the Parent issued 35 080 040 series D shares with a nominal value of PLN 5 each. The shares were acquired by existing ZA Puławy S.A. shareholders who submitted subscriptions by 11 January 2013. Detailed information can be found under point 3.5 Equity and debt issues of this report.

3.3. Information on employee share ownership programme control systems

There is no system of controlling employee share ownership programmes within the Parent.

3.4. Own shares held by the Parent, Group companies and persons acting on behalf thereof

Grupa Azoty companies do not hold own shares.
Parent shares held by persons acting on behalf of Grupa Azoty entities as at 6 March 2013

<table>
<thead>
<tr>
<th>Management Board</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Krzysztof Pieńkowski - ATT Polymers GmbH</td>
<td>634</td>
</tr>
<tr>
<td>Jerzy Woliński - Grupa Azoty PKCh Sp. z o.o.</td>
<td>128</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supervisory Board</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Małgorzata Malec - ATT Polymers GmbH</td>
<td>360</td>
</tr>
<tr>
<td>Jerzy Koziara - Grupa Azoty ZAK S.A.</td>
<td>639</td>
</tr>
</tbody>
</table>

3.5. Equity and debt issues

The process of issuing series D shares in the Parent commenced with the adoption and publication by the Parent's Management Board of an opinion (together with draft resolutions presented to the general meeting) justifying the reasons for authorising the Management Board to exclude pre-emptive rights to shares and subscription warrants within authorised share capital. On 13 July 2012 the Parent's Management Board adopted a decision to acquire shares in ZA Puławy S.A., based in Puławy. On the same day, the Parent's Management Board, with the intermediation of UniCredit CAIB Poland S.A., provided the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego - KNF), the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A. - WSE) and Polska Agencja Prasowa S.A. with the content of a tender offer for purchase of 6 116 800 shares in ZA Puławy S.A., carrying 32% of votes at the company's general meeting. This decision was presented to the general meeting as additional justification of the Management Board's authorisation to issue shares under authorised share capital and to exclude pre-emptive rights.

On 14 July 2012 the Parent's extraordinary general meeting, through adopting the required resolution, amended the articles of association through adding authorisation for the Management Board to increase the Parent's share capital within authorised share capital. The above amendments were aimed at providing the Management Board with the legal instruments necessary to execute the acquisition of ZA Puławy S.A. Within authorised share capital, the Management Board received authorisation to conduct a share issue with exclusion of pre-emptive rights, addressed to shareholders of ZA Puławy S.A. in exchange for a non-cash contribution in the form of ZA Puławy shares. The in-kind share issue enabled the Parent to assume control over ZA Puławy S.A. without the need to commit significant funds and increase the Parent’s debt.

Pursuant to the above shareholder decision, the Parent’s Management Board commenced work on preparing the Parent’s prospectus and application to the European Commission for acquisition of consent for concentration.

On 21 August 2012 the first stage of the ZA Puławy S.A. acquisition was completed through execution of a tender offer for shares in ZA Puławy S.A. The above acquisition concerned all ZA Puławy S.A. shares under subscriptions submitted in response to the tender offer, i.e. 1 968 083 shares, constituting 10.3% of share capital and carrying 10.3% of votes at the company’s general meeting. The shares were acquired by the Parent for PLN 110 per share, bringing the transaction value to PLN 216 489 000. Prior to the tender offer announcement, the Parent did not hold any shares in ZA Puławy S.A. The shares acquired by the Parent are admitted to trading on the regulated market managed by the Warsaw Stock Exchange.

On 11 September 2012 the Parent's Management Board adopted a resolution on an increase in issued share capital within authorised share capital on the following terms:

- issue of no more than 42 867 293 series D shares, with exclusion of pre-emptive rights, in order for these to be offered to ZA Puławy S.A. shareholders,
- the number of new shares was established to ensure that at the parity designated by the extraordinary general meeting it would be possible to acquire 100% of shares in ZA Puławy S.A. (together with the shares acquired under the tender offer),
- the Parent's Management Board waived due diligence by a statutory auditor of the non-cash contribution in the form of ZA Puławy S.A. shares - the value of the shares acquired was
based on the average weighted ZA Puławy S.A. share price over the six months preceding their contribution to the Parent,

- the share issue price was to be established in a separate resolution of the Management Board with the consent of the Supervisory Board (this resolution was accepted by the Supervisory Board on 12 September 2012).

On 14 September 2012 the Parent submitted a motion to the Polish Financial Supervision Authority for approval of the prospectus.

On 12 October 2012, after completing the consultation phase with the European Commission, the Parent filed a formal application for the issue of consent for concentration through taking control of ZA Puławy S.A.

On 12 November 2012 the European Commission formally adopted the above case. As an effect, after the completion of consultation on 4 December 2012, the Parent filed an application with the European Commission on issue of consent for concentration.

On 21 December 2012 the Polish Financial Supervision Authority approved the Parent’s prospectus, and on 31 December 2012 approved annex no. 1 to the prospectus.

**Events after the end of the reporting period**

On 3 January 2013 the Parent's Management Board adopted a resolution setting the issue price for series D shares, with a nominal value of PLN 5 each, at PLN 44 per share; this resolution was approved by the Parent's Supervisory Board on 4 January 2013.

On 11 January 2013, in connection with the completion of subscriptions for shares, the Parent's Management Board adopted a resolution establishing the final number of series D shares offered in the public offering as 35 080 040, and on 16 January 2013 approved the list of purchasers for series D shares and allocated 35 080 040 shares to subscribers who had submitted correct subscriptions for series D shares in accordance with the Parent's prospectus. In addition, on the same date the Parent's Management Board submitted a declaration stating that 35 080 040 ordinary series D bearer shares with a nominal value of PLN 5 each had been taken up as a result of the public offering, in connection with which the total amount by which capital could be raised was PLN 175 400 200. Pursuant to the above, the Parent's amended share capital amounts to PLN 495 977 420, divided into 99 195 484 shares of a nominal value of PLN 5 each. The increase in the Parent's share capital was registered on 24 January 2013 by the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register.

As a result of the transaction, the Parent acquired 14 032 026 ZA Puławy S.A. shares with a nominal value of PLN 10 each, constituting 73.4% of the acquired company's share capital and carrying 73.4% of votes at its general meeting.

The Parent views the acquisition of shares as a long-term investment and an important stepping stone in delivering its strategy to create Poland's largest fertiliser and chemical sector company. After executing the transaction, the Parent's stake in ZA Puławy S.A.'s share capital was 83.7%, i.e. 16 000 109 shares.

On 18 January 2013 the European Commission issued a decision not to raise objections regarding the application on consent for concentration through the Parent's acquisition of control over ZA Puławy S.A. and confirmed its conformity with the common market, denoting unconditional consent for concentration.

On 18 January 2013 the Management Board of the KDPW, pursuant to resolution no. 51/13 of 18 January 2013, accepted 35 080 040 rights to ordinary series D shares into the depository as of 22 January 2013, with code PLZATRM00079. The shares were admitted to trading as of 22 January 2013 through a resolution of the Management Board of the Warsaw Stock. Rights to series D shares are listed in a continuous trading system under the abbreviated name "AZOTYTARNOW-PDA" with symbol "ATTA".

As at the publication date of this report, the total number of votes carried by all shares issued in the Parent after registration of the increase in share capital was 99 195 484, with share capital divided into 99 195 484 shares of a nominal value of PLN 5 each, of which:

- 24 000 000 series AA ordinary bearer shares,
- 15 116 421 series B ordinary bearer shares,
- 24 999 023 series C ordinary bearer shares,
- 35 080 040 series D ordinary bearer shares,

Details can be found in the Parent's current reports:
Current report 34/2012,
3.6. Use of proceeds from share issues

The total value of the Parent’s public offerings up to 31 December 2012 was PLN 897,246,000 (of which PLN 294,770,000 was generated under the share issue in 2008 and PLN 602,476,000 in 2011). However the PLN 1,924,140,000 in proceeds from the post-reporting period issue (in January 2013) were non-cash since this consisted of issuing 35,080,040 shares in the Parent in exchange for 14,032,026 shares in ZA Puławy S.A. at an exchange ratio of 1 share in ZA Puławy S.A. for 2.5 shares in the Parent and adopted fair value for the issued shares at PLN 54.85 per share (established pursuant to the Parent’s share price on the Warsaw Stock Exchange on 18 January 2013).

The amount of capital raised from previous public offerings remained unchanged at PLN 897,246,000.

Up to the date of publishing these consolidated financial statements, the Parent had used the capital raised from public offerings, held in fixed-term deposits adapted to the anticipated deadline for achievement of issue objectives, in the following manner:

- for covering net costs of share issues - PLN 16,327,000,
- for financing a part of expenditures under achievement of issue objectives: PLN 873,150,000, including:
  - PLN 38,000,000 for investment tasks implemented under “Optimisation of the Nitrogen Fertiliser Product Portfolio and Sales System” - the full amount described in the prospectus,
  - PLN 120,241,000 for tasks implemented under “Modernisation of the Caprolactam Plant together with Construction of a New Hydrogen Facility”,
  - PLN 23,490,000 for “Intensification of the Modified Plastics Facility”,
  - PLN 102,248,000 for the acquisition of 40.86% shares in ZAK S.A. from the Ministry of the Treasury.

The Parent used a total of PLN 873,150,000 in funds acquired from public offerings to finance expenditures under issue objectives, including PLN 26,681,000 to finance expenditures incurred in 2012, of which PLN 9,332,000 from the publication date of the Q3 2012 quarterly report. Funds used in 2012 were allocated in their entirety to one of the objectives of the first share issue, “modernisation of the caprolactam plant together with construction of a new hydrogen facility”, and it is anticipated that the remaining PLN 7,769,000 will be used for this objective in H1 2013.

Under this task work connected with the final phase of constructing the new hydrogen facility has been completed. The use of locally-procured natural gas has commenced. The task was completed and commissioned.

Tasks connected with adapting existing loading stations to TDT requirements are on-going:

- adaptation of caprolactam loading equipment to TDT requirements and
- adaptation of the loading station for liquid sulphur from railway rolling stock to TDT requirements.
Work is progressing as per the schedule. The task “means of implementing the Beckmann rearrangement process using reaction heat” is in its final phase. Primary installation works have been completed. Technological commissioning is planned for 2013. Implementation of the project “Upgrade of sulphuric acid facility” is also on-going. Design works are nearing completion and procurement commissioning is underway. Completion of the project is planned for 2013. Objectives from the 2011 share issue were fully completed in 2011 in accordance with the assumptions outlined in the prospectus, and proceeds were used as designated. The January 2013 issue objective was achieved since the Parent assumed control of ZA Puławy S.A., increasing its stake in this company’s share capital from 10.3% to 83.7% as a result of allocating newly issued shares to ZA Puławy S.A. shareholders.
Table 13. Expenditures on issue objectives incurred up to 31 December 2012

<table>
<thead>
<tr>
<th>Task</th>
<th>Expenditures from 1 July 2008</th>
<th>Borrowings</th>
<th>Own funds other than proceeds from issuing equity</th>
<th>from issuing equity</th>
<th>Expenditures from 1 Jan 2012 to 31 Dec 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modernisation of the caprolactam plant together with construction of a new hydrogen facility</td>
<td>167 757</td>
<td>45 278</td>
<td>2 238</td>
<td>120 241</td>
<td>26 716</td>
</tr>
<tr>
<td>Optimisation of nitrate fertiliser product portfolio and sales system</td>
<td>50 089</td>
<td>6 291</td>
<td>5 798</td>
<td>38 000</td>
<td>-</td>
</tr>
<tr>
<td>Expansion of the Modified Plastics Facility</td>
<td>23 490</td>
<td>-</td>
<td>23 490</td>
<td>(35)</td>
<td>-</td>
</tr>
<tr>
<td>Polyamide II Facility (including ATT Polymers GmbH acquisition)</td>
<td>19 921</td>
<td>-</td>
<td>19 921</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total expenditures financed under issue I objectives (2008)</strong></td>
<td><strong>261 257</strong></td>
<td><strong>51 569</strong></td>
<td><strong>201 652</strong></td>
<td><strong>26 681</strong></td>
<td><strong>-</strong></td>
</tr>
<tr>
<td>Acquisition of shares in ZCh Police S.A.</td>
<td>569 250</td>
<td>-</td>
<td>569 250</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of shares in ZAK S.A.</td>
<td>200 090</td>
<td>-</td>
<td>102 248</td>
<td>97 842</td>
<td>671 498</td>
</tr>
<tr>
<td><strong>Total expenditures under issue II objectives (2011)</strong></td>
<td><strong>769 340</strong></td>
<td><strong>-</strong></td>
<td><strong>97 842</strong></td>
<td><strong>671 498</strong></td>
<td><strong>-</strong></td>
</tr>
<tr>
<td><strong>Total expenditures under issue objectives as at 31 December 2012</strong></td>
<td><strong>1 030 597</strong></td>
<td><strong>51 569</strong></td>
<td><strong>105 878</strong></td>
<td><strong>873 150</strong></td>
<td><strong>26 681</strong></td>
</tr>
</tbody>
</table>
3.7. Share data

The Parent debuted on the Warsaw Stock Exchange on 30 June 2008. Its shares (symbol ATT) are listed on the WSE primary market in a continuous trading system and are included in the WIG, mWIG40 (up to 16 December 2011 sWIG80) and industry-focused WIG-Chemia. The Parent is a constituent of the RESPECT Index. The WSE-managed index is CEE region's first stock market index representing companies operating in accordance with the principles of corporate social responsibility. The Parent was included in the index during its launch in 2009 and has been a constituent since. On two occasions in 2012 (in January for the fourth time and in July for the fifth time) and again for the sixth time on 24 January 2013, the Parent was awarded a certificate confirming its presence in the exclusive group of issuers making up the RESPECT index.

Due to the verification process carried out this year, the index currently comprises 20 companies. Global investment bank Morgan Stanley Capital International, a leading provider of investment decision support tools to investment institutions, announced the Parent's inclusion in the MSCI Emerging Markets index on 19 February 2013. It is anticipated that the Parent's inclusion in the index will increase its appeal in global capital markets and improve its standing among international investors.

MSCI indices have been published by Morgan Stanley since 1970. All other key information concerning the Parent's shares, including voting rights restrictions, are provided in detail in point 10 of this report - Declaration on Application of Corporate Governance.

Shareholding structure

Table 14. Shareholding structure as at 31 December 2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9 250 000</td>
<td>14.43</td>
<td>9 250 000</td>
<td>14.43</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l with Agroberry Ventures Limited</td>
<td>8 481 287</td>
<td>13.23</td>
<td>8 481 287</td>
<td>13.23</td>
</tr>
<tr>
<td>Aviva OFE Aviva BZ WBK</td>
<td>6 397 643</td>
<td>9.98</td>
<td>6 397 643</td>
<td>9.98</td>
</tr>
<tr>
<td>PZU OFE Złota Jesień</td>
<td>3 270 585</td>
<td>5.10</td>
<td>3 270 585</td>
<td>5.10</td>
</tr>
<tr>
<td>Other</td>
<td>16 166 929</td>
<td>25.21</td>
<td>16 166 929</td>
<td>25.21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64 115 444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

including:

series AA and B shares 39 116 421
series C shares 24 999 023

Table 15. Shareholding structure as at 6 March 2013

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>44 764 617</td>
<td>45.13</td>
<td>44 764 617</td>
<td>45.13</td>
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<td>ING OFE</td>
<td>9 883 323</td>
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<td>6 397 643</td>
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</tr>
<tr>
<td>Aviva BZ WBK</td>
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<td>9.68</td>
<td>9 599 816</td>
<td>9.68</td>
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<tr>
<td>Norica Holding S.à.r.l with Cliffstone Holdings Limited</td>
<td>28 550 085</td>
<td>28.78</td>
<td>28 550 085</td>
<td>28.78</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>99 195 484</strong></td>
<td><strong>100.00</strong></td>
<td><strong>99 195 484</strong></td>
<td><strong>100.00</strong></td>
</tr>
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</table>
Between 6 March 2013 and the publication date of this report, the Parent did not receive information on any changes in large stake ownership.

Share performance
The Parent began 2012 with a share price of PLN 27.20, continuing the uptrend already visible from July 2010. The share price continued to trend up throughout 2012, reaching an historic high of PLN 41.85 on 16 July 2012 - breaking the record of PLN 40.41 set on 8 March 2011 and setting a new level for further growth. From halfway through September to the end of December 2012 the share price fluctuated at around PLN 50, breaking the PLN 50 barrier on 17 September 2012 to reach an all-time high of PLN 54.00 at the end of the year. The end of 2012 saw a share price of PLN 53.90.
This growth continued at the beginning of 2013, with subsequent records broken: on 3 January the share price was PLN 57.70, with the current historic high of PLN 58.85 reached on 12 February 2013.

Figure 1. Parent’s share price from the IPO on 30 June 2008 up to 28 December 2012

Source: GPWInfoStrefa, Grupa Azoty

In connection with the issue and allocation on 16 January 2013 of 35 080 040 series D shares, from 21 January to 7 February 2013 rights to the new issue shares were listed on the Warsaw Stock Exchange main market under code PLZATRM00079. The Management Board of the WSE set 7 February 2013 as the last day of listing for the rights to series D shares and simultaneously admitted 35 080 040 ordinary series D bearer shares in the Parent, with a nominal value of PLN 5 each, to trading on the main market.

Dividend policy
The guiding principle behind the Parent’s dividend policy is to make payments proportionally to the level of profit generated and the issuer’s financial capabilities. In announcing proposals for pay-out of a dividend, the Management Board is guided by the necessity to guarantee that financial ratios, financial standing and equity maintain an appropriate level to ensure the further development of Grupa Azoty. The Management Board’s intention is to recommend to future general meetings that resolutions be adopted on pay-out of dividend with consideration given to the factors outlined below and at a level of up between 40% and 60% of the Parent’s net profit for a given financial year.
The above dividend policy was presented in the 2012-2020 Strategy and subsequently confirmed in the consolidation agreement executed between the Parent and ZA Puławy S.A., as well as in the prospectus approved by the Polish Financial Supervision Authority on 21 December 2012. The aim is to increase shareholding stability and seek long-term investors. The dividend policy will however be amended as required by the Management Board and a decision on this issue will be taken with consideration to a range of factors concerning the Parent and Grupa Azoty, including the perspectives for further operations and earnings, cash requirements, the financial standing, growth plans and related legal requirements. The final decision on distribution of profit for a given financial year is taken through the adoption of a resolution by a general meeting.

Recommendations

Table 16. Recommendations relating to the Parent's shares, as published between 1 January 2012 and the date of publishing this report

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Target price (in PLN)</th>
<th>Price on publication (in PLN)</th>
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<tr>
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<td>54.10</td>
<td>56.00</td>
<td>Millenium DM</td>
</tr>
<tr>
<td>2 February 2013</td>
<td>hold</td>
<td>55.00</td>
<td>56.40</td>
<td>DM IDM SA</td>
</tr>
<tr>
<td>6 December 2012</td>
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<tr>
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<tr>
<td>16 October 2012</td>
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<td>17 September 2012</td>
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<td>hold</td>
<td>33.00</td>
<td>26.22</td>
<td>DM IDM SA</td>
</tr>
</tbody>
</table>

Investor relations

Acting in accordance with the highest standards of capital market communications and corporate governance, the Parent provides all capital market participants, and in particular current and potential shareholders, with exhaustive and reliable information on events taking place within the Parent and Grupa Azoty. In communications with investors the Parent goes above and beyond its disclosure requirements. The Parent implements an open information policy in response to the high requirements of capital market participants. It has already become the norm for the Parent to organise earnings conferences presenting the Parent’s and Group’s financial results. In 2012 representatives of the Parent also met with capital
market participants during numerous one-on-one meetings as well as at conferences. Starting with its IPO, the company has held annual meetings with retail investors during the Wall Street conference organised in Zakopane by the Association of Individual Investors. In June 2012, the management board and representatives of the Parent were again on hand to meet with shareholders during the conference and the associated Targi Akcjonariat event.

The Parent’s corporate website is a key tool for communicating with capital market stakeholders, where current and periodic reports, significant information about AGMs and EGMs, analyst recommendations and financial results can be found. The new website, updated and revamped on 5 December 2012, was edited to efficiently provide precise capital market information. In addition, a dedicated module allows investors easy access to share price and other capital market-related information.

The content and presentation of significant investor information was recognised at the annual Złota Strona Emitenta awards for corporate web sites, organised by the Polish Association of Listed Companies. The jury decided to advance Grupa Azoty to the next stage of the competition.

Grupa Azoty’s investor relations efforts were also singled out by investors themselves in the popular Polish economic daily Puls Biznesu for the Parent’s active participation in the Akcja Inwestor campaign, due to which the Parent has had the privilege to be able to use the “Responds to Investors” mark since August 2010.
4. Description of Grupa Azoty operations

Grupa Azoty is the largest chemical group in Poland and a significant player in CEE. Its portfolio includes mineral fertilisers, organic products, plastics and pigments. Currently, the Group focusses its operations in the following areas:

- Fertilisers
- Plastics
- Oxo alcohols
- Pigments

The Group also generates revenue from the sale of catalysers, energy and laboratory, logistics, warehousing, port and other services.

Fertilisers

Fertilisers are the key manufacturing segment at Grupa Azoty. Fertiliser production takes place at three companies: the Parent, ZAK S.A. and ZCh Police S.A. Grupa Azoty's fertiliser portfolio comprises:

- compound fertilisers - high-quality mineral NP and NPK fertilisers such as Polidap®, Polifoska®, Polimag®, etc. NPK fertilisers stand out against domestic competition through their high assimilability and the significant concentration of pure ingredients.
- Nitrogen fertilisers - with such renowned brands as Salmag®, Kędzierzyńska Saletra Amonowa®, as well as CAN and urea.
- Fertilisers with sulphur are an important element of Grupa Azoty's nitrogen fertiliser portfolio, which includes Saletrosan® 26 makro, Salmag® with sulphur, ammonium sulphate and Polifoska®-21.

This segment includes nitrogen-based chemicals such as ammonia, nitrates and AdBlue®. Grupa Azoty is the second largest EU manufacturer of mineral fertilisers and Poland's leader in nitrogen fertilisers with sulphur, CAN and NPK fertilisers.

Engineering plastics

Plastics is the second most important product segment at Grupa Azoty. Plastics manufacturing takes place at two companies: Grupa Azoty in Tarnów, Poland and ATT Polymers in Guben, Germany, where they are manufactured both in natural and modified form.

The plastics product range includes:

- Tarnamid®, alphalon™ - trade names of polyamide (PA6).
  A wide array of polyamides enables selection of plastics with bespoke technical properties, depending on their applications.
- Tarnoform® - a natural, coloured and modified acetal copolymer (polyoxyethylene, POM).
  It is most frequently used to manufacture precision machine parts replacing steel, and also in the automotive industry.
- Granulates are also used to manufacture plastic goods: polyamide coverings - used as packaging for sliced meats and polyamide 6, 11 and 12 and LDPE polythene pipes used as pneumatic and hydraulic tubing.

In addition to the above, the following chemicals are sold within the segment: caprolactam (an intermediate for polyamide 6 production), cyclohexanone and cyclohexanol.

Grupa Azoty is the fifth-largest integrated manufacturer of polyamide 6 in the EU. In Poland, it is the largest polyamide 6 producer and the only manufacturer of polyacetal (POM).

Oxo alcohols

The oxo range comprises organic products and is a significant part of Grupa Azoty's operations. The main products in this segment are oxo alcohols, plasticisers (Oxoplast®) and anhydrides. A member of the group, Grupa Azoty ZAK S.A., is the only domestic manufacturer of oxo alcohols. It has one of the most technologically advanced oxo alcohol facilities in Europe, fully integrated with other manufacturing assets. Within the group, oxo alcohols are used to manufacture various plasticisers, oils and as thinners in the manufacture of paints and varnishes, as well as in other industries. Grupa Azoty uses oxo alcohols to produce its own plasticisers sold by Grupa Azoty ZAK S.A.

The oxo segment portfolio includes:

- Oxo alcohols (2-etyloheksanol, n-butanol, izobutanom, oktanol F),
- Plasticisers (Oxoplast®O (DEHP), Oxoplast®IB (DIBP), Oxoplast®PH (DPHP), Oxoplast®OT
Grupa Azoty is Poland’s only and Europe’s seventh-largest manufacturer of oxo alcohols and Poland’s largest and Europe’s fourth-largest manufacturer of plasticisers.

Pigments
Grupa Azoty’s product portfolio also includes titanium white, marketed as Tytanpol®, whose sole manufacturer in Poland is ZCh Police S.A. These are high quality products, with most kinds certified for use in products in contact with food. They are widely used in paints and varnishes, plastics and paper industries. The pigments portfolio includes the following:

- universal titanium white (Tytanpol®R-001, Tytanpol®R-003, Tytanpol®R-210);
- specialist titanium white (Tytanpol®R-002, Tytanpol®R-211, Tytanpol®RD5, Tytanpol®R-310).

Other activity
The catalysts manufactured at Grupa Azoty are used for selected chemical syntheses for the production of ammonia, hydrogen and synthetic gas. Grupa Azoty’s product range includes the following catalysts:

- Iron-chromium catalyst,
- Copper-zinc catalyst,
- Iron catalyst.

Within its other operations, Grupa Azoty sells electricity to external customers and provides a range of services covering environmental protection, administration, diagnostic and control services for testing and management of common site property.

Grupa Azoty has its own research facilities where operations focus both on the development of existing products and on research and development on new products and technologies. Having its own research and development facilities enables the Group to market new products and product types and to cooperate closely with customers.

4.1. Key product descriptions

Fertilisers
Fertilisers at Grupa Azoty are classified as nitrogen (single-component) and compound, which contain at least two of the following primary components: nitrogen, phosphorus and potassium.

Nitrogen fertilisers
Nitrogen fertilisers: urea, CAN, ammonium nitrate, ammonium sulphate nitrate, mixture of ammonium sulphate and urea, ammonium sulphate.

Nitrogen fertilisers are substances or mixtures of substances containing nitrogen as the primary plant feed element.

Urea is a nitrogen fertiliser containing 46% nitrogen. This is a universal fertiliser - it may be used for all cultivated plants during various growth periods, both in granulated and liquid form. Urea is also used in industry, including for the manufacture of gum resins and in pharmaceuticals. Urea solution - this is marketed by Grupa Azoty as AdBlue® and is used in the automotive industry to reduce emissions.

Saletrzak (CAN) is a nitrogen fertiliser containing approx. 27.5% nitrogen. It can be used both during sowing and during plant growth. CAN is a universal fertiliser suitable for all types of soil, particularly those which are acidic and magnesium-rich. It is easily absorbable, meaning that it is easily absorbed by crops. The Grupa Azoty range includes products such as CAN and the well-known brands Salmag®, Salmag® with boron and Salmag® with sulphur.

Ammonium nitrate is a nitrogen fertiliser which is easily dissolved in water. It contains between 30% and 34% nitrogen. Ammonium nitrate may be used both before sowing crops and for top dressing. Grupa Azoty's product range includes Kędzierzyńska Saletra Amonowa®, which contains 32% nitrogen and has high feed parameters and contains a controlled amount of dolomite.

Ammonium sulphate nitrate is a nitrogen fertiliser with sulphur, containing 26% nitrogen and 13% sulphur. This fertiliser may be used for both pre-sowing applications and for top dressing.
Application of ammonium sulphate nitrate leads to an improvement of the soil sulphur balance, which boosts crop quality and improves resistance to stress during the vegetation period. Grupa Azoty markets this product as Saletrosan®.

**Ammonium sulphate-urea mix** is a nitrogen fertiliser with sulphur, containing 21% nitrogen, 35% sulphur and 4% magnesium. All of these components are highly absorbable. It is recommended for application in the spring on all crops. This fertiliser is marketed by Grupa Azoty as Polifoska® 21.

**Ammonium sulphate** is a nitrogen fertiliser with sulphur, containing 21% nitrogen and 24% sulphur. It is a by-product in the manufacture of caprolactam. After being added to soil, ammonium sulphate lowers its pH, hence as a fertiliser it is effective in soil with alkaline and neutral reaction. It is particularly useful for fertilising plants with high sulphur requirements.

**Compound fertilisers (NPK, NP)**

Compound NPK and NP fertilisers are universal fertilisers which, depending on composition, can be applied to various types of crops and soil. Aside from the primary components - nitrogen (N), phosphorous (P) and potassium (K), these fertilisers contain secondary feed elements: magnesium, sulphur, calcium and can contain micro-elements such as boron. Compound fertilisers may be applied to all crops: winter and spring plants, large-scale crops and root plants, on grassland and in fruit farming. Grupa Azoty's product portfolio includes over 40 types of compound fertiliser sold under the following trade names: Polifoska®, Polidap®, Polimag®.

Fertilisers with bespoke composition are also manufactured for the requirements of individual customers. The high concentration of components and excellent absorption by plant root systems set Grupa Azoty products apart from the competition.

**Plastics and intermediates**

**Caprolactam**

Caprolactam is an organic chemical compound. It is a product used in the manufacture of polyamide 6 (nylon 6). The main commodities used for its manufacture are phenol, benzene and toluene. A by-product of the manufacturing process is ammonium sulphate.

**Engineering plastics**

Engineering plastics are a group of products termed technical thermoplastics, which exhibit high thermal resistance and good mechanical properties. Grupa Azoty manufactures the following types of engineering plastics: polyamide 6 (PA6), polyacetal (POM) and modified plastics.

**Polyamide 6 (PA6)** is a high quality engineering thermoplastic in granular form for injection processing. It is the leading product in engineering plastics. The product's wide range of beneficial properties mean that it is used in a range of industries including automotive, construction, electrical engineering, household goods and the food and floor covering industries. Grupa Azoty's brands in this segment at Tarnamid® and Alphalon®.

**Polyacetal (POM)** is a high quality engineering thermoplastic in granular form, used to manufacture goods through injection processing. It has good insulation properties, low gas permeability and good sliding properties. It is used in industries such as automotive, household goods, electrical engineering, construction, furniture manufacture, machine parts, sport equipment and accessories. The key segment for POM application is the automotive sector. Grupa Azoty markets polyacetal as Tarnoform®.

**Oxo alcohols**

Grupa Azoty manufactures the following oxo alcohols: 2-ethylhexanol (2EH), n-Butanol, isobutanol and mixtures of post-distillation residues - octanol F.

**2-ethylhexanol (2EH)** is used primarily in the manufacture of plasticisers. Furthermore, 2EH and its derivatives are used in the textiles and refining industries. It is also used as a solvent for plant oils, animal fats, resins, waxes and petrochemical products.

**n-Butanol** is used in the manufacture of plasticisers, amino resins and varnishes. It is also used as a product for organic synthesis, an additive to oils, a raw material for the manufacture of solvents and as a component for the manufacture of coating materials. It is used in the textile, pharmaceutical and printing industries.

**Isobutanol** is used as a product for organic synthesis, for the manufacture of plasticisers, solvents, herbicides and coating materials.
Octanol F is an oxo alcohol used as a flotation agent in mining and as an auxiliary substance in the textile industry.

**Plasticisers**
Grupa Azoty manufactures four plasticisers: DEHP, DIBP, DPHP and DEHT. Plasticisers are used in the chemical industry as agents softening plastics, mainly PVC, and as an additive to paints and varnishes. Grupa Azoty manufactures plasticisers based on an integrated manufacturing facility where the majority of raw materials are manufactured on site, with two exceptions: 2-propylheptyl alcohol and terephthalic acid.

**DEHP** - bis(2-ethylhexyl) phthalate - is a versatile plasticiser which is used in the processing of plastics, in particular in the manufacture of PVC. DEHP is also used as an additive for paints and varnishes. Grupa Azoty markets this product as Oxoplast® O.

**DIBP** - diisobutyl phthalate - is a plasticiser normally used as softening agent for PVC. It mixed with other phthalates and used to manufacture substances to make non-stick and stain-free surfaces. Grupa Azoty markets this product as Oxoplast® IB.

**DPHP** - bis(2-propyl heptyl) phthalate - is a plasticiser used in the automotive industry, in roofing, artificial skin and for the manufacture of waterproof canvas. This product is marketed as Oxoplast® PH.

**DEHT** - bis(2-ethylhexyl) terephthalate - is used in the processing of plastics as a non-phthalate plasticiser, and in the paint and varnish industry. It also has a wide range of other applications, from the manufacture of floor and wall coverings to children's toys. This new Grupa Azoty product is marketed as Oxoplast® OT.

**Pigments**
The pigment marketed by Grupa Azoty is titanium white (titanium dioxide - TiO₂). Titanium white is a significant manufacturing component used in numerous branches of industry. The key consumer for TiO₂ pigments is the paint and varnish sector. They are also used in the plastics, paper, rubber, textile, pharmaceutical and cosmetics industries. Grupa Azoty also markets a certified pigment for goods coming into contact with foodstuffs. TiO₂ pigments are sold under the registered trademark Tytanpol®. Grupa Azoty currently markets six types of titanium white.

**Chemicals**
The key chemical product at Grupa Azoty is ammonia.

**Ammonia** is obtained on an industrial scale from natural gas. It is a key product for the manufacture of fertilisers containing nitrogen, and is also used in the chemical industry, mainly for the manufacture of caprolactam and polymers and as a coolant in refrigeration units. Grupa Azoty markets ammonia in anhydrous form and as a solution.
4.2. Information on sales markets and procurement of strategic raw materials

Grupa Azoty enjoys a strong position in domestic and foreign chemical markets. Its products are mainly sold to EU countries, in particular Poland, Germany, the Czech Republic, Italy and Belgium. Mineral fertilisers are the key product sold in the domestic market. Exports to the EU mainly cover plastics, oxo alcohols and plasticisers, in Asia key products include oxo alcohols and caprolactam, whereas in South America this is fertilisers.

Figure 2. Regional structure of sales in 2012

Grupa Azoty did not have any customers whose share in its 2012 revenue reached 10%, whereas one supplier, PGNiG S.A., exceeded a 10% share in revenue.

Procurement of strategic raw materials

Natural gas
The sole domestic supplier of natural gas supplied this commodity from the transmission network and from local sources pursuant to long-term agreements. Grupa Azoty purchased 84.5% of its methane-rich natural gas from the PGNiG S.A. transmission network and the remaining 15.5% from other sources.

Phosphorite
Phosphorite was mostly purchased on the basis of periodic agreements or spot contracts, mainly from North African manufacturers given the region’s well-developed sea logistics infrastructure. Grupa Azoty is diversifying its procurement strategy. The situation in the phosphorite market is to a large extent connected with the situation in the fertilisers sector.

Propylene
The Group mainly purchases propylene based on annual contracts, with spot purchases constituting a supplementary source of supply. Propylene prices are heavily dependent on oil prices. In 2012 Germany remained the main propene supplier, accounting for over 47% of this commodity.

Potassium salt
Due to competitive commercial terms, the primary suppliers of potassium salt are producers from Russia and Belarus. Supplies are ensured on the basis of quarterly contracts. Supplementary deliveries are periodically sourced from Germany and the UK.
Phenol

In this field, Grupa Azoty’s procurement strategy is based on two primary sources - western Europe and supplies from domestic sources. Regular deliveries from Scandinavian manufacturers commenced from 2013, constituting supplementary supplies. Phenol consumption was reduced at the end of 2012 with regard to unfavourable market conditions (including limited caprolactam output) and a drop in cyclohexanol shipments to external customers. High contract prices for benzene, particularly in the second half of 2012, had a significant impact on the phenol market throughout the year.

Electricity

In Poland, energy purchases are based on several main energy suppliers - PGE S.A., TAURON Polska Energia S.A., Energia S.A and CEZ Trade Polska Sp. z o.o., which serve large-scale customers. Their financial condition is good and they plan to continue investing in new power generation units. As a result of a tender procedure in 2012, an agreement was executed with one of them. In executing the agreement, an increase in electricity prices and distribution services in line with inflation was achieved. As a result, the price of electricity did not increase.

The electricity procurement strategy enabled the Group to obtain competitive prices and contractual conditions, including through using the scale of procurement. With regard to the variability of this market and the variability of associated legal regulations, the procurement strategy was to purchase this commodity on the basis of short-term contracts.

4.3. Grupa Azoty’s main domestic and foreign investments

Total investment expenditures incurred by Grupa Azoty in 2012 amounted to PLN 275 530 000. These expenditures did not include infrastructure repairs (PLN 95 660 000), catalysts (PLN 8 181 000), expenditures on intangible assets under construction (PLN 4 896 000) and other expenditures directly connected with investments (PLN 2 332 000), but do contain advance payments (PLN 15 117 000).

Grupa Azoty’s investment expenditure structure:

- investments connected with business development PLN 54 685 000,
- investments connected with business continuity PLN 113 578 000,
- mandatory investments PLN 55 054 000,
- purchase of finished products PLN 52 213 000.

Figure 3. Investment expenditure structure at Grupa Azoty in 2012

![Pie chart showing investment expenditure structure]

Source: Grupa Azoty

Investment expenditures at Grupa Azoty companies in 2012:

- Parent PLN 151 008 000,
- Grupa Azoty ZAK S.A. PLN 22 851 000,
- ZCh Police S.A. PLN 79 270 000.
Parent

The largest investments in 2012 were projects implemented as issue objectives: Construction of a New Hydrogen Facility and Modernisation of the Sulphuric Acid Facility.

During the year, several key investments had been completed, including the construction of a hydrogen facility. This investment secures supplies of hydrogen for caprolactam manufacture and ensures additional production of synthetic gas. The hydrogen facility also allows to lower hydrogen production costs through the use of cheaper natural gas from local sources.

Another investment completed in 2012 - the installation for comprehensive collection of ash from the boilers at power plant EC II - enabled the limitation of ash transport to the "Czajka II" landfill and decreased this landfill’s operating costs. The effect of completing this project also includes revenue for sale of raw ash (details concerning this investment can be found in the Management Report on Group Operations for the 6 months ended 30 June 2012, p. 45).

The project to modernise main electrical substations at Zakłady Azotowe w Tarnowie-Mościcach S.A. enables an increase in the direct transmission from the Parent’s CHP facility and limits the purchase of more expensive electricity from the grid.

Implementation of the projects to exchange the computer control and instrumentation systems at the lactam department and exchange the computer control and instrumentation systems at the ammonium nitrate plant increase the operational reliability of these facilities, improve the quality of technical processes and increase facility operational safety.

Main on-going investments include:

- Upgrade of sulphuric acid facility,
- Upgrade of the interior of ammonia synthesis reactors,
- Conversion of gate no. 6 from ul. Chemiczna and construction of a heavy goods vehicle parking area,
- Modernisation of the Cooling Station no. 6 refrigeration system,
- IT consolidation for Grupa Azoty.

Modernisation of the sulphuric acid facility is the largest task currently on-going at the Parent. The aim of the project is to ensure the operational continuity of one of the core facilities in the caprolactam production line, improve ecological indicators and increase the steam production ratio. Completion of the project is planned for 2013.

Implementation of the project to modernise the interior of the ammonia synthesis reactors enables lowering of the cost of ammonia production through decreasing the use of electricity, better use of reaction heat to produce steam and a drop in the consumption of coolant. The project is planned for completion in 2014.

Implementation of the product to covert gate no. 6 from ul. Chemiczna and construct a heavy goods vehicle parking area enables an improvement in managing the loading and transport of the Parent’s products. All primary works have been completed, with minor finishing touches remaining, which will be finished in Q1 2013.

The project to modernise the Cooling Station no. 6 refrigeration system focusses on development of the ammonium screw compressor and the construction of new piping. Installation works are currently in progress on developing the screw compressor and the construction of new piping is nearing completion. Completion of the project is planned for 2013.

The IT consolidation project at Grupa Azoty covers IT consolidation at the Parent, ZCh Police S.A. and Grupa Azoty ZAK S.A. This project will lead to an improvement in management efficiency at Grupa Azoty. The task is on-going with regard to planned infrastructure and application projects. Completion of the project is planned for 2013.

Grupa Azoty ZAK S.A.

Total investment expenditures incurred by Grupa Azoty ZAK S.A. amounted to PLN 22 851 000.

Main investments completed in 2012 include:

- Reduction in the energy consumption of oxo synthetic gas production,
- Expansion of the water circulation unit for the new installation neutralising nitric acid using ammonia gas at the Saletrzak (CAN) facility - phase 2
- Advanced process control system rollout at oxo facilities.
The task to reduce the energy consumption of synthetic oxo gas production consisted of modernising the power and control circuit for two potassium carbonate pumps at the synthetic gas department through replacing the existing regulation system with a speed reduction system enabling savings to be made on electricity.

Expansion of the water circulation unit for the new installation neutralising nitric acid using ammonia gas at the Saletrzak (CAN) facility - phase 2 consisted of adapting circulation parameters to the requirements of the new Saletrzak (CAN) installation.

The project to implement an APC system at oxo facilities consisted of implementing an APC (advanced process control) system at the oxo facilities, covering the design of solutions, installation and configuration of the APC server and implementation of a prediction process control model and its optimisation.

Key on-going investments include:

- Adaptation of the ester installation to the production of di(2-ethylhexyl) terephthalate,
- Construction of a platform to load liquid BKF into tanks,
- Upgrade of waste treatment facilities,
- Expansion of the steam network through the addition of a 4.0 MPa steam collector.

The objective of the project to adapt the ester installation to the production of di(2-ethylhexyl) terephthalate is to make changes in the technological process leading to the existing ester installation within the reaction system and to achieve an increase in terephthalate OT production capacity. Completion of the project is planned for 2013.

The task to construct a platform to load liquid BKF into tanks is dictated by the necessity to decommission the existing liquid BKF loading station, which does not fulfil technical supervision requirements concerning regulations on equipment for the filling and emptying of transport tanks. The investment is in its final phase. Completion is expected in the first half of 2013.

The waste treatment facility upgrade project will increase efficiency, improve the technical condition of equipment, decrease the operational burden and improve occupational health and safety conditions. Completion of the project is planned for 2013.

The project to expand the steam network through the addition of a 4.0 MPa steam collector consists of constructing a new steam collector to transmit steam generated at the new TK V nitric acid facility at a pressure of 4.0 MPa to the aldehyde plant in order to protect against the need to limit production during stoppages at the steam boiler. Completion of the project is planned for 2013.

On 19 November 2012 the Management Board of Grupa Azoty ZAK S.A. adopted a recommendation on construction of a new on-site CHP plant. The project will be implemented in stages.
The aim of the investment for analysis of process gases using mass spectrometry is to ensure a high level of precision and speed for essential analytical measurements ensuring correct and economic management of raw materials and the safety of the process. The investment to build a new 6kV cable line from the GPI switching station to the PII station and from the GPI station to the PII station is aimed at increasing the reliability of electricity supply to switching stations PIII and PII through decreasing the level of failures in existing cables. The use of new cables in the single-core cable system almost completely eliminates the risk of failures through short circuits in cable pathways, which impact operations at the fertiliser and phosphoric acid plants.

Key on-going investments include:
- Upgrade of ammonia loading ramps,
- Stripper 20 E-102,
- Modernisation of synthetic gas compressors and exchange of the CO2 compressor turbine,
- Construction of a filtration system and preparation of the existing installation for dry separation,
- Iron II sulphate neutralisation system - monohydrate.
- Logistics development at ZCh Police S.A. - phase 1,
- Exhaust gas treatment unit and modernisation of CHP facility EC II.

The objective of the investment to modernise the ammonia loading ramp is to ensure adaptation to legal regulations - the Ordinance of the Minister of Infrastructure of 23 September 2011 on technical supervision to which equipment for the filling and emptying of transport tanks should correspond (Polish Journal of Laws no. 208, item 1242).

Investment in the Stripper 20 E-102 enables exchange of the used equipment (apparatus in the urea synthesis unit) for a new model with increased technological efficiency.

The aim of the investment to modernise synthetic gas compressors and exchange the CO2 compressor turbine is to reduce the energy consumption of the ammonia unit as a result of decreasing the quantity of highly compressed steam to the synthetic gas turbocompressor.

The investment in constructing a filtration system and preparing the existing installation for dry separate consists of modernising the means of separating pigment from wet to dry. This change will enable losses to be limited and will improve the quality of the final product.

The investment in the installation to neutralise iron II sulphate - monohydrate will enable economic use of waste in the form of acidified iron sulphate monohydrate.

The investment in logistics development at ZCh Police S.A. - phase 1 is the first stage in a project comprising development of infrastructure at ZCh Police S.A. The task enables an increase in fertiliser packaging capabilities, and streamlines palletised fertiliser loading and freight forwarding operations.

The aim of the investment at the exhaust gas treatment unit and modernisation of CHP facility EC II is to adapt cogeneration operations to the requirements of Directive 2010/75/EU.

Grupa Azoty KOLTAR Sp. z o.o.
Investment expenditures incurred in 2012 amounted to PLN 8 155 000.
Key investments completed include:
- purchase and modernisation of 30 TADDS series type 426 Va wagons to 426 Vb
- overhaul of SM42 locomotive no. 7761/12,
- modernisation of 20 type 437 Rb wagons.

Grupa Azoty PKCh Sp. z o.o.
Investment expenditures incurred at Grupa Azoty PKCh Sp. z o.o. in 2012 were PLN 12 919 000. Key investments include:
- at JRCh Sp. z o.o.:
  - expenditures on the sector C-2 storage facility,
  - expenditures on the sector C-3 storage facility,
  - construction of an asbestos waste storage facility.
- at Automatyka Sp. z o.o.:
  - acquisition of a building and right to perpetual usufruct of land from the Parent.

ATT Polymers GmbH
Investment expenditures incurred in 2012 at ATT Polymers GmbH amounted to PLN 1 327 000.
Key investments completed include:
- Update of the process management system,
- Modernisation of the system for dispensing process water treatment additives.
A workstation for testing the properties of film granulate is under construction.

4.4. Asset allocation and equity investments outside of Grupa Azoty

Grupa Azoty’s largest investment during the reporting period was the acquisition of shares in ZA Puławy S.A. (details can be found in point 3.5 Equity and debt issues and in point 4.10 Significant Events of this report).

The Parent is in the final phase of the acquisition, i.e. the Subsequent Tender Offer for the remaining 16.3% of shares in ZA Puławy.

The Parent is also in the process of executing a transaction for acquisition of share in Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. Further information can be found under point 4.10 of this report, Significant Events.

In 2012 the Group’s funds (including the remainder of proceeds from the 2008 public offering) were primarily held in a current account at PKO Bank Polski S.A., lined under virtual cash pooling services with overdraft sub-limits at Grupa Azoty companies, which enables interest income and cost optimisation throughout the Group.

In maintaining a cash surplus in accounts held at PKO Bank Polski S.A., Grupa Azoty companies generate interest calculated using same market interest rates equal to WIBOR 1M annualised, up to an amount equal to the level of borrowings at Grupa Azoty under the PKO BP S.A. overdraft facility. At the same time, Group companies participating in the overdraft facility at PKO Bank Polski S.A. incur the same cost of credit, at a level of WIBOR 1M annualised, up to the amount equal to the cash surplus at Grupa Azoty.

As at 31 December 2012, Grupa Azoty companies held a total of PLN 243 440 000 in bank accounts and short-term deposits, of which PLN 79 324 000 was held in the current account at PKO Bank Polski S.A. connected with virtual cash pooling. This include PLN 7 769 000 in unused proceeds from the Parent’s equity issues. As at 31 December 2012, all of the above funds were recognised in the Grupa Azoty financial statements under “cash and cash equivalents”.

Under fixed-term deposits and virtual cash pooling services, Grupa Azoty generated PLN 11 258 000 in interest income on accounts held at PKO Bank Polski S.A., including under deposit of the remaining proceeds from the public offerings, where the Parent generated PLN 1 089 000 in interest income in 2012.

Table 17. Bank deposits as at 31 December 2012

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total deposits with maturities over 3 months</td>
<td></td>
</tr>
<tr>
<td>Total deposits with maturities under 3 months</td>
<td>118 793</td>
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<tr>
<td>Other deposits</td>
<td>12 235</td>
</tr>
<tr>
<td>Total bank deposits</td>
<td>131 028</td>
</tr>
</tbody>
</table>

Grupa Azoty companies hold funds covered by virtual cash pooling, which remain in technical bank accounts where positive balances are treated as an overnight deposit and generate the same interest rate (WIBOR 1M) as negative balances at other Grupa Azoty entities.

4.5. Asset allocation and equity investments within Grupa Azoty

In accordance with Grupa Azoty’s strategy, in 2012 subsidiary Grupa Azoty PKCh Sp. z o.o. and its subsidiaries were reorganised and consolidated. These processes are aimed at increasing operational efficiency and transparency, separating core from non-core operations and as a result lowering Grupa Azoty’s overhead. Details of the integration and consolidation process can be found in point 1.2 of this report, Description of changes in Grupa Azoty structure.
4.6. Significant agreements

Table 18. Agreements significant to Grupa Azoty operations

<table>
<thead>
<tr>
<th>Parties</th>
<th>Object</th>
<th>Date of execution</th>
<th>Current report date and number</th>
<th>Value</th>
</tr>
</thead>
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<tr>
<td>Parent - Societe Generale S.A.</td>
<td>Collateral agreement</td>
<td>13-07-2012</td>
<td>Current report 43/2012 of 13 July 2012</td>
<td>672 848</td>
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<tr>
<td>Parent - PKO BP S.A.</td>
<td>Loan agreement</td>
<td>14-08-2012</td>
<td>Current report 57/2012 of 15 August 2012</td>
<td>711 000</td>
</tr>
</tbody>
</table>

During the reporting period the Parent disclosed information on significant agreements in current reports 39/2012 and 79/2012; the Group's total value of trade with PGNiG S.A. in 2012 was PLN 1 127 283 000.

4.7. Significant transactions with related parties

During 2012 Grupa Azoty did not execute any transactions with related parties on terms other than market terms.

4.8. Significant R&D achievements

Grupa Azoty’s research and development efforts in 2012 were well-aligned with its strategic objectives. Most of the capital dedicated to R&D was invested within Grupa Azoty’s key operating areas, including the manufacture of engineering plastics, mineral fertilisers and organic chemicals. Key R&D operations in 2012 include:
- perfection of the fertiliser manufacturing process, work on further enrichment of the nitrate fertiliser product range and research on the effectiveness and benefits of using fertilisers in agriculture; work is in progress to introduce liquid fertiliser manufacturing,
- research on modernising the Tarnoform® (POM) polymerisation lines to increase effectiveness and lower the dependence on weaker links in the production chain, together with research on the possible use of new-generation catalysts in the process of manufacturing POM,
- research on on-going optimisation of the cyclohexanol oxidation process, ammonium sulphate crystallisation process and intensification of the caprolactam manufacturing process;
- research on changing the technology used to manufacture phosphoric acid;
- work on the capability to process liquid waste at the titanium white facility;

Energy efficiency, electrical installation and facility audits were conducted at Grupa Azoty with the aim to identify the energy efficiency potential of products at the various facilities of the Group. New product research was also conducted, with a view to launching new production lines at Grupa Azoty. This included work on a next-generation type of non-phthalate plasticisers and new variations of modified plastics.

Product research resulted for example in Zakłady Azotowe w Tarnowie-Mościcach S.A. receiving a medal at the PLASTPOL International Plastics and Gum Expo in Kielce for Tarnoform® (POM) with reduced formaldehyde emissions - high quality engineering thermoplastics (in the "Achievements of Polish Technology" category).
On 23 November 2012 the Parent entered into an agreement with Grupa LOTOS S.A. concerning feasibility studies, including technical and economic analyses, for a project to jointly develop new chemical and petrochemical installations. The results of these studies will enable both groups to take a decision by the end of 2013 on whether to form an SPV to jointly implement the project.

On 13 November 2012 a letter of intent was signed by Grupa Azoty, the mayor of Tarnów and the deputy marshal of the Province of Lesser Poland concerning the establishment of the Chemical Technology Research and Development Centre. As a result, a letter of intent was signed concerning cooperation on the development of the intra-regional Chemical Technology Research and Development Centre, integrating the industry, science and public administration with the aim of conducting research in support of innovative entrepreneurship, and with active participation in the regional growth strategy and labour market development.

Cooperation is planned with the International Centre for Chemical Safety and Security in Tarnów based on the cutting-edge solutions applied in the global chemical industry and promotion of international cooperation. The parties intend to support the development of innovations connected with the chemical industry through seed funds, loans and guarantees and entrepreneurship development (accelerators, clusters and industrial parks).

The parties to the letter of intent have also declared their willingness to work together on the Chemical Technology Research and Development Centre with representatives of academia, researchers and professionals from other institutions collaborating with the chemical industry, in order to improve R&D performance and deepen cooperation between the industry and academia.

**Licenses**

2012 marked the completion of the Parent’s performance of an agreement on paid know-how sharing under the so called Cyclopol bis programme aiming to upgrade a cyclohexanone facility in India.

**IP protection**

<table>
<thead>
<tr>
<th>Details</th>
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**Trademark application**

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<td>Grupa Najlepszych składników</td>
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**European application**

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<td>05-12-2012</td>
<td>011398351</td>
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</tbody>
</table>
4.9. Environmental performance

Grupa Azoty companies hold all legally required decisions specifying the extent and means of using the natural environment, the obligation to acquire which is connected with the specifics of their operations.

Aside from work connected with the acquisition of integrated permits, the following tasks were completed:

1. An audit was conducted at the Parent concerning management systems in areas of particular interest from the viewpoint of environmental protection and occupational health and safety.
2. Data on the emission of greenhouse gases and other substances were transferred to the database of the National Centre for Emissions Balancing and Management (implementation of provisions under the Environmental Protection Law and legislation on the greenhouse gas emissions management system).
3. The annual report on CO₂ emissions from CHP facility EC II for 2011 was verified and sent to the National Centre for Emissions Balancing and Management, as well as the Office for the Marshal of the Province of Lesser Poland. As a result of the verification, a surplus of greenhouse gas emissions allowances was generated.
4. A report was drafted and sent to the National Centre for Emissions Balancing and Management on pollutant emissions from the Parent's installations.
6. Fees were settled for the use of the natural environment in H2 2011. These were paid within the statutory deadline.
7. An amendment of the integrated permit for the Caprolactam and Polyamide Manufacturing Facility was obtained.
8. An update to the Incident Prevention Programme was drafted and implemented.
9. A document entitled "Safety at Zakłady Azotowe w Tarnowie-Mościcach S.A." was drafted and sent to companies and institutions located within the Parent's site and in its immediate vicinity.
10. Reporting documentation was drafted:
   - report concerning carcinogenic substances,
   - reports on occupational health and safety activities for 2011,
   - ADR report for 2011,
   - OS-1, OS-3 and OS-6 reports,
   - report to the Office of the Provincial Marshal and Provincial Environmental Protection Inspectorate concerning use of the natural environment.
11. Participation in an environmental protection audit at Bałtycka Baza Masowa Sp. z o.o.
12. On 20 June 2012 an integrated permit was obtained for the Hydrogen Facility.
13. Participation in administrative proceedings concerning establishing the amount of the fine for excessive noise pollution from the 5th Methane Decomposing Facility in 2011.
14. On 11 September 2012 a decision was obtained amending the integrated permit for CHP facility EC II in connection with commissioning of the installation for comprehensive collection of ash from the boilers at EC II.
15. On 13 September 2012 a decision was obtained for the emission of greenhouse gases from the CHP plant.
16. On 20 December 2012 an amendment to 2 decisions was obtained concerning grant of a permit for participation in the EU’s greenhouse gas emission allowance trading scheme.
17. Nitrogen Dioxide Emission Reduction Joint Implementation Project at the Nitric Acid Installation was verified twice.
Grupa Azoty ZAK S.A.

Due to the nature of its operations and as an entity operating installations, using environmental resources and implementing projects with potential environmental impact, Grupa Azoty ZAK S.A. is subject to legal regulations regarding environmental protection, which impose certain specific obligations on the company.

In connection with the above, the following tasks were implemented at the company in 2012:

1. All legally required reports and information were drafted and submitted on time to the competent authorities.
2. The annual report on CO₂ emissions from the on-site CHP facility was verified, as a result of which a surplus of greenhouse gas emissions allowances was generated.
3. Preparatory activities were undertaken for participation in the emission trading scheme in the third trading period (2013-2020).
4. Progress was continued in regulating formal and legal status concerning environmental protection, both with regard to new legal regulations and in relation to actions taken. In connection with the application submitted in 2011, an amendment to the integrated permit was obtained for Fertilisers Business Unit manufacturing facilities.
5. In December 2012 main earthworks were completed in connection with the reclamation of a subsequent on-site landfill, i.e. waste landfill at the Piskorzowiec wastewater treatment facility.
6. Several investments connected with the construction or modernisation of loading stations for ZAK S.A. products were continued, fulfilling all requirements under legal regulations.
7. In 2012 a task was commenced in connection with modernising the central mechanical waste treatment facility.

Furthermore:

1. In Q1 2012 the company successfully passed a subsequent audit carried out by DEKRA Certification, confirming compliance with the required standards, including environmental management system ISO 14001:2004 (certificate valid until 14 February 2014).
2. The company continued to cooperate with the recycling organisation responsible for providing Grupa Azoty ZAK S.A. with the legally required level of salvage and recycling for packaging in 2012.
3. Under the Responsible Care® programme, the company’s environmental indicators and targets for 2011 were audited, together with subsequent actions to be implemented in 2012. Furthermore, in connection with commencement of the audit, the company performed a corporate self-assessment through filling out a questionnaire before obtaining the Responsible Care Framework Management System certificate in 2013.

ZCh Police S.A.

In the area of environmental performance, the company operates on the basis of an integrated permit for the facilities located within the ZCh Police S.A. site, as issued by the Governor of the Zachodniopomorskie Province on 27 February 2004.

1. A decision was obtained from the Office of the Provincial Marshal amending the integrated permit.

The changes made were connected with issues including:

- the introduction of changes required for application in the National Centre for Emissions Balancing and Management report,
- the planned commissioning in 2012 of subsequent dry separation lines,
- the acquisition of a waste generation permit for the iron sulphate (II) waste storage facility,
- the acquisition of a waste generation permit for the phosphogypsum waste storage facility,
- changes relating to waste management.

2. The annual report on CO₂ emissions from the on-site CHP facility was verified, as a result of which a surplus of greenhouse gas emissions allowances was generated.

3. An application was submitted to the Office of the Provincial Marshal for amendment of the decision approving the operational instructions for the phosphogypsum storage facility. The amendment concerned raising the height of the facility to 60m ASL. In Q2 2012 the Office of the Provincial Marshal twice issued decisions amending and approving the operational instructions for the phosphogypsum waste storage facility. These changes were connected with:

- raising the height of the phosphogypsum storage facility to 60m ASL,
• changes in provisions relating to waste storage technology.

The planned commissioning of a second storage level at the phosphogypsum waste storage facility enables an increase in facility height to 60m AGL and extends its useful life to 20 years with the waste generation level remaining the same. One of the elements of work on increasing the facility’s height is the acquisition of a decision by ZCh Police S.A. from the Starosta of the District of Police concerning specification of land reclamation for the phosphogypsum waste storage facility.

In implementing the emergency plan drafted for the waste storage facilities, with regard to the complexity of the task, consisting of drafting geological documentation for the purification barrier design, the company applied to the Provincial Environmental Protection Inspector in Szczecin for amendment of the decision specifying the scope and timeframe for activities essential for removal of the causes and results of confirmed environmental hazards connected with use of the iron (II) sulphate waste storage facility. Through a decision issued by the Provincial Environmental Protection Inspectorate, the timeframe for completion of tasks was extended by 6 months.

ZCh Police S.A. again applied to the Ministry of the Environment with a legislative initiative concerning proposed changes to the 2005 Ordinance of the Minister of the Economy and Labour concerning the criteria for waste storage at a given type of waste storage facility enabling the correct management of iron (II) sulphate in accordance with the principles of competitiveness.

4. Environmental reporting for 2011 was completed on time.

5. The notification to the State Fire Service, the Internal Operational and Rescue Plan and the Incident Prevention Programme were updated.

6. The Safety Report was updated. After obtaining a positive opinion from the West Pomeranian Provincial Environmental Protection Inspector (ruling of 17 April 2012), the West Pomeranian Provincial Head of the State Fire Service approved the “Safety Report” for ZCh Police S.A. (decision no. WZ.5623.28.3.2012 of 31 May 2012).

7. An update was made to the Organisational Regulations for the Site Fire Service, and this was sent for agreement to the Provincial Headquarters of the State Fire Service in Szczecin.

8. In delivering on the environmental policy, actions were taken to reduce environmental nuisance and reduce noise pollution at on-site manufacturing facilities. An agreement was signed on researching the sources of noise generated by facilities on the site, together with a plan for its reduction or elimination.

9. A directive was issued concerning the implementation of solutions promoting prevention of occupational accidents. The project “0 Accidents” is being implemented. An agreement has been drafted to purchase the program “STOP Accidents”, which observes employee behaviour at workstations.

10. An application was submitted to the Office of the Marshal for the Zachodniopomorskie Province concerning amendment to the integrated permit relating to the planned commissioning of another dry separation line and the completion, planned for 2013, of construction on an installation to neutralise iron (II) sulphate.

11. Technical safety tasks were completed:
   • the meteorological station at the Site Fire Service point was modernised,
   • the Organisational Regulations for the Site Fire Service were updated,
   • the Site Fire Service base antennae for radio communications (including emergency communications) were exchanged.

12. An amendment was obtained to the decision of the Governor of the Zachodniopomorskie Province of 27 April 2004, ref. SR-Ś-6/6619/1/04, granting an integrated permit for the operation of facilities located on site - decision of 6 November 2012, ref.: WOŚ.II.7222.11.6.2012.MG.

The amendments were caused by factors including:
   • planned commissioning of a dry separation line at the titanium white plant,
   • construction of a new raw materials feeder system at the PN1 facility,
   • technological changes at CHP facility EC I,
   • the need to reorganise provisions concerning use of waste.

Steps were taken to obtain a new integrated permit for the company to operate its own facilities.

13. Procedures were developed regulating the issue of greenhouse gases in accordance with Commission Regulation (EU) no. 601/2012 of 21 June 2012 on the monitoring and reporting of

- procedure GT-ETS-01 - data flow and division of duties within the ETS,
- procedure GT-ETS-02 - risk assessment for the ETS facility,
- procedure GT-ETS-03 - periodic assessment of ETS facility monitoring plans,
- procedure GT-ETS-04 - internal inspections and data validation within the ETS.

14. Plans to collect samples for coal and high-methane gas were drawn up.

15. A risk assessment log was created for the EU ETS facility.

16. Applications were drawn up concerning revocation of the current decision concerning the permit for trade in greenhouse gas emissions for CHP plants EC and EC II, with simultaneous issue of new decisions separately for each combustion installation.

17. The following decisions were received from the Office of the Marshal for the Zachodniopomorskie Province were received, dated 30 November 2011:

- WOŚ.II.7225.10.2.2012.AM, revoking the decision of the Governor of the Zachodniopomorskie Province of 2 March 2006 as amended,
- WOŚ.II.7225.11.2.2012.AM - greenhouse gas emission permit relating to CHP facility EC I,
- WOŚ.II.7225.12.2.2012.AM - greenhouse gas emission permit relating to CHP facility EC II.

18. A decision was obtained from the Office of the Marshal for the Zachodniopomorskie Province, dated 21 December 2012, approving the monitoring plans, as per Commission Regulation (EC) no. 601/2012 of 21 June 2012 on the monitoring and reporting of greenhouse gas emissions, as are in force from 1 January 2013:

- WOŚ.II.7225.5.2.2012.AM - for the fertiliser manufacturing facility,
- WOŚ.II.7225.6.2.2012.AM - for the ammonia manufacturing facility,
- WOŚ.II.7225.7.2.2012.AM - for the titanium white manufacturing facility,
- WOŚ.II.7225.8.2.2012.AM - for CHP facility EC II,
- WOŚ.II.7225.5.2.2012.AM - for CHP facility EC I.

Actions taken to fulfil the requirements of Resolution (EC) no. 1907/2006 (REACH)
The on-going process of consolidation and close cooperation between the REACH departments at the three main Grupa Azoty companies (the Parent, Grupa Azoty ZAK S.A. and ZCh Police S.A.) was continued.

In accordance with the European Chemicals Agency's decision, required updates and registration of chemicals and chemical substances were undertaken in 2012.

4.10. Significant events

Increase of the Parent’s issued share capital within authorised share capital (details can be found in point 3.5 of these financial statements - Equity and debt issues)

Acquisition of ZA Puławy S.A.
The Parent is currently conducting the acquisition of shares in ZA Puławy S.A. in three stages: stage 1 - tender offer (completed), stage 2 - share exchange (completed) and stage 3 - subsequent tender offer (on-going).

Stage 1 was completed on 21 August 2012 through the execution of a transaction to purchase shares in ZA Puławy constituting 10.3% of share capital and carrying 10.3% of voting rights at the company's general meeting. The transaction was executed as a tender offer to subscribe for sale of shares in ZA Puławy carrying 32% of voting rights at ZA Puławy’s general meeting, announced on 13 July 2012. The transaction covered all ZA Puławy shares under subscriptions submitted in response to the tender offer, i.e. 1,968,083 shares. The shares were acquired by the Parent for PLN 110 per share, bringing the transaction value to PLN 216,489,000. Prior to the tender offer announcement, the Parent did not hold any ZA Puławy shares. The shares acquired by the Parent are admitted to trading on the regulated market managed by the Warsaw Stock Exchange. Stage 2 of the transaction was conducted through a share capital increase within authorised share capital. Under the share exchange, the existing ZA Puławy shareholders were offered Parent shares at an exchange ratio of 2.5 Parent shares for 1 ZA Puławy share.
Stage 3 provides for the acquisition of the remaining 16.30% of shares in ZA Puławy S.A. through a tender offer announced on 19 February 2013 with the intermediation of UniCredit CAIB Poland S.A. based in Warsaw and PKO BO SA Branch - DM PKO BP based in Warsaw.

The tender offer to subscribe for sale of 3 114 891 shares in ZA Puławy S.A. carrying 16.3% of voting rights at the company’s general meeting was a result of the Parent’s obligation to announce a tender offer for all remaining ZA Puławy S.A. shares after exceeding the 66% threshold in ZA Puławy S.A. voting rights following settlement of the Parent’s series D public offering.

The tender offer price per share is PLN 132.60.

Timeline:
- commencement of subscriptions: 7 March 2013,
- completion of subscriptions: 8 April 2013,
- planned date for the acquisition of shares at the Warsaw Stock Exchange: 11 April 2013,
- planned date for settlement by the KDPW of the share acquisition transaction: 15 April 2013.

In the tender offer announcement, the Parent stated that it does not plan to de-list ZA Puławy S.A.

Agreement on consolidation with ZA Puławy S.A.

On 14 November 2012 the boards of ZA Puławy S.A. and the Parent executed a Consolidation Agreement specifying the principles of cooperation between the two entities. The Consolidation Agreement supersedes and replaces the memorandum of understanding of 20 September 2012.

The Consolidation Agreement provides for the consolidation of the two companies into one group. After registration of an increase in the Parent’s share capital through the series D share issue addressed to existing ZA Puławy S.A. shareholders and the Parent’s acquisition of shares in ZA Puławy S.A., the Group began work on consolidation aiming to achieve cost synergies, particularly in the area of raw material and common utilities procurement, realise synergies resulting from an expansion in mineral fertiliser production capacities, and develop a flexible fertiliser product portfolio. The objective is to accumulate the experience of both companies, increase operational scale and optimise logistics and transport operations, together with increasing the value of the consolidated Grupa Azoty. The Parties have agreed that consolidation is to take place with observance of the rules and responsibilities specified in agreements with the workforce and collective labour agreements with trade unions, and have emphasised the need for on-going cooperation on maintaining dialogue with employees.

At the same time, within its corporate authority, the Parent’s Management Board has re-affirmed its support for ZA Puławy’s investments specified in the Consolidation Agreement.

The Parent’s and ZA Puławy’s joint project was launched on 21 February 2012 in line with the consolidation agreement and best practices from The Boston Consulting Group (BCG) - a global management consultancy. The project involves employees from both companies divided into over ten thematic teams, each of which is currently analysing the current state of affairs, defining potential synergies and outlines key strategic initiatives to be performed within their respective areas. As an advisor, BCG is providing process-based and subject-matter support to the teams and coordinates consolidation at both companies.

Noric’s tender offer for shares in the Parent

On 16 May 2012 Norica Holding S.à.r.l. (Noric), with the intermediation of Dom Maklerski BZ WBK S.A., announced a tender offer for purchase of shares in connection with the intention to acquire shares in the Parent. The Offeror intended to acquire up to 41 550 037 shares as a result of the tender offer, carrying up to 64.80% of votes at the Parent’s general meeting.

In accordance with the tender offer, Norica only intended to acquire shares in the Parent if, at the end of the subscription period, at least 31 291 567 shares in the Parent had been covered by subscriptions, which together with the 766 156 shares in the Parent held by Agroberry Ventures Limited (a company headquartered in Nicosia, Cyprus and controlled by Subero Associates Inc.) as at the date of announcing the tender offer would have corresponded to 50%+1 of votes at the Parent’s general meeting and if at the same time the structure of subscriptions submitted during the tender offer were such that after settlement of the tender offer there were no limitations in exercising the right to vote at the Parent’s general meeting, as referred to in § 47, sec. 3 of the Parent’s articles of association.

On 31 May 2012 Norica changed the minimum number of shares covered by subscriptions in the tender offer’s content. Its intention was to acquire shares only in the event that subscriptions cover
at least 41,550,037 shares in the Parent, which together with the 766,156 of shares in the Parent held by Agroberry Ventures Limited as at the date on which the tender offer was announced, would correspond to 66% of voting rights at the Parent’s general meeting. The share price proposed by Norica in the tender offer was PLN 36.00 per share. Subscriptions under the tender offer were accepted between 6-22 June 2012.

On 1 June 2012 the Parent’s Management Board presented its position on the tender offer for purchase of shares in the Parent, as announced by Norica (current report 30/2012). In accordance with its published position, the Parent’s Management Board decided against the tender offer, justifying this decision with reasons including the fact that the tender offer did not reflect the fair value of the Parent and did not take into consideration its long-term strategy, in particular failing to take into account potential synergies. The position taken by the Parent’s Management Board was supported by two independent opinions issued by JP Morgan and Societe Generale. The Management Board also shared the anxiety of trade unions active at Grupa Azoty, as expressed in their statements of position (current reports 29/2012 and 30/2012). In its statement, the Parent’s Management Board recommended that shareholders in the Parent not respond to the tender offer.

On 14 June 2012 Norica announced a change of the deadline for submitting subscriptions. The new deadline was set on 29 June 2012. On 21 June 2012 Norica announced yet another extension of the subscription period until 6 July 2012. Subsequently, on 28 June 2012 the subscription period was extended to 13 July 2012.

On 28 June 2012 Norica announced that Norica had decided to acquire all shares covered by subscriptions under the tender offer. On 13 July 2012 Norica announced a change of the deadline for accepting subscriptions. The new date was established as 16 July 2012. On 17 July 2012 Norica released a statement on amendment to the content of the tender offer concerning the end-date for acceptance of subscriptions. The new date was established as 16 July 2012. On 13 July 2012 Norica released a statement announcing change to the content of the tender offer, as of 13 July 2012 amending the price from the previous level of PLN 36.00 per share to PLN 45.00 per share.

On 17 July 2012 the Offeror announced that on 16 July 2012 the subscription period for purchase of shares in the Parent had ended and that, despite the fact that the conditions for effectiveness outlined in the tender offer had not been fulfilled by the end of this period, the Offeror had decided to acquire all shares covered by subscriptions under the tender offer. On 19 July 2012 Dom Maklerski BZ WBK S.A., as intermediary in the tender offer for purchase of shares in the Parent, announced that as a result of the tender offer, on 19 July 2012 transactions were executed for purchase of 7,715,131 shares in the Parent. As the purchaser Norica, a subsidiary of Russia’s Acron, acquired all shares subject to subscriptions submitted in response to the tender offer. These shares constitute a 12.03% stake in the Parent’s share capital. In addition, Agroberry Ventures Limited, a subsidiary of Acron, held 766,156 shares in the Parent, constituting a 1.2% stake in the Parent’s share capital.

Details can be found in the Parent’s current reports:
Current report 29/2012,
Current report 30/2012.

2012-2020 Grupa Azoty Strategy

On 13 June 2012 the Parent’s Management Board presented an updated 2012-2020 strategy for Grupa Azoty. In accordance with the adopted document Grupa Azoty operations over the next decade are aimed at implementing the Group’s vision, which focusses on Grupa Azoty entering the main Warsaw Stock Exchange index within a decade and places significant emphasis on generating industry-leading rates of return for shareholders. In fertiliser manufacturing, the Group aims to maintain its top-3 position in the European market.

1. Economies of scale and performance improvement:
   - Organic growth and expansion via alliances, mergers and acquisitions, both in Poland and abroad,
   - Further internal integration within the Group aimed at maximising synergies.

2. Optimisation of Group operations:
   - Reduction in the Group’s sensitivity to energy costs through the use of effective technological and energy solutions,
   - Reduction in the Group’s sensitivity to changes in structural phases and cycles as well as natural gas prices and petrochemical raw materials through the extension of product chains,
   - Reduction in production costs through the modernisation of main production lines,
   - Enhancement of key Group brand awareness,
   - Continuous adapting of quality and product portfolio to customer requirements,
   - Optimisation of logistics and distribution.
3. **Product portfolio development and expansion:**
   - Product diversification via synergies with the existing product portfolio,
   - Use of innovative technology.

In production and trading Grupa Azoty will focus on:

- Products for the agricultural sector, in particular mineral fertilisers,
- Technologically-advanced materials sector, in particular engineering plastics,
- Organic chemicals sector, in particular caprolactam, oxo alcohols, plasticisers and specialty chemicals,
- Inorganic chemicals sector, in particular ammonia and titanium white.

Grupa Azoty plans to maintain EBITDA of 14% and aims to reach and maintain EBIT of 8% until 2020. The Group also plans to generate a ROE of 12% and ROCE of over 14%. Net financial debt to EBITDA, calculated as net financial liabilities to EBITDA (for a one-year period) is expected at less than 2.5, whereas net debt to equity is not to exceed 0.8.

In terms of its dividend policy, the Group intends to make distributions appropriately to generated earnings and financing capabilities of the Parent. In submitting proposals concerning dividend distribution, the Management Board will prioritise the necessity to maintain the appropriate level of financial ratios, financial standing and amount of capital sufficient for the Group’s further development. Going forward the Management Board will recommend to the general meeting dividend distributions in an amount not exceeding 40-60% of the Parent’s net earnings for the given financial year.

**Grupa Azoty – a new brand**

The rebranding of the Azoty Tarnów group was one of the most important projects carried out in 2012 and it resulted in the introduction of a new common brand - **Grupa Azoty**. The Parent’s Management Board decided to replace the name Azoty Tarnów Group with Grupa Azoty. As a result, on 5 December 2012 a new trademark and logo replaced the logos of all nine companies comprising the group and became an overarching brand.

It should be emphasised that the decision to re-brand is not merely symbolic. It aims to facilitate effective competition across global markets and consistent delivery of the strategy adopted in 2012. In addition, thanks to the common brand the Group’s product offering is presented in a consistent manner, facilitates communications with counterparties and strengthens the Group’s position in industry and financial markets. The uniform model adopted allows to minimise marketing expenses and maximise the effects due to deeper integration.

Several key areas were outlined during the rebranding process, covering the following:

- change of the Azoty Tarnów Group brand (change of name and logo),
- change of brands for all companies belonging to the Azoty Tarnów Group (introduction of a single common logo),
- change of product brands (unification of naming and image, divided by segment).

Outlined also were the main rebranding objectives:

- consistency as the key to building brand trust,
- name change as an element of organisational changes and the re-shaping of group companies, and
- building external brand awareness, not just with the new name and logo but also through influencing how the Group is perceived by clients, local communities and all other stakeholder groups.

The rebranding process also involved the email and SAP environments at Grupa Azoty.

Another part of the “Grupa Azoty Rebranding” project was online activities. Websites of Grupa Azoty companies constitute a key tool for online communications, which is why a strategic and comprehensive approach to this area was adopted. Its objective was to develop a consistent image across all Grupa Azoty companies and transparently and consistently present the on-going consolidation processes. These initiatives allowed each of the company to be presented as Grupa Azoty subsidiaries, emphasising their diversity and varied specialisations.

The development and implementation of a new corporate website is a good move for several reasons. We were able to achieve the planned brand consistency effect. In accordance with the Management Board’s decision, the Grupa Azoty logo is the primary and only logo to be used throughout the Group. Therefore the website was designed in a way which corresponded with the colours and style of the new logo. Redesigning the websites in a more consistent manner underlines
management capability and a strategic view of the consolidation processes taking place. A consistent image across Group companies reflects our focus on tighter intra-group integration. Another significant element of the brand promotion efforts at Grupa Azoty was a branding campaign conducted in two stages:

- **Stage 1** consisted of a campaign announcing the branding changes across nine companies and lasted from 19 November to 4 December 2012,
- **Stage 2** focussed on introducing the new brand adopted by all Grupa Azoty companies starting from 5 December 2012 - this campaign lasted from 5 to 31 December 2012.

Currently, we are coordinating and supervising specific re-branding efforts in several distinct areas.

**Employee Pension Programme**

Following consultations with representatives of workplace trade unions and with the post-retirement financial security of our employees in mind, the Parent’s Management Board decided to create an Employee Pension Programme (EPP).

On 20 June 2012 two agreements were signed concerning the programme’s creation:

- a workplace pension agreement executed between the employer and workplace trade unions,
- an agreement between the Parent and fund manager TFI PZU S.A.

On 26 July 2012 the Polish Financial Supervision Authority registered the employee pension programme created by the Parent.

The programme is to be fully financed by the Parent through the use of additional funds dedicated for development of a pension scheme for personnel. Employee participation is exclusively limited to payment of tax at a rate of 18% from the premium financed by the employer and optional payment of additional premium. Distributions from the EPP are exempt from capital gains tax and income tax and are permissible once the employee turns 60.

A similar employee pension programme was registered by the Polish Financial Supervision Authority on 3 September 2012 at Grupa Azoty ZAK S.A. The fund manager is TFI PZU S.A.

An employee pension programme has been in operation at ZCh Police S.A. since 2006 and is managed by PZU Życie.

**Negotiations on acquisition of shares in Siarkopol S.A.**

In connection with the Ministry of Treasury’s publication of a public invitation to negotiation concerning purchase of 85% of shares in Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. in Grzybów (Siarkopol S.A.), the Parent's Management Board confirmed its participation in the above company's privatisation process. Response to the invitation was provided on 15 February 2012. Following approval from the Supervisory Board, on 24 April 2012 the Parent’s Management Board submitted a proposal to purchase 85% of shares in Siarkopol S.A. from the State Treasury. The purchase was dictated by the necessity to ensure a supply of liquid sulphur.

On 20 June 2012 the Parent received a letter from the Ministry of Treasury concerning presentation of detailed information on financing sources in respect of the purchase of Siarkopol shares, confirming the capacity to conclude the transaction. This information was drafted and sent to the Ministry on 22 June 2012. It shows that the potential acquisition of shares will be approx. 25% financed from Grupa Azoty’s own funds (including a PLN 70 000 000 special-purpose loan granted to the Parent by Grupa Azoty ZAK S.A.), with the remaining 75% from a new long-term loan which the Parent has applied to PKO Bank Polski S.A. and PZU Życie S.A. under the joint financing agreement. The Parent, along with two other investors, was admitted to conduct due diligence on Siarkopol S.A. currently, as per information published by the Ministry, the only potential investor participating in the negotiation process is the Parent.

The process of negotiating the terms and conditions of the sales agreement for shares in Siarkopol S.A. is currently on-going. The basis for negotiations is the proposal submitted by the Ministry to the Parent on 10 January 2013.

**Withdrawal from participation in the privatisation of Bałtycka Baza Masowa in Gdynia**

In connection with the acquisition of a majority interest in ZA Puławy S.A. and the entry of ZA Puławy S.A. Group companies into Grupa Azoty, the Parent announced its withdrawal from further participation in the process of privatising Bałtycka Baza Masowa in Gdynia and the associated withdrawal from additional due diligence on the company.

The Parent announced this fact on 20 February 2013 in a letter sent to the management board of Morski Port Gdynia S.A.
Chemical Technology Research and Development Centre
On 13 November 2012 a letter of intent was signed concerning cooperation on a new Chemical Technology Research and Development Centre between Grupa Azoty, the Town of Tarnów and the Province of Małopolskie (details can be found under point 4.8 of this report, Significant R&D achievements).

QMS audit
On 19-22 March 2012 Det Norske Veritas carried out an audit covering the Parent’s quality management system (recertification audit), environmental performance system and workplace health and safety system (periodic audits). Thoroughly reviewing the above management systems, the auditors audited all organisational units. They found no irregularities.

IT operations
Grupa Azoty is undertaking efforts to improve the integration of companies within its group. The transformation and consolidation of IT environments at the Parent, ZCh Police S.A. and Grupa Azoty ZAK S.A. prepared in cooperation with Hewlett Packard, Grupa Azoty’s strategic IT partner, will result in the standardisation and optimisation of business processes across the Group.
Due to the consolidation, Grupa Azoty’s IT operations, business process support applications and hardware infrastructure will all be subject to improvement. The standardised IT structure developed by Hewlett Packard will cover maintenance and management of an integrated environment, from the viewpoint of both infrastructure and software.
IT integration across Grupa Azoty companies includes inter alia SAP infrastructure consolidation (SAP ERP, SAP Business Warehouse and SAP BusinessObjects) and numerous support systems, including mission-critical backup systems responsible for business continuity. One of the new solutions involves a private cloud network enabling access to selected IT services, together with development of a team work platform facilitating communications and collaboration between employees across all Grupa Azoty companies. A part of the consolidation project, the Shared Services Centre will provide finance and HR/payroll process handling for the entire Group, and will significantly improve and speed up profitability analysis of each company and at Group level.

Implementation of the emission reduction project, revenue generated from ERUs
In 2012, under continuation of the joint implementation project to reduce nitrogen oxide emissions at the nitric acid installation, aimed at beneficial balancing of greenhouse gases, DNV Climate Change and Environmental Services twice performed Kyoto Protocol Project verification.
On 23 February 2012 a report was issued on the verification carried out on 11 January 2012 for the measurement period from 27 December 2010 to 27 November 2011. On 15 January 2012 a report was issued on the verification carried out on 26 June 2012 for the measurement period from 28 November 2011 to 2 June 2012. On the basis of a previous decision, on 7 May 2012 the Ministry of the Environment transferred entitlements under ERUs generated for the fourth measurement period (i.e. 2011) to Mitsubishi Corporation Japan.
On 18 April 2012 the Parent received EUR 3 016 000 in payment for sale of the above ERUs to the end buyer.
Proceeds from generation of the above ERUs had already been included in the results for the respective previous periods which they concern.
Subsequently, on 4 October 2012 the Ministry of the Environment transferred entitlements under ERUs generated for the seventh measurement period (i.e. the first half of 2012) to Mitsubishi Corporation Japan.
On 19 November 2012 the Parent received EUR 3 146 000 in payment for sale of the above ERUs to the final purchaser. This revenue has been included in the result for H1 2012.
Furthermore, on 21 December 2012 the Parent and Mitsubishi Corporation Japan submitted an application to the Ministry of the Environment for transfer to Mitsubishi Corporation Japan of ERUs generated for the eighth and final measurement period (i.e. the second half of 2012) under the joint implementation project. The EUR 2 948 000 in revenue was included in the result for H2 2012.

Verification of CO₂ emissions
An audit was carried out in the first quarter of 2013 to verify the level of CO₂ emissions for 2012. The audit confirmed the calculated emissions levels and ended with a positive result. In fulfilling the statutory verification obligation, a report on CO₂ emissions will be sent to the Marshal of the
Grupa Azoty

Małopolskie Province and KASHUE (the National Administrator of the Emissions Trading System) by 30 March 2013, while used emissions allowances will be redeemed by 30 April 2013.

As a result of the verification, a surplus of greenhouse gas emissions allowances was generated for 2012. The annual reports on CO₂ emissions were also verified at ZAK S.A. and ZCh Police S.A. concerning on-site power facilities for 2012, and a surplus of greenhouse gas emissions allowances was generated in both instances.

All Grupa Azoty companies closed the 2008-2012 phase 2 settlement period with a surplus over their allocated limits.

Certificates of origin for electricity

On 18 January 2013 an audit was conducted in order to obtain an opinion concerning confirmation of the correctness of data contained in the report submitted to the President of the Energy Regulatory Office (ERO) for issue of certificates of origin from co-generation for energy produced at the Parent’s CHP facility. On 13 February 2013 the report was sent to the President of the ERO together with the above report for the whole of 2012. On 6 February 2013 the President of the ERO awarded property rights to the Parent under certificates of origin for electricity generated through highly efficient co-generation for the period from January to October 2012. The Parent is awaiting award of the remaining certificates of origin for 2012.

ZCh Police S.A. has a cogeneration unit, comprising combined heat and power plant EC2, producing electricity and heat, together with the 20C101 carbon dioxide compressor, which creates mechanical energy in cogeneration.

On 28 January 2013 an audit was carried out in order to obtain an opinion concerning confirmation of the correctness of data contained in the report submitted to the President of the ERO for issue of certificates of origin from co-generation for energy produced at ZCh Police S.A. On 13 February 2013 the report was sent to the President of the ERO together with the above report for the whole of 2012.
5. Current financial standing and asset position

5.1. Significant factors and events having considerable impact on Grupa Azoty operations and financial results

5.1.1. Market pricing

Fertiliser market

Figure 4. CAN, AN and AS prices

Source: FORTECON

From a manufacturer's viewpoint, average annual FERTECON ammonium nitrate prices were beneficial in 2011 at USD 188/tonne, while in 2012 the figure dropped to USD 177/tonne. In 2012, average annual AN and CAN prices were lower than in the previous year. The average annual price for CAN in 2011 was EUR 270/tonne, dropping to EUR 260/tonne in 2012, whereas for AN the 2011 price of EUR 345/tonne decreased to EUR 341/tonne. All of these decreases were caused by the conditions in the agricultural and commodities markets.

Figure 5. Ammonia and urea prices

Source: ICIS, FMB

Ammonia

The greatest contribution to the global balance between supply and demand in 2012 came from significant limitations in ammonia products among exporters such as Trinidad, Algeria, Egypt, Libya and Qatar.

The greatest demand for ammonia in September came from the US (for agricultural and industrial purposes) and from South-East Asia for industrial purposes. In Q3 the Polish market saw manufacturing disruption at several ammonia plants (including in Włocławek and at Grupa Azoty ZAK S.A.) and maintenance stoppages at key Ukrainian manufacturers. As a result, average monthly
prices reached their maximum of USD 648/tonne in October, whereas average ammonia prices over the year levelled out at approx. USD 546/tonne, an increase on the previous year (USD 517/tonne).

**Urea**
Average annual urea prices in 2012 reached USD 403/tonne and exhibited fluctuations. Limited supply and a high level of demand in the American market, particularly during the first half of the year, led prices to remain at a high level - approx. USD 426/tonne, while in the second half of 2012 they dropped to USD 380/tonne. This was caused by decreased demand and procurement policies in the Asian market (including Pakistan and India).

**Figure 6.** NPK, DAP, potassium salt and phosphorite prices

![Graph showing NPK, DAP, potassium salt, and phosphorite prices](chart.png)

Source: FMB, FERTECON

**NPK and DAP fertiliser market**
2012 as a whole saw diminishing demand and prices for NPK and DAP fertilisers continue. In the global market India, the main importer of phosphorous fertilisers, significantly decreased subsidies and purchases in 2012 on the back of financial difficulties. The main producers of phosphorous fertilisers, OCP (Morocco), PhosAgro (Russia), Maroko (USA), limited production. Decreased supply and improved demand in the US and South America led to a partial resurgence in price levels in Q2, although the continuing downward trend was visible in subsequent periods.

**Potassium salt (KCl)**
Reduced demand for NPK led to lower demand for potassium salt. Spot and (quarterly) contract prices decreased steadily throughout the year. Demand was significantly reduced due to purchase limitations by the largest importers: China, India and Brazil.

**Phosphorites**
Civil unrest in North African countries - suppliers of phosphorites - did not cause a great deal of difficulties in sourcing supplies, with the exception of Tunisia. A drop in demand for phosphorous fertilisers and fertiliser price reductions has caused pressure to mount on phosphorite prices, which slowly decreased during the year.
Plastics market

Figure 7. Caprolactam, PA6, benzene and phenol prices

Benzene prices increased in 2012 in comparison with the preceding year. Average annual prices in 2011 were approx. EUR 830/tonne, while in 2012 these reached an average level of EUR 980/tonne.

Phenol
Average annual phenol prices increased in 2012 to reach EUR 1 556/tonne, up from the 2011 figure of EUR 1 394/tonne.

Caprolactam
Average annual TECNON contract prices for crystalline caprolactam were USD 3 288/tonne in 2011, while the price was USD 2 548/tonne in 2012. Average annual contract prices for liquid caprolactam in 2012 were EUR 2 080/tonne, down from EUR 2 254/tonne in 2011.

Polyamide
Polyamide 6 pricing followed the trend for caprolactam. Polyamide 6 demand in Europe was down as a result of the weak macroeconomic situation and reduced demand in application markets. In comparison with the preceding year, average monthly TECNON prices in 2011 were EUR 2 469/tonne, while in 2012 the price had dropped to EUR 2 210/tonne, indicating a downward trend.
OXO alcohols and plasticisers market

Figure 8. 2-EH, n-Butanol, DEHP, propylene

![Graph showing prices of 2-EH, n-Butanol, DEHP, propylene over time]

Source: ICIS

Propylene

A drop in prices in the propylene market was noted in comparison with last year. In 2011 the average annual price was EUR 1,023/tonne, while in 2012 this had dropped slightly to EUR 1,016/tonne.

Oxo alcohols and plasticisers

Throughout the first half of 2012 maintenance stoppages were seen at many producers in the market (oxo alcohols, plasticisers, DEHP), while in the second half of the year there was an increase in demand since competitors were increasing purchases to stockpile reserves. The 2-EH market saw a price drop in comparison with the previous year. Average prices throughout 2011 were EUR 1,496/tonne, while in 2012 they were EUR 1,453/tonne. The same drop was observed for n-butanol. From the average annual price level of EUR 1,228/tonne noted in 2011, product prices dropped to EUR 1,154/tonne in 2012. However annual average DEHP prices grew from EUR 1,567/tonne in 2011 to EUR 1,603/tonne in 2012.

Titanium white market

Figure 9. Titanium white and ilmenite prices

![Graph showing prices of Titanium white and ilmenite over time]

Source: ICIS, TZMI
Ilmenite and titanium slag

Ilmenite and titanium slag prices increased 2-3 times at the end of 2011. During the year the prices of these commodities demonstrated a downward trend but the price reductions were insufficient. High commodity prices increased production costs and had a significant impact on the profitability of titanium white production.

Titanium white

Both titanium white demand and prices were subject to decrease over 2012. Despite production limitations, producers' surpluses grew to a level of 3-4 months. The anticipated seasonal increase in demand for titanium white was not observed, either in the paints, varnishes and plastics or the automotive sectors. The reduced demand for this product was mainly caused by the on-going economic situation, mainly in Asia but also in Europe. The euro zone crisis has hampered the rate of economic growth and investment expenditures.

5.1.2. Other non-typical factors and events

Non-typical factors impacting the financial result include the on-going acquisition by the Parent of a 100% stake in ZA Puławy S.A., with stage 1 implemented through the August 2012 acquisition of 10.3% of shares in ZA Puławy S.A. under a tender offer, and in January 2013 through acquisition of 73.4% of shares in exchange for newly issued series D shares in the Parent. This is connected with incurring a one-off acquisition expense and, under the joint financing agreement with PKO Bank Polski S.A. and PZU Życie, ensuring funds to finance the 2012 tender offer for 10.3% of ZA Puławy S.A. shares and the on-going Subsequent Tender Offer for ZA Puławy S.A. shares remaining after finalising the in-kind offering to swap shares in ZA Puławy S.A. for shares in the Parent.

Additionally, there were incidents at Grupa Azoty companies in 2012, which resulted in installation stoppages, contributing to a worsening of results generated by Grupa Azoty in these areas. However a return to previous sales levels is anticipated in future periods.

Other factors and events impacting the Group's financial results in 2012 include fluctuations in the Polish currency's exchange rate against the principal global currencies - PLN strengthened in relation to EUR and USD in Q1 2012, to subsequently weaken in Q2 following escalation of the crisis in the Mediterranean euro zone economies, gradually strengthening during H2 2012 on the back of symptoms of recovery in these countries and measures taken by the European Union to prevent their bankruptcy.

In total over 2012, PLN strengthened by approx. 7.4% vs. USD and 9.3% vs. EUR compared with the rates recorded as at 31 December 2011. In turn the average EURPLN exchange rate in 2012 was 1.6% higher than for 2011, with USDPLN up 9.9%. Since the average weakening of the domestic currency over the year against the exchange rates recorded in the previous year was not significant, it did not have a major impact on the Group's financial results with regard to its net foreign currency exposure in EUR and its currency surplus over currency expenses. In turn the Group's net currency exposure in USD is significantly lower, meaning that the Polish currency's increased volatility in relation to this currency did not have a significant impact on results either.

Based on the Market Risk Management Policy under the 2012 plan and in accordance with the internal guidelines of the Foreign Exchange Risk Committee, in 2012 the Parent hedged up to 50% of planned currency exposure under contracts executed, within a time scale of up to 6 months from the date on which the hedge was originated.

During 2012 the Parent executed hedges in the form of forward contracts on future exchange of EUR, and to a lesser extent USD, which were adequate for planned net exposure in both of these currencies.

The result on executed hedging transactions for 2012 amounted to PLN 5,694,000, with a simultaneous gain of PLN 1,246,000 on revaluation of hedging instruments.

In parallel, the remaining part of non-hedged net currency exposure during the reporting period amounted to a negative result on executed currency differences of PLN 7,635,000, with a simultaneous gain of PLN 7,676,000 on revaluation of hedging instruments.

In total during the twelve months of 2012 the Group's result on exchange differences and derivative currency transactions (with consideration to the revaluation as at the end of the reporting period) amounted to PLN 6,981,000 (with realised exchange differences and currency hedging transactions at PLN 1,941,000, and unrealised items valued at PLN 8,922,000).

Furthermore, over the twelve months of 2012 the Group recorded a negative result on the revaluation and implementation of interest rate hedging in the form of collar transactions for a
The year on year revenue growth results from Grupa Azoty, now including ZCh Police S.A., generating higher sales in the fertiliser, pigment and other activity segments. Despite higher growth in cost of sales over revenue from sales, Grupa Azoty generated a positive result on sales and as a consequence ended the reporting period with a net profit.

In 2012 a negative result of PLN 46 674 000 was recorded on other operating activities, which is significantly lower than the loss generated in the previous reporting period. The loss on other operating activities incurred by Grupa Azoty in 2012 was impacted by a restatement of emission certificates and creation of provisions and impairment losses. The Group generated a positive result on financing activities for the year. 2012 finance income for Grupa Azoty results primarily from the following:

- dividends,
- gain on exchange differences,
- interest on trade receivables and borrowings.
### 5.2.2. Segment results

**Table 20. EBIT by segment**

<table>
<thead>
<tr>
<th>Description</th>
<th>Fertilisers</th>
<th>Plastics</th>
<th>Oxo alcohols</th>
<th>Pigments</th>
<th>Other activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue from sales</td>
<td>4 157 393</td>
<td>1 128 561</td>
<td>1 093 888</td>
<td>400 590</td>
<td>318 303</td>
</tr>
<tr>
<td>Share [in %]</td>
<td>58.6</td>
<td>15.9</td>
<td>15.4</td>
<td>5.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Net profit on sales</td>
<td>338 481</td>
<td>45 628</td>
<td>43 661</td>
<td>36 377</td>
<td>(45 741)</td>
</tr>
<tr>
<td>Share [in %]</td>
<td>80.9</td>
<td>10.9</td>
<td>10.4</td>
<td>8.7</td>
<td>(10.9)</td>
</tr>
<tr>
<td>EBIT</td>
<td>333 098</td>
<td>50 647</td>
<td>43 278</td>
<td>35 620</td>
<td>(90 911)</td>
</tr>
<tr>
<td>Share [in %]</td>
<td>89.6</td>
<td>13.6</td>
<td>11.6</td>
<td>9.6</td>
<td>(24.5)</td>
</tr>
</tbody>
</table>

Source: Grupa Azoty

The level of Grupa Azoty product sales is primarily determined by the market situation in the fertiliser, plastics and oxo alcohol segments. The largest percentage gain in revenue from sales was recorded in the pigments segment (up by 170.5%), which was reflected in the segment’s net profit on sales and operating earnings. The fertiliser segment recorded the highest increase in the value of sales and also has the largest share in total sales (up by 60.1% compared to 2011). The segment also generated the highest profit on sales and operating profit.

**Fertilisers segment**

Revenue from sales in the fertiliser segment in 2012 amounted to PLN 4 157 393 000 and accounted for 58.6% of all sales revenue generated by Grupa Azoty. Compared with 2011, the figure increased thanks to the inclusion of ZCh Police S.A. in Grupa Azoty and higher sales volumes generated by the Parent. Favourable pricing conditions on the nitrogen fertiliser market throughout 2012 resulted in higher revenue from sales. Domestic sales were over 50% higher than exports.

**Plastics segment**

In 2012 revenue from sales in the plastics segment amounted to PLN 1 128 561 000, accounting for 15.9% of Grupa Azoty’s total revenue from sales. A slight decrease in sales revenue was recorded in relation to the same period last year. Domestic sales increased, whereas exports fell. The segment recorded a decrease in both domestic and export sales.
Oxo alcohols segment
Sales during 2012 increased in comparison to the same period last year. 2012 sales amounted to PLN 1,093,888,000, a PLN 30,244,000 increase over 2011. The difference results from an increase in both volume of sales and pricing. Sales revenue growth was not particularly visible in the domestic market, however foreign sales increased significantly year on year.

Pigments segment
The pigments segment recorded a decline in sales during 2012. After increases in the first half of the year connected with higher sales, the remaining two quarters noted a slight decline in revenue. Still, the results are 17.9% higher than in the same period last year.
Other activity

The other activity segment revenue increased by approx. 6.4% during 2012 compared to the same period last year. Operating profit also improved.

Sales by product group

Source: Grupa Azoty
The key revenue items in Grupa Azoty sales are nitrogen and compound fertilisers, plastics, oxo alcohols and plasticisers. In analysing revenue from sales, attention should be drawn to the fact that in 2012 a significant growth in revenue from compound fertiliser sales was noted, which is due to the inclusion of Z.Ch. Police S.A. in Grupa Azoty.

Figure 16. Sales revenue structure by product group

Compared with 2011, the share of compound fertilisers in the sales revenue structure increased from 13.1% to 24.3%. Nitrogen fertiliser sales decreased from 31.1% to 29.0%, plastics and intermediates from 21.1% to 15.7% and oxo alcohols and plasticisers from 19.0% to 14.8%. It should, however, be noted that these products still have a considerable impact on Grupa Azoty’s revenue.
5.2.3. Expenses by nature

Operating expenses during 2012 amounted to PLN 6 685 876 000, a PLN 2 125 240 000 increase on the same period last year. A PLN 1 673 765 000 increase was noted in the largest cost item, use of materials and energy. An increase in the prices of basic raw materials contributed to the higher costs, together with an increase in consumption connected with growth in the scale of production and higher prices for other materials.

Table 21. Expenses by nature

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>239 592</td>
<td>188 864</td>
<td>50 728</td>
<td>26.9</td>
</tr>
<tr>
<td>Use of materials and energy</td>
<td>5 087 382</td>
<td>3 413 617</td>
<td>1 673 765</td>
<td>49.0</td>
</tr>
<tr>
<td>Third-party services</td>
<td>416 238</td>
<td>266 977</td>
<td>149 261</td>
<td>55.9</td>
</tr>
<tr>
<td>Remuneration, employment costs and other benefits</td>
<td>701 419</td>
<td>522 114</td>
<td>179 305</td>
<td>34.3</td>
</tr>
<tr>
<td>Taxes and fees</td>
<td>170 731</td>
<td>118 853</td>
<td>51 878</td>
<td>43.6</td>
</tr>
<tr>
<td>Other expenses by nature</td>
<td>70 514</td>
<td>50 211</td>
<td>20 303</td>
<td>40.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6 685 876</strong></td>
<td><strong>4 560 636</strong></td>
<td><strong>2 125 240</strong></td>
<td><strong>46.6</strong></td>
</tr>
</tbody>
</table>

Source: Grupa Azoty

Cost of materials and energy use

In 2012 costs connected with the use of materials and energy increased by 49.0% compared to the same period last year, the difference resulting from addition of a new entity to Grupa Azoty and an increase in the prices of basic commodities. The addition of ZCh Police S.A. to the Group also increases use of natural gas.

Table 22. Costs connected with use of materials and energy within Grupa Azoty

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent</td>
<td>911 072</td>
<td>868 644</td>
<td>42 428</td>
<td>4.9</td>
</tr>
<tr>
<td>ZAK Group</td>
<td>1 063 518</td>
<td>1 046 726</td>
<td>16 792</td>
<td>1.6</td>
</tr>
<tr>
<td>Police Group</td>
<td>1 704 994</td>
<td>585 769</td>
<td>1 119 225</td>
<td>191.9</td>
</tr>
<tr>
<td>Natural gas</td>
<td>1 309 264</td>
<td>836 893</td>
<td>472 371</td>
<td>56.4</td>
</tr>
<tr>
<td>Other Group entities</td>
<td>98 534</td>
<td>75 585</td>
<td>22 949</td>
<td>30.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5 087 382</strong></td>
<td><strong>3 413 617</strong></td>
<td><strong>1 673 765</strong></td>
<td><strong>49.0</strong></td>
</tr>
</tbody>
</table>

Source: Grupa Azoty

The highest share in use of materials and energy during 2012 was recorded at the ZCh Police Group, which is reflected in the level of costs incurred. This constitutes 33.5% of total costs. The ZAK Group incurred PLN 1 063 518 000 in costs, constituting 20.9% of the total.

In relation to 2011, the Parent noted an increase in these costs of 4.9%, bringing the total to PLN 911 072 000, excluding costs connected with the use of natural gas.

The cost of natural gas amounted to PLN 1 309 264 000, constituting 25.7% of total costs under use of materials and energy.

The impact of other entities within Grupa Azoty on costs incurred constitutes 1.9%.
Figure 17. Cost structure - use of materials and energy within Grupa Azoty

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>3.6</td>
<td>4.1</td>
</tr>
<tr>
<td>Third-party services</td>
<td>6.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Remuneration, employment costs and other benefits</td>
<td>10.5</td>
<td>11.4</td>
</tr>
<tr>
<td>Taxes and fees</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Other expenses by nature</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>23.9</td>
<td>25.2</td>
</tr>
</tbody>
</table>

Source: Grupa Azoty
An analysis of the changes in the structure of individual items under other expenses reveals the following:

- a decreasing share of depreciation in the overall structure of expenses,
- a decrease in staff costs,
- a slight increase in the cost of third-party services,

### 5.2.4. Asset and liability structure

Throughout 2012, the value of Grupa Azoty assets increased to PLN 5 339 658 000, or by 8.0% compared to the corresponding period last year. As at 31 December 2012 non-current assets were valued at PLN 3 651 148 000, whereas current assets amounted to PLN 1 688 510 000.

The most significant changes on the asset side of the statement of financial position during 2012 are as follows:

- a 10.4% increase in non-current assets,
- a 3.1% increase in current assets,
- a 41.3% decrease in investment properties,
- a 10.8% increase in inventories,
- a 6.2% decline in trade receivables,
- a 7441.1% increase in other current financial assets.

#### Table 24. Asset structure

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets, including:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>3 651 148</td>
<td>3 308 229</td>
<td>342 919</td>
<td>10.4</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>2 845 691</td>
<td>2 747 478</td>
<td>98 213</td>
<td>3.6</td>
</tr>
<tr>
<td>Investment property</td>
<td>281 343</td>
<td>283 000</td>
<td>(1 657)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Investments in subsidiaries, associates and jointly controlled entities</td>
<td>28 903</td>
<td>49 275</td>
<td>(20 372)</td>
<td>(41.3)</td>
</tr>
<tr>
<td>Available-for-sale investments</td>
<td>80 132</td>
<td>80 106</td>
<td>26</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Current assets, including:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>283 202</td>
<td>12 604</td>
<td>270 598</td>
<td>2 146.9</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>1 688 510</td>
<td>1 638 000</td>
<td>50 510</td>
<td>3.1</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>723 682</td>
<td>653 171</td>
<td>70 511</td>
<td>10.8</td>
</tr>
<tr>
<td><strong>Other financial assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>5 339 658</td>
<td>4 946 229</td>
<td>393 429</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Source: Grupa Azoty

Notable changes on the equity and liabilities side in the audited period included:

- a 10.7% increase in group equity,
- a 28.3% increase in non-current liabilities on borrowings,
- an 11.9% increase in employee benefit provisions,
- an 18.5% increase in current liabilities on borrowings,
- a 7.5% decrease in trade and other payables,
Table 25. Equity and liabilities structure

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>3,490,698</td>
<td>3,152,667</td>
<td>338,031</td>
<td>10.7</td>
</tr>
<tr>
<td>Non-current liabilities, including:</td>
<td>718,725</td>
<td>639,017</td>
<td>79,708</td>
<td>12.5</td>
</tr>
<tr>
<td>Borrowings</td>
<td>289,979</td>
<td>226,072</td>
<td>63,907</td>
<td>28.3</td>
</tr>
<tr>
<td>Provisions for employee benefits</td>
<td>139,756</td>
<td>124,932</td>
<td>14,824</td>
<td>11.9</td>
</tr>
<tr>
<td>Other provisions</td>
<td>118,622</td>
<td>118,951</td>
<td>(329)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Current liabilities, including:</td>
<td>1,130,235</td>
<td>1,154,545</td>
<td>(24,310)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>697,317</td>
<td>754,181</td>
<td>(56,864)</td>
<td>(7.5)</td>
</tr>
<tr>
<td>Borrowings</td>
<td>200,017</td>
<td>168,754</td>
<td>31,263</td>
<td>18.5</td>
</tr>
<tr>
<td>Other provisions</td>
<td>133,275</td>
<td>133,142</td>
<td>133</td>
<td>0.1</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,848,960</td>
<td>1,793,562</td>
<td>55,398</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Total equity and liabilities                  | 5,339,658| 4,946,229| 393,429  | 8.0      |

Source: Grupa Azoty

5.3. Financial ratios

Profitability
Profitability ratios decreased in 2012 compared to the previous year. Return on sales decreased the most as a result of a 47.1% increase in cost of sales, with a concurrent increase in revenue from sales of 33.0%. EBIT and EBITDA margins also dropped, due to a slower growth in operating profit than in revenue from sales. Return on equity decreased as a result of growth in the value of equity as at the end of 2012 compared to the end of 2011, with a concurrent decrease in earnings. Return on capital employed and return on assets also declined as a result of a proportional decrease in net profit in relation to the increase in capital employed and assets.

Table 26. Profitability ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on sales</td>
<td>14.0 %</td>
<td>22.2 %</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>5.2 %</td>
<td>10.9 %</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>8.6 %</td>
<td>14.4 %</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>4.4 %</td>
<td>9.3 %</td>
</tr>
<tr>
<td>Return on assets</td>
<td>5.9 %</td>
<td>10.1 %</td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>8.8 %</td>
<td>15.3 %</td>
</tr>
<tr>
<td>ROE</td>
<td>9.0 %</td>
<td>15.8 %</td>
</tr>
<tr>
<td>Return on non-current assets</td>
<td>8.6 %</td>
<td>15.1 %</td>
</tr>
</tbody>
</table>

Source: Grupa Azoty

Ratio definitions:
Return on sales = gross profit (loss) on sales / revenue from sales (statement of comprehensive income in multiple-step format)
EBIT margin = EBIT / revenue from sales
EBITDA margin = EBITDA / revenue from sales
Net profit margin = net profit (loss) / revenue from sales
Return on assets = net profit (loss) / total assets
Return on capital employed = 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 2012 Grupa Azoty recorded an increase in liquidity ratio I, which was caused by growth in current assets (particularly inventory and other financial assets), with a concurrent decrease in the growth rate of current liabilities.
The stagnation in liquidity II and III ratios resulted from a slight decrease in current liabilities, combined with a minor decline in current assets less inventory, and an increase in cash and other financial assets.

Table 27. Liquidity ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity ratio I</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Liquidity ratio II</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Liquidity ratio III</td>
<td>0.2</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Grupa Azoty

Ratio definitions:
Liquidity ratio I = current assets / current liabilities
Liquidity ratio II = (current assets - inventory - current accruals) / current liabilities
Liquidity ratio III = (cash and cash equivalents + financial derivatives) / current liabilities

As a result of the above changes in current assets and liabilities, as at 31 December 2012 working capital amounted to PLN 558 275 000.

Figure 18. Inventory, receivables and payables

Inventory, receivables and payables
Inventory turnover decreased primarily due to an increase in cost of sales. The decrease in receivables turnover, a positive, resulted from optimisation and consolidation of Grupa Azoty’s credit policy, together with an improvement in receivables collection, with the concurrent introduction of a prudent group-wide insurance policy. At the same time, the decrease in payables turnover, caused primarily by growth in cost of sales (mainly raw material prices), contributed to an expansion in the cash conversion cycle. That said, 41 days is a comfortable level for the Group, which is reflected in its liquidity ratios.
### Table 28. Inventory, receivables and payables ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>Receivables turnover</td>
<td>34</td>
<td>49</td>
</tr>
<tr>
<td>Payables turnover</td>
<td>41</td>
<td>65</td>
</tr>
<tr>
<td>Cash conversion cycle</td>
<td>36</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Grupa Azoty

**Ratio definitions:**
- Inventory turnover = inventory * 90 / cost of sales
- Receivables turnover = trade and other receivables * 90 / revenue from sales
- Payables turnover = trade and other payables * 90 / cost of sales
- Cash conversion cycle = inventory turnover period + receivables turnover period - payables turnover period

### Debt

During the analysed period the main source of financing the assets and operations of Grupa Azoty was equity. A stable level of leverage was maintained throughout the period, which was financially effective and safe in terms of financing risk. The interest coverage ratio was maintained at a level confirming the Group’s full debt servicing capacity and credit standing.

### Table 29. Debt ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt ratio</td>
<td>34.6 %</td>
<td>36.3 %</td>
</tr>
<tr>
<td>Long-term debt ratio</td>
<td>13.5 %</td>
<td>12.9 %</td>
</tr>
<tr>
<td>Short-term debt ratio</td>
<td>21.2 %</td>
<td>23.3 %</td>
</tr>
<tr>
<td>Equity-to-debt ratio</td>
<td>188.8 %</td>
<td>175.8 %</td>
</tr>
<tr>
<td>Interest coverage ratio</td>
<td>1 384.3 %</td>
<td>2 137.2 %</td>
</tr>
</tbody>
</table>

Source: Grupa Azoty

**Ratio definitions:**
- 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 coverage ratio = [EBIT + interest expense] / interest expense

### 5.4. Explanation of differences between the actual and estimated financial results for 2012

Forecasts were not published for 2012.

### 5.5. Capital and asset management

In 2012 Grupa Azoty successfully financed all of its key investment objectives, mainly due to significant operating cash surpluses, the continued use of capital raised from the 2008 equity offering, together with long-term investment loans incurred by the Parent to finance equity (ZA Puławy S.A. acquisition) and asset (construction of a hydrogen facility and upgrade of sulphuric acid facility) investments.

Over the year Grupa Azoty increased its borrowings from PLN 394 826 000 to 489 996 000. Importantly, Grupa Azoty maintains a considerable cash surplus (as at 31 December 2012: PLN 243 440 000), hence liquidity risk is very low and even further reduced by the available current-account and multi-purpose loan facilities (amounting to PLN 401 157 000 as at 31 December 2012). As at 31 December 2012, Grupa Azoty did not have any overdue liabilities, nor was there any other material violation in place that could otherwise result in demands for early repayment of such payables.
From the viewpoint of Grupa Azoty’s strategic lenders, in spite of a potential economic slowdown, the financial standing of the Group and its companies is high, and there are no threats or risks which could suggest a decline in their standing or loss of liquidity in the future.

Furthermore, under the successive phases of the Parent’s consolidation with Grupa Azoty ZAK S.A. and ZCh Police S.A. the Group was able to achieve following financing strategy objectives:

- equal financing terms for all Grupa Azoty companies, reflecting the Group’s financial standing and growth potential,
- optimal financial liquidity of Grupa Azoty companies,

Grupa Azoty achieved the above objectives through the following measures taken in 2012:

- Parent’s management of cash pooling and current-account sub-limits within a global limit for Grupa Azoty at PKO BP S.A., together with their flexible adaptation to the requirements of Group companies (including bridge financing for the tender offer to acquire 32% of shares in ZA Puławy S.A.),
- negotiation and introduction of standard terms of credit limits and other bank financing instruments (leasing, factoring) for all Grupa Azoty companies, reflecting the Group’s financial standing and growth potential,
- maintenance by the Parent of a cash surplus earmarked for strategic objectives outlined in its prospectus,
- Parent’s dividend policy with respect to its subsidiaries, adapted to the financing requirements of Grupa Azoty’s and its subsidiaries’ investment strategy.

5.6. Assessment of the potential to deliver investment objectives, including equity investments, with consideration to the amount of capital held and the capacity to change the financing structure for such operations

In 2012 the Parent financed investment expenditures totalling PLN 151 008 000, using PLN 120 142 000 of its own funds (including PLN 26 681 000 from equity offerings earmarked for issue objectives), PLN 27 914 000 in investment loans and PLN 2 952 000 in government subsidies.

In addition to the above, in 2012 the Parent used PLN 54 122 000 of its own funds and PLN 162 367 000 from an investment loan to finance an equity investment consisting of the acquisition of a 10.3% stake in ZA Puławy S.A.

As at 31 December 2012, the Parent had at its disposal significant investment loan tranches, amounting to PLN 32 449 000, intended for investment expenditures on the upgrade of sulphuric acid facility, together with a PLN 211 000 000 tranche under the Joint Financing Agreement for the purposes of conducting the Subsequent Tender Offer for shares in ZA Puławy S.A.

After the end of the reporting period the Parent increased the tranche for the Subsequent Tender Offer tranche for 16.30% of ZA Puławy S.A. shares to PLN 423 625 000 and obtained additional tranches for the planned acquisition of 85% of shares in Kopalnia i Zakłady Chemiczne Siarki Siarkopol S.A. in Grzybów at a total amount of PLN 135 000 000, which may be increased to PLN 256 000 000 if the Subsequent Tender Offer tranche is not fully used.

Grupa Azoty’s 2012 investment expenditures (excluding the ZA Puławy S.A. equity investment) totalled PLN 275 530 000. Other significant subsidiaries, Grupa Azoty ZAK S.A. and ZCh Police S.A., financed all of their expenditures using own funds.

As at 31 December 2012, ZCh Police S.A. held an unused borrowing facility in the amount of PLN 90 000 000 at the National Fund for Environmental Protection and Water Management in Szczecin, earmarked for the investment “Combustion gas desulphurisation installation and modernisation of CHP facility EC II at ZCh Police S.A.”.

Grupa Azoty also has the possibility to finance its investment plans both from its current and planned cash surpluses from operating activities, and through incurring new investment loans. Financial ratios established with strategic lenders allow for a significant increase in the scale of finance for the investment plans using the Parent’s and Group’s external sources of funding, without the risk of violating the terms of existing loan agreements.
5.7. Information on credit and loan agreements executed or terminated during the financial year

No Grupa Azoty companies terminated credit or loan agreements during 2012.

Grupa Azoty executed the following credit agreements or annexes to such agreements during 2012:

• **Factoring agreement between the Parent and Raiffeisen Bank Polska S.A.**
  On 5 January 2012 the Parent executed an annexe to its factoring agreement with Raiffeisen Bank Polska S.A., under which cost optimisation was carried out on the acquisition of invoices covered by factoring, the factoring limit was increased from EUR 3 650 000 to EUR 6 500 000 and an assignment was established from the insurance policy at KUKE concerning rights to damages relating to contracting parties covered by the factoring agreement.

• **Multi-purpose line of credit agreement between ZCh Police S.A. and PKO Bank Polski S.A.**
  On 13 February 2012 ZCh Police S.A. executed an annexe to the PLN 82 000 000 multi-purpose line of credit agreement with PKO Bank Polski S.A., under which the bank’s margin, calculated on the basis of the WIBOR 1M base interest rate, was decreased to a level adequate for the market interest on this type of loan as available to Grupa Azoty, and the term of the agreement was extended through to 30 September 2014.

• **Debt facility agreement between Grupa Azoty ZAK S.A. and Raiffeisen Bank Polska S.A.**
  On 23 February 2012 Grupa Azoty ZAK S.A. executed a debt facility agreement with Raiffeisen Bank Polska S.A. (covering the following limits: overdraft facility, revolving credit, letters of credit, guarantees or sureties in PLN, EUR or USD) up to a total of PLN 10 000 000 with repayment due by 28 November 2014.

• **ZAK Serwis Sp. z o.o. investment loan agreement with PKO Bank Polski S.A.**
  On 7 March 2012 ZAK Serwis Sp. z o.o. (currently PROReM Sp. z o.o.) executed a PLN 2 467 000 investment loan agreement with PKO Bank Polski S.A. for the acquisition of industrial property, with repayment due by 1 December 2021.

• **Annexes to the current account overdraft agreement connected with Grupa Azoty’s virtual cash-pooling at PKO Bank Polski S.A.**
  On 8 March 2012, and again on 30 March 2012, the Parent (also representing other Grupa Azoty companies) signed subsequent annexes to the agreement concerning current account overdrafts granted to Grupa Azoty companies, totalling PLN 250 000 000 for the period up to 30 September 2014, together with annexes to the virtual cash-pooling agreement, under which the following companies were excluded from both agreements: ZWRI Sp. z o.o., Hotel ORW Azoty Sp. z o.o., Hotel Centralny Sp. z o.o. and Centrum Elektrotechnika Instalacje Serwis Sp. z o.o., in connection with sales processes implemented within Grupa Azoty and changes to the Group’s internal organisational structure.

On 31 July 2012 the Parent (also representing other Grupa Azoty companies) signed annexes to the agreement concerning current account overdrafts granted to Grupa Azoty companies, totalling PLN 250 000 000 for the period up to 30 September 2014, and to the virtual cash-pooling agreement, the aim of which was to take into consideration the results of company mergers within Grupa Azoty in both agreements, including:

- Grupa Azoty PKCh Sp. z o.o.’s takeover of BIPROZAT Sp. z o.o.,
- JRCh Sp. z o.o.’s takeover of CHEMZAK Sp. z o.o.,
- PROReM Sp. z o.o.’s takeover of Zaklad Remontowy REKOM Sp. z o.o. and ZAK Serwis Sp. z o.o.,
- Automatyka Sp. z o.o.’s takeover of Aster ZAK Sp. z o.o.

These changes consisted of removing the acquired and liquidated companies from the group of borrowers and from the virtual cash-pooling agreement, while the freed sub-limits were shifted to the above acquirers and other Group companies.

Simultaneously for the subsequent half-year period, i.e. from 28 September 2012 to 27 March 2013, as credit agent the Parent made a new allocation of credit sub-limits under the global current account overdraft limit, the level of which was adapted to the current and anticipated cash requirements of specific Grupa Azoty companies.

Furthermore, on 18 December 2012 the Parent (also representing other Grupa Azoty companies) signed an annex to the agreement concerning current account overdrafts granted to Grupa Azoty companies, totalling PLN 250 000 000 for the period up to 30 September 2014,
and to the virtual cash-pooling agreement, the aim of which was to exclude PTS Autozak Sp. z o.o. from the group of borrowers and from the virtual cash-pooling agreement. 100% of shares in this company were subsequently acquired by Grupa Azoty ZAK S.A., along with the freed credit sub-limit of PLN 700 000.

- **Factoring agreement between ZCh Police S.A. and PKO Bank Polski S.A.**
  On 15 March 2012 ZCh Police S.A. entered into a factoring agreement with PKO BP Faktoring S.A. The limit is PLN 40 000 000 and constitutes a supplementary source of finance (after ending cooperation with BZ WBK S.A. at the end of 2011) relating to similar factoring services.

- **Loan agreement between Grupa Azoty KOLTAR Sp. z o.o. and the National Fund for Environmental Protection and Water Management**
  On 22 March 2012 Grupa Azoty KOLTAR Sp. z o.o. signed two agreements with the National Fund for Environmental Protection and Water Management in Krakow to provide finance for a task entitled “Modernisation of Diesel Locomotives”, valued at PLN 926 000 and PLN 918 000. As collateral for repayment of the above loans, on 22 March 2012 the Parent provided the National Fund for Environmental Protection and Water Management in Krakow with two sureties up to PLN 956 000 and PLN 948 000 for the repayment period, i.e. until 31 December 2016.

- **Investment loan agreement between the Parent and BGŻ S.A.**
  On 30 March 2012 the Parent signed a PLN 45 000 000 investment loan agreement with BGŻ S.A. to provide finance for expenditures connected with the task “Modernisation of the Sulphuric acid facility” for the period from 1 April 2012 to 31 December 2018, with variable interest based on the WIBOR 1M base rate + bank margin at a market level adequate to Grupa Azoty’s financial standing. Collateral for the loan was established in the form of a contractual mortgage of up to PLN 67.5 000 000 on Sulphuric Acid and Hydroxylammonium Sulphate Plant, together with a registered pledge on moveable property within the above plant of a maximum pledge value of PLN 19.1 000 000.

- **Finance lease contract - Grupa Azoty KOLTAR Sp. z o.o.**
  On 4 April 2012 Grupa Azoty KOLTAR Sp. z o.o. executed a capital lease contract with Bankowy Leasing Sp. z o.o. for 30 railway wagons, with total value of PLN 3 780 000 and an 8-year repayment term for leasing instalments until 28 July 2020.

- **Overdraft facility agreement between ZAK Serwis Sp. z o.o. and Alior Bank S.A.**
  On 24 April 2012 ZAK Serwis Sp. z o.o. executed a PLN 400 000 overdraft facility agreement with Alior Bank S.A. for the period up to 23 April 2013. After the merger of ZAK Serwis Sp. z o.o. and PROREM Sp. z o.o., as acquirer PROREM Sp. z o.o. terminated the above credit agreement and ended cooperation with the bank as at 21 December 2012.

- **Overdraft facility agreement between ZCh Police S.A. and BGŻ S.A.**
  On 26 June 2012 ZCh Police S.A. executed a PLN 80 000 000 overdraft facility agreement with BGŻ S.A. for the period up to 30 2013, with variable interest based on the WIBOR 1M base rate + bank commission at a market level adequate to Grupa Azoty’s financial standing. Collateral for the loan was established in the form of a contractual mortgage of up to PLN 120 000 000 on property, together with a registered pledge on moveable property within the Phosphoric Acid Plant in Police, of a maximum pledge value of PLN 72 321 000. Furthermore the Parent undertook to issue a surety - after obtaining the future consent of corporate authorities - to cover potential non-observance by ZCh Police S.A. of the terms and conditions of the loan agreement, in particular non-observance of significant financial indices.

- **Investment loan agreement between the Parent as one party and PKO Bank Polski S.A. and PZU Życie S.A. as the other**
  On 14 August 2012 the Parent executed a PLN 711 000 000 loan agreement with PKO Bank Polski S.A. for the period up to 31 December 2017, the purposes of which was to grant:
  
  - fixed-term loan A totalling PLN 500 000 000, allocated to partially finance the Parent’s acquisition of up to 32% of shares in ZA Pulawy S.A. as a result of the tender offer and the costs and expenses connected with acquiring shares in ZA Pulawy S.A.
  - fixed-term loan B and a guarantee line totalling up to PLN 211 000 000, allocated as collateral and subsequently finance for the Parent’s acquisition of ZA Pulawy S.A. as a result of the Subsequent Tender Offer for purchase of shares in ZA Pulawy S.A., the announcement of which may be mandatory due to the planned in-kind offering.
Furthermore, on 22 August 2012 the Parent executed an agreement with PKO Bank Polski S.A. and PZU Życie S.A. amending the loan agreement and introducing a consolidated joint finance agreement, under which PZU Życie S.A. partially assumed the rights and obligations of PKO Bank Polski S.A. under the loan agreement, becoming the Parent’s creditor up to amounts constituting the equivalent to: 50% of PKO Bank Polski S.A.’s prior commitment under Loan A and 50% of PKO Bank Polski S.A.’s prior commitment under Loan B.

The joint finance agreement entails interest at the variable WIBOR 1M rate, augmented by a finance margin established at market levels. The collateral established for both lenders (PKO Bank Polski S.A. and PZU Życie S.A.) is the same, including financial and registered pledges on the 49 500 000 shares in ZCh Police S.A. and 1 968 083 shares in ZA Puławy S.A. held by the Parent, together with shares in these companies to be acquired in the future, and furthermore registered and financial pledges on the Parent’s bank accounts held at PKO Bank Polski S.A. and the account held at Dom Maklerski PKO Bank Polski S.A., together with a declaration on submission to enforcement.

PLN 162 336 847.50 of Loan A was used to finance 75% of the acquisition price under the public tender for 1 968 083 shares in ZA Puławy S.A. at a price of PLN 110 per share, while the unused remainder of the loan was automatically cancelled.

- **Overdraft facility agreement between ZCh Police S.A. and BOŚ S.A.**
  
  On 7 September 2012 ZCh Police S.A. executed an annex to the multi-purpose loan facility with BOŚ S.A. (covering a PLN 80 000 000 overdraft limit with repayment due by 30 June 2013 with the option for this to be extended). The annex is aimed at reducing loan collateral and decreasing the bank’s commission.

- **ZCh Police S.A. factoring agreement with BOŚ S.A.**
  
  On 26 October 2012 ZCh Police S.A. entered into a factoring agreement with BOŚ S.A. The limit is PLN 40 000 000 and constitutes a supplementary source of finance (after ending cooperation with Raiffeisen Bank Polska S.A. in 2011) relating to similar factoring services.

- **ZCh Police S.A. loan agreement with the National Fund for Environmental Protection and Water Management**
  
  On 18 December 2012 ZCh Police S.A. executed a PLN 90 000 000 loan agreement with the National Fund for Environmental Protection and Water Management in Szczecin, allocated for implementation of the task “Combustion gas desulphurisation installation and modernisation of CHP facility EC II at ZCh Police S.A.”. The loan should be repaid in quarterly instalments commencing from 31 March 2015 and ending 31 December 2022. Collateral for the loan was provided through a mortgage on Wastewater Treatment Plant property and a pledge on ZCh Police S.A. Environmental Protection Unit moveable PP&E assets.

- **Loan agreement between the Parent and Raiffeisen Bank Polska S.A.**
  
  On 23 January 2012 the Parent executed an annex to the PLN 10 000 000 debt facility agreement with Raiffeisen Bank Polska S.A., under which the term of the agreement was extended to 28 November 2014.

  On 31 December 2012 the Parent executed annexes to the following agreements with Raiffeisen Bank Polska S.A.:

  - PLN 10 000 000 debt facility agreement of 21 September 2005,
  - EUR 6 000 000 investment loan agreement of 16 December 2009, which financed grant of a loan during the process of acquiring ATT Polymers, GmbH,
  - two investment loan agreements of 21 September 2010, which financed construction of the hydrogen installation, valued at USD 7 735 000 and EUR 1 998 000,

  The aim of these annexes was to standardise Grupa Azoty’s loan covenants, including permissible debt ratio, interest coverage ratio and financing to revenue ratio levels.

  Furthermore, the loan agreement of 21 September 2010 to finance construction of the hydrogen installation was reduced from USD 7 735 000 to USD 7 638 000 and the final instalment to be repaid, with regard to the fact that it had not been fully used by completion of the investment task.
Table 30. Significant financing agreements signed or annexed in 2012

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Agreement date</th>
<th>Annex date</th>
<th>Currency</th>
<th>Amount</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring agreement Parent - Raiffeisen Bank Polska S.A.</td>
<td>11-09-2009</td>
<td>05-01-2012</td>
<td>EUR</td>
<td>6 500</td>
<td>unspecified</td>
</tr>
<tr>
<td>Multi-purpose facility ZCh Police S.A. - BOŚ S.A.</td>
<td>30-01-2007</td>
<td>13-02-2012</td>
<td>PLN</td>
<td>82 000</td>
<td>30-09-2014</td>
</tr>
<tr>
<td>Receivables discounting agreement Grupa Azoty ZAK S.A. - Raiffeisen Bank Polska S.A.</td>
<td>23-02-2012</td>
<td>-</td>
<td>PLN</td>
<td>10 000</td>
<td>28-11-2014</td>
</tr>
<tr>
<td>Investment loan ZAK Serwis Sp. z o.o. (currently PROReM Sp. z o.o.) PKO BP S.A.</td>
<td>07-03-2012</td>
<td>-</td>
<td>PLN</td>
<td>2 467</td>
<td>01-04-2012 to 01-12-2021</td>
</tr>
<tr>
<td>Current account overdraft for Grupa Azoty companies - PKO Bank Polski S.A.</td>
<td>01-10-2010</td>
<td>08-03-2012 to 30-03-2012</td>
<td>PLN</td>
<td>250 000</td>
<td>30-09-2014</td>
</tr>
<tr>
<td>Factoring agreement ZCh Police S.A. - PKO BP Faktoring S.A.</td>
<td>15-03-2012</td>
<td>-</td>
<td>PLN</td>
<td>40 000</td>
<td>unspecified</td>
</tr>
<tr>
<td>Two loan agreements Grupa Azoty KOLTAR Sp. z o.o. - Provincial Fund for Environmental Protection and Water Management in Kraków</td>
<td>22-03-2012</td>
<td>-</td>
<td>PLN</td>
<td>926 918</td>
<td>from 31 March 2012 to 15 December 2012</td>
</tr>
<tr>
<td>Investment loan Parent - BGŻ S.A.</td>
<td>30-03-2012</td>
<td>-</td>
<td>PLN</td>
<td>45 000</td>
<td>from 31 March 2014 to 31 December 2018</td>
</tr>
<tr>
<td>Finance lease agreement Grupa Azoty KOLTAR Sp. z o.o. - Bankowy Leasing Sp. z o.o.</td>
<td>04-04-2012</td>
<td>-</td>
<td>PLN</td>
<td>3 780</td>
<td>from 28 April 2012 to 28 July 2020</td>
</tr>
<tr>
<td>Current account overdraft ZAK Serwis Sp. z o.o. (currently PROReM Sp. z o.o.) z Alior Bank S.A.</td>
<td>24-04-2012</td>
<td>-</td>
<td>PLN</td>
<td>400</td>
<td>23-04-2013</td>
</tr>
<tr>
<td>Current account overdraft ZCh Police S.A. - BGŻ S.A.</td>
<td>26-06-2012</td>
<td>-</td>
<td>PLN</td>
<td>80 000</td>
<td>30-06-2013</td>
</tr>
<tr>
<td>Loan agreement between Parent and PKO BP S.A., together with an agreement amending the Joint Financing Agreement, executed between Parent and PKO BP S.A. and PZU Życie S.A.</td>
<td>14-08-2012</td>
<td>22-08-2012</td>
<td>PLN</td>
<td>711 000</td>
<td>from 31 March 2013 to 31 December 2017</td>
</tr>
<tr>
<td>Multi-purpose facility agreement ZCh Police S.A. - BOŚ S.A.</td>
<td>12-07-2011</td>
<td>07-09-2012</td>
<td>PLN</td>
<td>80 000</td>
<td>30-06-2013</td>
</tr>
<tr>
<td>Factoring agreement ZCh Police S.A. - BOŚ S.A.</td>
<td>26-10-2012</td>
<td>-</td>
<td>PLN</td>
<td>40 000</td>
<td>unspecified</td>
</tr>
<tr>
<td>Loan agreement ZCh Police S.A. - Provincial Fund for Environmental Protection and Water Management in Szczecin</td>
<td>18-12-2012</td>
<td>-</td>
<td>PLN</td>
<td>90 000</td>
<td>from 31 March 2015 to 31 December 2022</td>
</tr>
<tr>
<td>Receivables discounting</td>
<td>21-09-2005</td>
<td>23-01-2012</td>
<td>PLN</td>
<td>10 000</td>
<td>28-11-2014</td>
</tr>
</tbody>
</table>
5.8. Information on loans granted, in particular to Group companies

In 2012 the Group did not grant loans to any related parties or other entities.

5.9. Information on guarantees and sureties granted and received, in particular to Group companies

In 2012 the Group did not grant guarantees or sureties to any related parties or other entities. The following guarantees were issued for Grupa Azoty in 2012:

Table 31. Guarantees issued for Grupa Azoty in 2012

<table>
<thead>
<tr>
<th>Type and parties</th>
<th>Issue date</th>
<th>Subject of collateral</th>
<th>Amount (in PLN)</th>
<th>Validity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance guarantee - InterRisk issued at the request of Remech (Police Group)</td>
<td>13-02-2012</td>
<td>Due performance of contract and removal of faults and defects</td>
<td>577</td>
<td>01-03-2015</td>
</tr>
<tr>
<td>for the MPB Jetty s.c. consortium</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annex to a bank guarantee issued by PKO BP S.A. at the request of ZCh Police S.A.</td>
<td>13-03-2012</td>
<td>Customs debt</td>
<td>10 000</td>
<td>23-03-2013</td>
</tr>
<tr>
<td>for the Customs Chamber in Szczecin</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance guarantee - InterRisk issued at the request of Remech (Police Group)</td>
<td>19-03-2012</td>
<td>Due performance of contract and removal of faults and defects</td>
<td>192</td>
<td>30-01-2017</td>
</tr>
<tr>
<td>for Energopol Szczecin S.A.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. at the request of Biprozat (subsidiary of</td>
<td>12-06-2012</td>
<td>CO₂ tank delivery agreement</td>
<td>399</td>
<td>05-08-2012 (expired)</td>
</tr>
<tr>
<td>Grupa Azoty PKCh Sp. z o.o.) for AIR- Products Sp. z o.o.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. at the request of Grupa Azoty ZAK S.A.</td>
<td>13-06-2012</td>
<td>Contract for gas fuel transmission services</td>
<td>179</td>
<td>from 16-06-2012 to 30-09-2012 (expired)</td>
</tr>
<tr>
<td>for OGP GAZ SYSTEM S.A.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment guarantee issued by Raiffeisen Bank Polska S.A. at the request of ZCh</td>
<td>10-07-2012</td>
<td>Sale of gaseous fuel</td>
<td>16 000</td>
<td>31-01-2013</td>
</tr>
<tr>
<td>Police S.A. for Entrade Grupa Sp. z o.o.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment guarantee issued by Societe Generale at the request of the Parent for</td>
<td>13-07-2012</td>
<td>Tender offer for 32% of shares in ZA Putawy S.A.</td>
<td>672 848</td>
<td>25-08-2012 (expired)</td>
</tr>
<tr>
<td>UniCredit CAIB Poland S.A.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type and parties</td>
<td>Issue date</td>
<td>Subject of collateral</td>
<td>Amount (in PLN)</td>
<td>Validity</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------</td>
<td>----------------</td>
<td>---------------------------------------------------------------------------------------</td>
<td>-----------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Insurance guarantee - InterRisk issued at the request of Remech (Police Group) for PGE GIEK S.A.</td>
<td>16-04-2012</td>
<td>Due performance of contract and removal of faults and defects</td>
<td>Total 41</td>
<td>19-08-2014</td>
</tr>
<tr>
<td></td>
<td>27-06-2012</td>
<td></td>
<td></td>
<td>06-10-2013</td>
</tr>
<tr>
<td></td>
<td>04-07-2012</td>
<td></td>
<td></td>
<td>30-09-2014</td>
</tr>
<tr>
<td></td>
<td>09-08-2012</td>
<td></td>
<td></td>
<td>12-09-2014</td>
</tr>
<tr>
<td>Annex to a bank guarantee issued by PKO BP S.A. at Parent's request for the Customs Chamber in Kraków</td>
<td>26-11-2012</td>
<td>Customs debt</td>
<td>800</td>
<td>from 01-01-2013 to 04-03-2014</td>
</tr>
<tr>
<td>Bank guarantee issued by ING Bank Śląski S.A. at the request of Grupa Azoty PKCh Sp. z o.o. for AIR-Products Sp. z o.o.</td>
<td>26-11-2012</td>
<td>Investment delivery agreement</td>
<td>1 083</td>
<td>Until expiry of warranty for the task performed</td>
</tr>
<tr>
<td>Guarantees issued by Raiffeisen Bank Polska S.A. at the request of ZCh Police S.A. for GAZ SYSTEM S.A.</td>
<td>11-12-2012</td>
<td>Agreement on gas fuel transmission and balancing</td>
<td>447 982</td>
<td>02-12-2013</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. at the request of Grupa Azoty ZAK S.A. for the Customs Chamber in Opole</td>
<td>12-12-2012</td>
<td>Customs debt</td>
<td>1 500</td>
<td>from 01-01-2013 to 01-03-2014</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. at the request of Prorem (subsidiary of Grupa Azoty PKCh Sp. z o.o.) for Grupa Lotos S.A.</td>
<td>19-12-2012</td>
<td>Due performance of an agreement</td>
<td>94</td>
<td>31-01-2013</td>
</tr>
</tbody>
</table>

Source: Grupa Azoty
### Table 32 Guarantees provided within credit limits at the request of the Group as at 31 December 2012

<table>
<thead>
<tr>
<th>Type</th>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Date issued</th>
<th>31-12-2012</th>
<th>31-12-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantee / Raiffeisen Bank Polska S.A.</td>
<td>Director of the Customs Chamber in Krakow</td>
<td>Collateral for customs procedures</td>
<td>PLN</td>
<td>15-11-2005</td>
<td>-</td>
<td>1 600</td>
</tr>
<tr>
<td>Bank guarantee PKO BP S.A.</td>
<td>Director of the Customs Chamber in Krakow</td>
<td>Collateral for customs procedures</td>
<td>PLN</td>
<td>14-12-2011</td>
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<tr>
<td>Bank guarantee / Raiffeisen Bank Polska S.A.</td>
<td>GATX Rail Poland Sp. z o.o. Warsaw</td>
<td>Guarantee of lease payments</td>
<td>PLN</td>
<td>29-01-2008</td>
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<td>Collateral for customs duty</td>
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<td>30-12-2010</td>
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<tr>
<td>Insurance guarantee for due performance of contract and removal of faults and defects</td>
<td>RAFAKO S.A.</td>
<td>Agreement no. Z/K/ZU/0326/08/KO</td>
<td>PLN</td>
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<td>PLN</td>
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<td>OPG GAZ SYSTEM S.A.</td>
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<td>Collateral for customs duty</td>
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<td>Unconditional guarantee</td>
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<td>Guarantee for the repayment of a customs liability</td>
<td>PLN 10 000 (annex on 2012-03-13)</td>
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<td>Entrade Grupa Sp. z o.o.</td>
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<td>Insurance guarantee - InterRisk</td>
<td>ZCh Police S.A.</td>
<td>Guarantee for the repayment of a customs liability</td>
<td>PLN 577</td>
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<tr>
<td>Bank guarantee / Raiffeisen Bank</td>
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<td>Insurance guarantee - InterRisk</td>
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<td>Insurance guarantee - InterRisk</td>
<td>PGE GiEK S.A.</td>
<td>Guarantee for the repayment of a customs liability</td>
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<td>Insurance guarantee - InterRisk</td>
<td>MPB Jetty s.c. consortia</td>
<td>Guarantee for the repayment of a customs liability</td>
<td>PLN 577</td>
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<td>Insurance guarantee - InterRisk</td>
<td>Energopol Szczecin S.A.</td>
<td>Guarantee for the repayment of a customs liability</td>
<td>PLN 192</td>
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<td>Description</td>
<td>Company</td>
<td>Type</td>
<td>Date</td>
<td>Amount</td>
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<td>PGE GiEK S.A.</td>
<td>Guarantee for due performance of agreement and removal of faults and defects</td>
<td>16-04-2012</td>
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<td>Insurance guarantee - InterRisk</td>
<td>PGE GiEK S.A.</td>
<td>Guarantee for due performance of agreement and removal of faults and defects</td>
<td>27-06-2012</td>
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<td>Insurance guarantee - InterRisk</td>
<td>PGE GiEK S.A.</td>
<td>Guarantee for due performance of agreement and removal of faults and defects</td>
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<td>Insurance guarantee - InterRisk</td>
<td>PGE GiEK S.A.</td>
<td>Guarantee for due performance of agreement and removal of faults and defects</td>
<td>09-08-2012</td>
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<td></td>
<td>32 476</td>
<td>16 576</td>
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</tr>
</tbody>
</table>
### 5.10. Description of significant off-balance-sheet items

#### Table 33. Promissory notes

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Date of issue</th>
<th>31-12-2012</th>
<th>31-12-2011</th>
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<tr>
<td>PKN Orlen S.A.</td>
<td>Collateral for payables - goods and services</td>
<td>PLN</td>
<td>02-09-2011</td>
<td>25 000</td>
<td>25 000</td>
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<tr>
<td>Polimex-Mostostal Siedlce S.A.</td>
<td>liabilities resulting from a guarantee of deposit refund for a contract with CNCCC China</td>
<td>USD</td>
<td>26-01-2005</td>
<td>1 872*</td>
<td>2 056*</td>
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<tr>
<td>Director of the Customs Chamber in Krakow</td>
<td>Collateral for existing and future excise tax liabilities</td>
<td>PLN</td>
<td>29-03-2011</td>
<td>330</td>
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</tr>
<tr>
<td>National Fund for Environmental Protection and Water Management</td>
<td>Collateral on the refund of funds paid out for implementation of an ash use project</td>
<td>PLN</td>
<td>09-08-2010</td>
<td>4 588</td>
<td>4 588</td>
</tr>
<tr>
<td>Director of the Customs Chamber in Krakow</td>
<td>Collateral for existing and future excise tax liabilities</td>
<td>PLN</td>
<td>07-08-2012</td>
<td>1 050</td>
<td>1 050</td>
</tr>
<tr>
<td>National Fund for Environmental Protection and Water Management</td>
<td>Collateral for agreement on co-financing of project no. KSI POIS.04.03.00-00-012/08</td>
<td>PLN</td>
<td>14-12-2009</td>
<td>20 000</td>
<td>20 000</td>
</tr>
<tr>
<td>BRE Bank S.A</td>
<td>Collateral for hedging transactions</td>
<td>PLN</td>
<td>21-06-2005</td>
<td>1 000</td>
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<tr>
<td>Customs Chamber in Opole</td>
<td>Collateral for excise tax</td>
<td>PLN</td>
<td>31-12-2010</td>
<td>648</td>
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</tbody>
</table>

* liabilities in USD translated into PLN at the USDPLN ask rate of the lead bank as at 30 December 2011 - 3.4850 and 31 December 2012 - 3.1724.

Does not include in blanco promissory notes issued by Grupa Azoty as collateral for payables recognised in the balance sheet or guarantees issued by banks at Grupa Azoty's request as collateral for liabilities recognised in the statement of financial position.
5.11. Financial instruments - risk policy and instruments, objectives and methods for risk management

Grupa Azoty is exposed to credit risk, liquidity risk and market risk (mostly involving currency risk and interest rate risk), which arise during the Group’s normal course of business. Financial risk management in the Group aims to minimise the impact of market factors – such as exchange and interest rates – on its core financial parameters as per the approved budget for the year (financial result, cash flows). To this end, the Group utilises natural hedging as well as derivatives.

Credit risk
Credit risk refers to the possibility of the Group incurring financial losses as a result of a customer’s or counterparty’s default on a financial instrument. Credit risk mainly concerns the Group’s trade receivables, fixed-term deposits and funds held in bank accounts covered by virtual cash-pooling.

Considering the procedures in place at the Group and its diversified client portfolio, credit risk is relatively insignificant. A significant part of Group companies’ cash surpluses (as at 31 December 2012 - PLN 46 446 000) is covered by virtual cash-pooling connected with current account overdrafts provided to Grupa Azoty by PKO BP S.A., which allows for optimisation of the Group’s interest income and costs with simultaneous limitation of the associated credit risk.

Approx. 80% of the Group’s trade and other receivables of the Group from non-related parties are insured under trade credit insurance policies issued by Korporacja Ubezpieczeń Kredytów Eksportowych S.A. and Atradius Credit Insurance N.V. S.A., which limit credit risk to the Group’s own contribution (5-10% of the insured receivables). These insurance policies ensure that the financial position of the Group’s business partners is constantly monitored and receivables are collected whenever necessary. Should the partner become physically or legally bankrupt, insurance compensation is received, totalling 90-95% of the insured receivables.

In addition approx. 10% of the Group’s trade receivables from unrelated parties are protected by letters of credit and guarantees which remain outside the scope of insurance.

The Group maintains a unified credit risk policy, making assessment and inspecting the creditworthiness of customers on an on-going basis, using economic intelligence reports, debtor registers and credit histories for this purpose.

Whenever no positive trading history exists between a counterparty and the Group or when transactions are occasional, and the credit limit cannot be insured, a prepayment is required. Trade credit is extended primarily based on approval by the insurance company, and sometimes due to a positive trading history as well as creditworthiness as concluded from credit bureau reports, financial statements and payment history. The Group provides deferred payment terms up to the market value of the collateral provided by the counterparty.

Credit risk exposure is defined as the sum of unpaid receivables, monitored on an on-going basis by the Group’s internal financial staff (customer by customer) and, wherever a receivable is insured, also by insurance company analysts. Considering the procedures in place at the Group and its diversified client portfolio, credit risk is relatively insignificant.

Receivables from foreign consumers make up about 62% of the Group’s balance of trade receivables, with the remaining 38% constituting receivables from domestic customers.

The Group generates revenue in four main segments corresponding to its areas of business operations. The largest share of these segments in the Group’s receivables is fertilisers - 39.9%, followed by oxo - 25.5%, plastics - 21.2% and pigments - 5.0%. The Plastics and Oxo alcohols segments are dominated by foreign customers, who receive trade credit, usually subject to insurance credit limits, or – in other cases - open letters of credit and guarantees. Fertilisers, in turn, are mostly sold to domestic clients. A customer proven as a creditworthy partner receives trade credit subject to insurance credit limits, whereas in other cases prepayments are necessary.

Cash and fixed-term deposits
Cash and cash equivalents are deposited in respectable financial institutions with high solvency ratios. The surplus of domestic cash and cash equivalents is chiefly held in technical accounts connected with the negative balances of borrowings in the Group’s current account under the virtual cash pooling service provided by PKO BP S.A.
Liquidity risk

Liquidity risk refers to the risk that the Group will not be able to repay its financial liabilities when due. The above risk is minimised through the appropriate liquidity management, carried out by correctly determining cash levels and finance sources based on cash flow projections for various time horizons.

The Group’s financial position is characterised by full payment capability and creditworthiness, both in relation to the Parent and to other leading Group companies. This means the Group’s capability to make timely repayment of its liabilities and to hold and generate a surplus on operations activity, allowing for further payment within payment deadlines. The Group has available overdraft limits connected with the structure of virtual cash pooling, which the Parent may use in situations of changing funding requirements amongst Group companies, as well as supplementary multi-purpose loan limits. In particular, these provide protection against short-term shortfalls in funds which may occur due to the seasonality of sales in the fertilisers segment.

The Parent also has available a line of credit under the Joint Financing Agreement executed with PKO BP S.A. and PZU Życie S.A. serving as collateral for the Subsequent Tender Offer for the remaining shares in ZA Puławy S.A.

The Group fulfils unified covenants under loan agreements, in accordance with which it has the capability to make significant increases in the scale of financial liabilities as required. In the assessment of strategic credit providers, the Group’s financial standing is high and there are no threats or risks to this standing in the future.

As at 31 December 2012, the Parent did not have any overdue liabilities, nor was there any other material violation in place that could otherwise result in demands for early repayment of these liabilities.

Market risk

Foreign exchange risk

Grupa Azoty is exposed to foreign exchange risk due to foreign currency transactions which account for approx. 2/3 of its revenues and approx. 1/3 of its costs. Exchange rate fluctuations affect both revenue from sales and raw material costs. Profitability of exports as well as foreign currency-denominated domestic sales is adversely influenced by a stronger domestic currency and positively affected by a weaker domestic currency. These fluctuations of export revenues and domestic market quote-based revenues are partly offset by the changing costs of raw material imports. This significantly reduces Grupa Azoty’s exposure to currency risk.

Grupa Azoty takes steps to reduce currency risk stemming from the existing net currency exposure through certain hedging instruments and activities, selected depending on its current and planned net currency exposure. The Parent uses instruments and takes actions including the following to hedge currency positions: natural hedging, factoring and forfaiting, together with and forward derivatives and corridors. In 2012 Grupa Azoty held net open foreign exchange positions mainly in EUR, constituting 87% of total exposure, with the remainder in USD, which was partially hedged (up to a maximum 50% of planned exposure).

Interest rate risk

Grupa Azoty’s exposure to interest rate changes mostly results from its balance of cash and cash equivalents, financial assets as well as bank financing, factoring and leasing based on a floating rate, computed on the basis of WIBOR + margin or, as in the case of EUR-denominated borrowings and factoring - EURIBOR + margin; and USD-denominated borrowings - LIBOR + margin. The impact of interest rates on the Group’s debt is partially offset in the form of interest rate collars executed for a long-term foreign exchange loan valued at EUR 10 653 000.

In order to limit interest rate risk, the Group monitors the situation in the money market on an ongoing basis. A significant proportion of the Group’s domestic currency cash and cash equivalents is covered by the virtual cash pooling service and bears interest according to the WIBOR 1M market rate, both for negative and positive balance on the Group’s current accounts, which enables effective use of natural hedging in this area.

A limited increase in WIBID and WIBOR rates was observed in H1 2012, followed by an easing period starting in Q3 2012. Interest on Grupa Azoty’s bank deposits was corresponding to the average interest on financial liabilities based on variable interest rates. In turn, the EURIBOR and LIBOR interest rates remained at a low level, which resulted in a relatively low level of cost for support of Grupa Azoty’s foreign exchange liabilities.
Risk of price changes of raw materials, products, services
In order to reduce such risks, the Group attempts to “match” sales contract provisions with procurement contracts (e.g. by applying ICIS-LOR quotes in both).

Fair value of financial instruments
Details of the fair values of financial instruments, where an assessment is possible, are presented below:
- Cash and cash equivalents, short-term bank deposits and short-term bank loans. Due to short maturities, the carrying amounts are similar to fair values.
- Trade and other receivables, trade payables. Due to their short-term nature, the carrying amounts are similar to fair values.
- Long-term bank financing. The Group measures the fair value of long-term bank loans at amortised cost, using the effective interest rate. Due to their mostly floating rate nature, the carrying amounts are similar to fair values.
- Currency derivatives, interest rate derivatives and EUA/CER swaps. The carrying amount of such instruments is equal to their fair value.
- Available-for-sale financial assets. Carrying amounts equal to fair value.

As at 31 December 2012 Grupa Azoty did not hold instruments the historical value of which, based on initial recognition, differed from the fair value as at that date, using the measurement approach applied.

Derivatives

Currency derivatives
As at 31 December 2012, the nominal value of the Group’s open currency derivatives (forwards) was EUR 4,000,000 (by maturity: January 2013 – EUR 1,000,000, February 2013 – EUR 1,500,000, March 2013 – EUR 1,500,000). As at 31 December 2011, the nominal value of the Group’s open currency derivatives (forwards) was EUR 11,000,000.

The Group measures derivatives at fair value, based on valuations supplied by the cooperating banks and data sourced from electronic data providers. Transactions are only concluded with reliable banks and are based on framework agreements. All such transactions reflect physical transactions resulting from currency cash flows. Currency forwards and derivatives are concluded in order to reduce the impact of currency fluctuations on the financial result, and thus depend on Grupa Azoty’s net currency exposure.

Fair value of hedged instruments
As at 31 December 2012, the Group’s open currency derivatives were measured at PLN 410,000 and were recognised under other financial assets. No hedging relationships were designated in this group. As at 31 December 2011, the Group’s open currency derivatives were measured at PLN -410,000 and were recognised under other financial liabilities.

An open interest rate hedge was measured at PLN -1,702,000 as at 31 December 2012, compared with PLN 1,574,000 the year before.

Hedge accounting
In order to hedge probable future cash flows from sales transactions that give rise to currency risk, the Group applied hedge accounting throughout 2012. As hedging instruments, these are designated as foreign-currency borrowings incurred.

In connection with the settlement of hedges in 2012, revenue from sales was reduced by PLN 1,594,000, correspondingly with the hedge reserve (PLN 873,000 in 2011).

5.12. Anticipated financial standing of Grupa Azoty

Grupa Azoty’s financial standing is characterised by full payment capability and creditworthiness, both in relation to the Parent and to other leading Group companies. This means Grupa Azoty is able to make timely repayment of its liabilities and to hold and generate a surplus on operating activities, ensuring further payment within payment deadlines. Grupa Azoty has available overdraft limits under virtual cash pooling which may be used in situations of potential growth in short-term
requirements for funds, such as may arise at Group companies, together with additional free multi-purpose credit lines enabling it to increase financial liabilities as necessary. From the viewpoint of Grupa Azoty’s strategic lenders, its financial standing is high, and there are no threats or risks connected with a decline in the future.

6. Risk, threats and growth perspectives for Grupa Azoty

6.1. Significant risk and threat factors

Grupa Azoty is exposed to various risks which may have an impact on its operations, financial standing and results or share performance. Aside from the risks presented in point 5.11 of these financial statements – Financial instruments - risk policy, together with risk management instruments, objectives and methodology, and the risks referred to in point 6.2.1 Significant external growth factors for Grupa Azoty, the Group identifies the following types of risk:

Risk of a hostile takeover by competitors or speculative investors
Certain actions by competitors or speculative investors may lead to the assumption of control over the Parent through acquisition of a sufficient volume of its shares to exercise control and influence, particularly through a tender offer to sell or exchange shares. Provided that such a process is not approved by the Management Board or Supervisory Board of Grupa Azoty at any stage, it may not be ruled out that certain arrangements can be concluded specifying an investor’s obligations or social benefits ensuring certain employment conditions for staff, together with guarantees concerning investments and production continuity at the existing Grupa Azoty facilities.

Risk connected with macroeconomic factors
Grupa Azoty operations are faced with the risk of dependence on macroeconomic conditions in Poland and other countries. The chemical industry is a supplier of both commodities and intermediates, and products to numerous industries, hence the global economic climate has an impact on performance of the global chemical market. The Polish economy is sensitive to the global economic situation and in particular within the European Union. Significant macroeconomic factors impacting on the situation of the entire economy, the chemical sector, and thus on Grupa Azoty’s situation, include GDP level and growth rate, inflation rate, unemployment rate and consumer purchasing power. The macroeconomic situation is also influenced by political events, natural disasters and unforeseeable market events. Grupa Azoty’s financial performance is closely linked to the macroeconomic situation. Instability in the financial system and/or an economic crisis in Poland or in global markets will have a direct impact on the Group’s growth potential and financial results. The occurrence of unbeneﬁcial tendencies in the economy may bring a drop in demand for its products or may have an unbeneﬁcial impact on price-cost ratios through a drop in prices for Grupa Azoty’s products. The Group generates nearly 90% of revenue within the EU market, therefore its financial performance is strongly dependent to any potential sudden slowdowns in the euro zone.

Risk of interruptions in production processes, repair and maintenance process management, ensuring production continuity and Incident management
The Parent, Grupa Azoty ZAK S.A. and ZCh Police S.A. are classiﬁed as plants with a high risk of a serious industrial incident. There are safety systems and preventative measures are taken within Grupa Azoty covering all organisational and technological levels, including occupational health and safety and protection against serious industrial incidents, however there is no certainty that these will eliminate the risk of incidents and ensure the continuity of production processes.

Risk connected with the manufacture, storage and transport of hazardous materials
The nature of operations performed by Grupa Azoty companies connected with the processing of chemical raw materials and the manufacture of flammable, explosive and toxic products as a result of implementing production processes in which there are high temperatures and pressures, may pose a risk to the health and safety of employees and residents of towns and villages located in the vicinity of the companies, as well as to the environment. The safety procedures in force at the Group, together with instructions for actions to be taken in the event of incidents and interruptions in the production process are aimed at minimising the risk of accidents, incidents and production
downtime at the Group's facilities, together with limiting threats to human health and safety and the environment.

Risk connected with excessive formalising of communications and the decision-making process
During Q4 2012 the organisational structure was changed in order to facilitate the management of such a large group by adapting it to the current state of affairs. Corporate departments were established within the Parent, which have a dual role combining supervision and coordination of activities in each Group area with activities in the same areas at the Parent.

Risk connected with delivery of strategic projects and growth strategy
Grupa Azoty's Strategy 2012-2020, presented by the Management Board on 31 June 2012, focusses on Grupa Azoty entering the main Warsaw Stock Exchange index within a decade and places significant emphasis on generating industry-leading rates of return for shareholders. In fertiliser manufacturing, the Group aims to maintain its top-3 position in the European market.

Strategy execution is dependent on a range of factors, including those which are outside the control of the Group. These are external factors identified in the Group's operational environment, such as macroeconomic factors, market situation, the economic environment or actions taken by the Group's main competitors. The negative impact of these factors could hinder implementation of the assumed vectors for Group development and achievement of its strategic objectives.

Risk of IT system failures
The Group's operations are connected with the use of a wide range of IT systems, with relation to both Group operations and Group management. In 2010 Grupa Azoty launched an IT outsourcing project, meaning that external entities are responsible for supervising its IT systems. In 2011 the project was expanded to include entities joining the Group, which streamlines IT consolidation across diverse Grupa Azoty companies. Projects minimising the risk of failures are implemented within integration activities. The occurrence of long-term failures in IT systems used by the Group, fibre-optic networks or a global power failure may have a significant negative impact on the Group's operations, its financial situation or results.

6.2. Description of significant external and internal growth factors for Grupa Azoty

6.2.1. External factors

The IMF believes that global economic growth in 2013 will amount to 3.6%. More cautious forecasts are published by the World Bank, which believes that global economic growth in 2013 will be 2.4%, and that growth in 2012 amounted to 2.3%. An improvement in the economic situation is anticipated in 2014-2015. According to the World Bank, global GDP will grow at an average rate of 3.1% in 2014 and 3.3% in 2015.

As a result of the anticipated economic recovery in H2 2012, it is anticipated that the EU's GDP growth for 2013 will reach 0.4%.

The Polish economy is sensitive to the economic problems experienced by the rest of Europe, which is visible in the downturn experienced from the beginning of 2012. The IMF forecasts Polish GDP growth in 2012 at 2.4%, with 2.1% for 2013.

In October the IMF's Fiscal Monitor report suggested that the public deficit in Poland for 2012 will be 3.4% of GDP, with 3.1% for 2013, while the April edition of the report forecast a deficit of 3.2% in 2012 and 2.8% in 2013.

Weak consumer demand is anticipated in 2013. This will be reflected in stiff market competition. The economic situation may force an increase in effort and more effective use of the Group's competitive advantages

Opportunities
The currently high prices of agricultural crops and forecasts for 2013 are a factor which could contribute significantly to the purchasing power of the agricultural sector. This gives a good basis for the profitability of crop production and also investment in means of production (fertilisers). The fertiliser use ration (kg/hectare) in Poland shows that the absorption capacity of the domestic market is not in decline.
The possibility to manufacture fertilisers with high sulphur content provides a change to increase the production of these fertilisers with regard to the increased demand for sulphur (lack of sulphur in the soil) from agriculture.

On 1 January 2013 the Energy Regulatory Office introduced a new gas tariff. During negotiations for 2013 with Gazprom it was possible to cross-reference the price of gas imported into Poland not just to the price per barrel of oil as has been the case for the past two decades, but also to the price of gas on power exchanges, e.g. in Germany or the Netherlands. As a leading market player, Grupa Azoty has a greater chance of obtaining more beneficial prices in an open market.

There is a wide range of new application markets looking for new plastic composites. These may significantly expand Grupa Azoty’s product range within the plastics segment.

It is forecast that global production growth in the chemical sector will not exceed 3% per year, although estimates published by the American Chemical Council for the period up to 2018 anticipate growth of 4.5-5%.

**Threats**

Commodity prices have a direct impact on Grupa Azoty product pricing, all the more so given their dependence on the global political and economic climate. Oil-based commodities are subject to considerable speculation. A renewal in social unrest in North Africa may limit access to phosphorites, while the concentration of titanium white raw materials in the hands of only a few players may lead to uncontrollable pricing of titanium slag and ilmenite. In agriculture, delays in payment of direct subsidies are noticeable, with only about 8.4% of subsidies having been paid out as at the end of 2012, compared to 23% the year before. This may result in delayed procurement of fertilisers at the start of the year.

In the near term, a lack of anti-dumping duties for ammonium sulphate from Ukraine (the spring fertiliser season) increases the risk of that region flooding our markets. This may potentially lead to an increasingly competitive domestic landscape. The planned removal of duties for Russian ammonium sulphate in mid-2013 poses the same threat. Where plasticisers are concerned, i.e. Oxoplast®O (DEHP), the restrictive REACH regulations and the necessity to register the product may prove to be an obstacle.

At the European Parliament level, there is considerable talk of a complete ban on the use of DEHP in medicine. This could limit the scope of use for this plasticiser.

Another uncertainly factor is the lack of political stability across emerging markets - particularly the Chinese market for Grupa Azoty. As the world’s second largest economy, China is dangerously high in political unrest rankings (e.g. tensions with Japan), which negatively affects investor sentiment.

### 6.2.2. Internal factors

**Strengths**
- high, market-accepted quality of key products,
- sophisticated technology and production facilities,
- stable distribution channels for mass products,
- high capacity utilisation rate in certain manufacturing lines,
- own caprolactam, fertiliser granulation and polyoxymethylene technology,
- the leading position in Poland’s fertiliser market,
- strong product brands with loyal customers,
- experienced and qualified technical personnel with a high level of professional competences,
- fundamental environmental protection problems resolved on the conditions of currently binding legal regulations,
- good image, decades of experience in the chemical industry,

**Weaknesses**
- small operational scale compared with main competitors, limiting competitive edge in non-fertiliser markets,
- relatively low technology levels in some facilities,
- high employment and relatively low salaries,
- lack of stable access to strategic commodities, limiting growth opportunities,
- production asset depreciation resulting in the necessity to incur significant expenditures on modernisation and upgrades,
6.3. Growth directions

Grupa Azoty’s growth directions are outlined in its 2012-2020 strategy published in June 2012 (as mentioned in point 4.10 Significant events). The adopted strategy is aimed at continuous improvement in Grupa Azoty’s competitive positioning, sustainable growth in the global chemical market and on-going value creation.

Key strategic objectives adopted by Grupa Azoty are as follows:

- Parent’s entry into the main Warsaw Stock Exchange index - WIG20,
- significant emphasis on generating industry-leading rates of return for shareholders of Grupa Azoty companies,
- maintenance of its top-3 position in the European fertiliser market.

Grupa Azoty addressed the objectives outlined in the 2012-2020 Strategy through the following:

- increasing the operational scale of Grupa Azoty’s core activities through organic growth, alliances and M&As, both in Poland and abroad,
- advancing integration between Grupa Azoty entities which will lead to maximising operating synergies within the Group,
- reducing Grupa Azoty’s sensitivity to energy costs through the use of technical and energy solutions,
- reducing Grupa Azoty’s sensitivity to changing economic cycles, together with natural gas and petrochemical commodity prices through product chain extensions,
- building stable and effective customer relations, increasing Grupa Azoty’s brand awareness and optimisation of logistics and product distribution,
- improving the effectiveness of key processes, together with knowledge management,
- continuously adapting product quality to client requirements,
- continuous product improvement using innovative technology.

During 2012-2020 Grupa Azoty will conduct manufacturing and marketing operations in the following sectors:

- products for agriculture, particularly mineral fertilisers,
- technologically advanced materials, particularly engineering plastics,
- organic chemicals, particularly caprolactam, oxo alcohols, plasticisers and specialty chemicals,
- inorganic chemicals, particularly ammonia and titanium white.

Grupa Azoty’s intention is to grow in line with sustainable development principles, limiting environmental impact in as far as economically practicable, while taking into consideration the needs of local communities.

6.4. Growth perspectives for Grupa Azoty, with consideration given to market strategy

Market environment

Agricultural market

According to Strategie Grains estimates, EU crop production in the 2013/2014 season is forecast at 290.2 million tonnes, approx. 7% up on harvests in 2012/2013. Forecasts for soft wheat harvests in European Union countries stand at as much as 134.2 million tonnes (+9%). The highest increase is expected for corn, production of which is forecast at 63 million tonnes. Barley harvests are expected to reach close to 54.1 million tonnes, while a 13% (7.5 million tonnes) drop in harvests is forecast for rye. The forecast changes should not result in a drop in prices for agricultural produce.

Fertiliser market

Farmers in an increasing number of African countries are recognising the value of advance agricultural technologies, requiring the use of fertilisers, including compound fertilisers. China, India and Brazil are set to remain the top importers of potassium and phosphorus, although Africa is also gaining in significance, especially since global financial institutions are starting to support subsidies for mineral fertilisers on that continent.
The current level of fertiliser consumption in the EU is as follows: 10.5 million tonnes of nitrogen fertilisers, 2.4 million tonnes of phosphorous fertilisers and 2.7 million tonnes of potassium fertilisers.

It is estimated that by 2022, EU countries will increase levels of fertiliser use to 10.8 million tonnes, 2.6 million tonnes and 3.2 million tonnes respectively. The countries with the highest forecast decreases in nitrogen fertiliser consumption are the Netherlands, Denmark and Greece, while slightly smaller reductions are expected in France and the UK. In the case of phosphorous and potassium fertilisers, growth in their use is anticipated in Austria, Portugal, Spain and Sweden.

Current fertiliser use in the domestic market stands at 1.14 million tonnes for nitrogen fertilisers, 400 000 tonnes for phosphorous fertilisers and 500 000 tonnes for potassium fertilisers. Given the fact that fertiliser use in Poland is still below the “European average”, it should continue to rise in the near term. It is estimated that by 2020-2021 fertiliser consumption in Poland will increase to 1.2 million tonnes of nitrogen fertilisers, 500 000 tonnes of phosphorous fertilisers and 600 000 tonnes of potassium fertilisers.

Plastics market
Prospects for 2013 are uncertain for manufacturers throughout the entire polyamide production chain, who fear low demand for polyamide 6, mainly in the automotive sector. Market analysts at Jato Dynamic believe that car sales in Europe will remain weak next year. According to other estimates, auto sales declines across the EU may reach 6-8%. A particular hazard for Polish manufacturers is the prospect of a slowdown in Germany. ZDK, a German organisation representing car dealers and technicians has announced that a 6.5% fall in demand is predicted for the German market in 2013. North Africa may however emerge as a prospective market for automotive development. Industry website Automotive News Europe states that new car sales in this region are due to increase by almost 40% over the next four years. The growth in polyamide 6 production in Asian countries will likely limit the possibilities for sales in this region.

Demand for European polyacetal is weak, which is mainly due to on-going weak macroeconomic conditions. With regard to the fact that the automotive sector is one of the dominant consumers for polyacetal, as is the case in the polyamide 6, market demand trends do not look promising. Another sector using polyacetal is the household and electronic goods sector which despite the financial crisis grew 4% last year. Research firm PMR forecasts that, despite an anticipated drop in economic growth in 2013, the market will see several positive factors leading to growth for household and electronic goods, including TV exchanges and decoder purchases.

Despite weakening demand for plastics (chiefly in the automotive segment), an improvement in the situation for the plastics industry is anticipated before the end of 2013.

Oxo alcohols market
Asia (including Japan), Europe and North America are the largest markets for oxo chemicals. In 2012 these regions generated 95% of global demand, and consumption between 2008 and 2012 increased at an annual rate of over 4%. According to forecasts, the use of oxo chemicals in eastern Europe during 2011-2018 will grow at an average of 1.8%, compared with 2.8% in the US. China and Asia (ex-Japan) consumption is set to grow by 5.4% annually. During this period China, Singapore, India and Taiwan will be the key growth markets in the region. A slightly lower consumption growth rate, 0.3% less annually, is expected in Japan.

Global demand for oxo alcohols has been slowly climbing back up since 2010, however certain regions such as the US, euro zone and Japan recorded a stagnation and even decline in demand over 2011-2012. Particularly good consumption is estimated up to 2018 for Germany. German demand is estimated to increase at an annual average of 13%, which to a large extent results from increased demand for acrylates, where n-butanol and 2-ethylhexanol are used.

Plasticisers
The market for plasticisers is seeing a systematic decrease in the share of phthalate plasticisers based on C4 and C8 alcohols in western European processing, and their gradual replacement by phthalate plasticisers based on C9 and C10 alcohols and non-phthalate plasticisers, including bio-plasticisers. The global non-phthalate plasticiser market is growing at a rate of approx. 7% per year, and its current value is estimated at EUR 1.3 billion. The industry’s rapid expansion comes on the back of legislative amendments in numerous North American and western European countries. There is however demand for phthalate plasticisers from Asian markets. There is an innovation and improvement drive visible in this market.
Titanium white market
The titanium white market is closely linked to GDP. The financial crisis, weak global economic situation and drop in consumption translate directly into a drop in titanium white prices. Current forecasts for the economic situation and GDP for 2013 are not optimistic. Under deteriorating market conditions, a further fall in titanium white consumption and price should therefore be expected. A slight seasonal demand uptick may be anticipated in June and July 2013.

7. Entity authorised to audit the financial statements

Parent
The agreement executed with KPMG Audyt Sp. z o.o. on 10 July 2012 covers the following:
- audit of separate and consolidated statements for the 12-month periods ending 31 December 2012, 31 December 2013 and 31 December 2014,
- review of separate and consolidated financial statements for the 6-month periods ending 30 June 2012, 30 June 2013 and 30 June 2014,
- workshops.
In 2012 the auditor performed several additional services in connection with the drafting of a prospectus for the new share issue. These included verification of proforma financial information and consolidated financial statements of the Parent and Group for the third quarter of 2012. The value of these additional services is PLN 665 000.

Parent

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Subsidiaries

**ATT Polymers GmbH**

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**Grupa Azoty KOLTAR Sp. z o.o.**

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Date of execution
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ZCh Police S.A.

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8. Court proceedings

There are no proceedings on-going at Grupa Azoty companies concerning liabilities or debt claims, the value of which could individually or collectively constitute 10% of the Parent's equity, i.e. which could constitute the criterion of significance specified in § 91, point 5, of the Ordinance of the Minister of Finance concerning current and periodic information of 19 February 2009.

There is an on-going dispute involving ZCh Police S.A. and PKO S.A. The company submitted a payment demand to the Arbitration Court at the Association of Polish Banks in Warsaw. ZCh Police S.A. is seeking compensation for the damages it suffered in connection with derivative transactions and accusing the bank of negligence and legal violations which led to entering unfavourable derivative transactions.

The dispute is valued at PLN 71,298,500. On 20 September 2012 the Arbitration Court at the Association of Polish Banks rejected ZCh Police S.A.’s claim.

On 21 December 2012 the company entered an appeal to the ruling of the Arbitration Court at the Association of Polish Banks.

There is also an on-going case between the previous owner of ATT Polymers GmbH and the Parent concerning the allegedly improper acquisition by the Parent of shares in ATT Polymers GmbH.

At the beginning of 2012 the Parent received a letter from ISARIOS Industriekapital AG concerning UNYLON AG’s potential alleged claims against the Parent as the acquirer of ATT Polymers GmbH. The letter stated that in August 2011 ISARIOS Industriekapital AG (hereinafter “ISARIOS”) became the owner of unspecified claims due to UNYLON AG against the Parent connected with the acquisition of UNYLON Polymers GmbH. As at 31 December 2012, proceedings are on-going between UNYLON AG and its shareholders concerning the validity of UNYLON AG’s general meeting held on 23 December 2009 where a resolution was adopted on approval of the Parent’s acquisition of ATT Polymers GmbH. One of the UNYLON AG shareholders systematically objected to the questioning of the validity of resolutions adopted at the general meeting on 23 December 2009, and the court ruling in the matter concurred maintained this validity. Nonetheless, on 6 June 2012 a Hamburg court ruled to revoke the resolution from 23 December 2009. The Parent did not participate in this matter and learned of the ruling through a letter from the attorneys of ISARIOS. This letter, dated 3 August 2012, requested the return of shares in ATT Polymers GmbH on the basis of the above ruling, in exchange for payment of the original transaction price. The Parent rejected the request through a letter dated 15 August 2012. On 30 November 2012 the Parent received a summons from ISARIOS through the ICC International Court of Arbitration in Paris. The claim demanded the return of shares in ATT Polymers GmbH or alternatively the payment of EUR 400,000 through release of this amount from an escrow account held by a notary public, together with a demand to compensate ISARIOS for lost benefits. The claim was valued at EUR 1,000,000 by the plaintiff, which was determined for the purposes of calculating the costs of the arbitrage proceedings and does not mean that the costs which the Parent may potentially incur will not exceed this amount. From the date of the claim (16 November 2012), the arbitrage proceeding is considered to be open. The Parent is currently working on a response to the claim. As at the date on which the financial statements were draw up, the Parent’s legal advisor working on the response maintains its earlier opinion on the validity of the ATT Polymers GmbH share sale agreement and a lack of any circumstances justifying return of the shares to any entity. It may not however be ruled out that actions taken by ISARIOS or other entities raising claims to ATT Polymers GmbH shares will result in a negative ruling on the ATT Polymers GmbH acquisition by the Parent which would have a negative impact on the operations, financial performance and financial standing of the Parent and Group.
9. Grupa Azoty corporate authorities

9.1. Remuneration and additional benefits

Table 34 Supervisory Board Members’ compensation for work at the Parent in 2012

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<th>Other benefits</th>
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<td>1</td>
<td>-</td>
<td>137</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 739</td>
<td>8</td>
<td>-</td>
<td>1 747</td>
</tr>
</tbody>
</table>

¹) including remuneration on the basis of an employment contract at the Parent – PLN 240 000,
²) including remuneration on the basis of an employment contract at the Parent – PLN 74 000,
³) including remuneration on the basis of an employment contract at the Parent – PLN 117 000.

Table 35 Management Board Members’ compensation for work at the Parent in 2012

<table>
<thead>
<tr>
<th>Name</th>
<th>Base salary</th>
<th>Other benefits</th>
<th>Considerations due</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>873</td>
<td>451</td>
<td>458</td>
<td>1 782</td>
</tr>
<tr>
<td>Andrzej Skolmowski</td>
<td>476</td>
<td>361</td>
<td>342</td>
<td>1 179</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>509</td>
<td>360</td>
<td>342</td>
<td>1 211</td>
</tr>
<tr>
<td>Krzysztof Jałosiński</td>
<td>388</td>
<td>90</td>
<td>342</td>
<td>820</td>
</tr>
<tr>
<td>Artur Kopeć</td>
<td>335</td>
<td>25</td>
<td>342</td>
<td>702</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2 581</td>
<td>1 287</td>
<td>1 826</td>
<td>5 694</td>
</tr>
</tbody>
</table>

Table 36 Parent’s Management Board and Supervisory Board Members’ compensation for work at subsidiaries in 2012

<table>
<thead>
<tr>
<th>Name</th>
<th>Base salary</th>
<th>Other benefits</th>
<th>Considerations due</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>87</td>
<td>-</td>
<td>-</td>
<td>87</td>
</tr>
<tr>
<td>Andrzej Skolmowski</td>
<td>364</td>
<td>-</td>
<td>-</td>
<td>364</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>331</td>
<td>-</td>
<td>-</td>
<td>331</td>
</tr>
<tr>
<td>Krzysztof Jałosiński</td>
<td>452</td>
<td>-</td>
<td>-</td>
<td>452</td>
</tr>
<tr>
<td>Artur Kopeć</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 234</td>
<td>-</td>
<td>-</td>
<td>1 234</td>
</tr>
</tbody>
</table>
9.2. Agreements executed between the Parent and management personnel providing for compensation in the event of their resignation or dismissal from the position held without valid cause or if their dismissal or redundancy occurs as a result of a merger

Agreements executed with the current-term Members of the Parent’s Management Board provide for a one-off payment amounting to three times the fixed monthly salary in the event of employment being terminated as a result of dismissal from the Management Board before the end of its term. This one-off payment is not due if the reason for dismissal from the Management Board results from circumstances justifying termination of the employment contract without notice for reasons attributable to the employee under art. 52, §1 of the Polish Labour Code. Furthermore, pursuant to the non-compete agreement, after termination of employment Members of the Management Board are entitled to compensation amounting to 100% of monthly salary, paid out over a period of 12 months. This right expires on violation of the non-compete agreement. The above is not applicable to Artur Kopeć, Member of the Management Board elected by employees, who is simultaneously employed at the Parent on the basis of an employment contract. Artur Kopeć has executed a non-compete agreement binding only during the term of employment.
10. Declaration on application of corporate governance principles

In accordance with par. 29, sec. 5 of the Bylaws of the WSE, the Parent’s Management Board, acting pursuant to resolution no. 1013/2007 of the WSE Management Board, hereby presents this report concerning application by the company in 2010 of the principles for corporate governance contained in the document "Best Practices for Companies Listed on the WSE".

10.1. Indication of the corporate governance principles to which the Parent is subject together with the location where the text concerning such principles is publicly available

Declaring operations in accordance with the highest capital market communication standards and principles of corporate governance, the Parent applies the principles of "Best Practices for Companies Listed on the WSE", drawn up by the WSE. The code in effect in 2012 constituted an appendix to Resolution of the Stock Exchange Council no. 20/1287/2011 of 19 October 2011. As of 1 January 2013 a new version of Best Practices, adopted through Resolution of the Stock Exchange Council no. 19/1307/2013 of 21 November 2012.

In order to adapt internal regulations to the code for good practice, there are Organisational Regulations of 22 July 2008 (as amended) in force at the Parent, which contain corporate governance principles.

The Parent has been a constituent of the RESPECT index managed by the Warsaw Stock Exchange since 2009. The Parent was valued for its engagement in fulfilling tasks in accordance with corporate social responsibility principles as one of the companies with the highest standards in corporate governance, information policy and investor relations, as well as in managing ecological, social and employee matters. Having passed a three-step verification by the WSE, SEG and Deloitte, on 24 January 2013 the Parent was for the sixth time included in the elite group of 20 issuers constituting the RESPECT Index.

10.2. Scope in which the Parent diverged from the corporate governance principles, indication of such principals and explanation of the reasons for such divergence

Beginning from its stock market debut in 2008, the Parent’s aim is to observe best practice for corporate governance, which was expressed in the declaration of the Parent’s Management Board contained in the 2008 and 2011 prospectuses.

In connection with the changes to the document "Best Practices for Companies Listed on the WSE" (hereinafter the "Document"), adopted through Resolution no. 19/1307/2012 of 21 November 2012 by the Warsaw Stock Exchange Council, the Parent’s Management Board declared the application of the updated version of the Document starting from 1 January 2013, with the following exceptions:

- **Principle 9a in part II of the Document:** “the company maintains a corporate website and publishes information, other than required by law, as follows:
  9a) minutes from general meetings in audio or video format”.

  **Explanation:** In the Parent’s view, documenting and performance of previous general meetings ensured transparency and protects the rights of all shareholders. In addition, information concerning the adopted resolutions is published by the Parent in the form of current reports, also online. Therefore investors are able to review the matters discussed at the general meeting. The Parent is not against applying this rule in the future.

- **Principle 10 in part IV of the Document:** “the company should provide all shareholders with the opportunity to participate in general meetings using electronic communications such as:
  1) real-time broadcast of general meetings
  2) real-time two-way communication where shareholders present at a location other than the location of the general meeting are able to speak during discussions.

  **Explanation:** The Parent’s articles of association do not provide the option for shareholders to participate in general meetings using electronic communications. The large number of shareholders may cause difficulties in ensuring seamless and simultaneous participation of all shareholders equally. Given such a high free float, difficulties may also arise in terms of information security. The Parent is not against applying this principle in the future.
The Parent’s Management Board announced the above exceptions in a current report published in the Warsaw Stock Exchange’s EBI system on 21 December 2012, following approval from the Supervisory Board.

10.3. Internal control and risk management features

On 4 January 2011, through Resolution no. 22/VIII/2011, the Supervisory Board appointed an Audit Committee in order to streamline the work of the Board and improve control over the Parent and Group. The Committee constitutes an advisory body working jointly within the structure of the Supervisory Board. The following Board members form its composition:

- Jacek Obłękowski,
- Agnieszka Doroszkiewicz,
- Tomasz Klikowicz.

In order to fill the position on the Audit Committee left vacant by the resignation of Agnieszka Doroszkiewicz from the Supervisory Board, tendered on 14 June 2011, Member of the Supervisory Board Marek Mroczkowski was delegated to the Audit Committee on 9 November 2011 through Resolution of the Supervisory Board no. 115/VIII/2011.

The current composition of the Audit Committee is as follows:

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

The Committee's tasks include in particular:

- monitoring the financial reporting process,
- monitoring the effectiveness of internal control, internal audit and risk management systems existing within the Parent,
- monitoring financial audit,
- monitoring the independence of the statutory auditor and entity authorised to audit the Parent’s financial statements,
- monitoring the audit of the annual and consolidated financial statements,
- monitoring the work of the internal audit team,
- monitoring the work and reports of the independent statutory auditor,
- auditing selected economic events significant for the Parent’s operations.

The specific principles for Audit Committee operations are defined in the Committee Byelaws drawn up with consideration to the content of annex I, sec. 4 (Audit Committee) to the European Council Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, which was adopted by the Parent's Supervisory Board.

Guidelines for risk management at the Parent are specified in the Market Risk Management Policy, defining the following areas:

- management of currency risk,
- management of interest rate risk,
- management of pricing risk,
- management of credit risk.

The market risk management process is controlled and supervised by Risk Committees, whereas the currency risk management process is managed by the Member of the Management Board for financial affairs.

On 1 January 2009 the Parent introduced a procedure for managing currency risk, the objective of which is to hedge currency flows against unbeficial exchange rate movements.

The subject of the procedure is to specify actions to be taken within the process of managing currency risk, covering issues such as identification and evaluation of currency risk sources, adoption of a general currency risk management policy, forecasting of future cash flows and estimation of currency positions, definition of the level and range of hedging against currency risk, selection and implementation of a hedging strategy and hedging instruments, and control and assessment of the effects of actions performed.

Beginning from its stock market debut in 2008, internal procedures have been in force at the Parent regulating the preparation, approval, publication and allocation of separate and consolidated periodic reports for the Group. The Parent also implements an information policy which is unified for the entire Group.
An Internal Audit Office was created within the Parent in December 2011, which coordinates and carries out essential activities connected with the implementation and performance of internal audit functions within Grupa Azoty and provides technical supervision of the organisational internal audit units currently operating and planned for the future within other Group companies. The Internal Audit Office is directly subordinate to the President of the Management Board - Managing Director.

The key principle connected with performance of internal audit functions is the maintenance of due professional care, objectivity, confidentiality and proficiency in accordance with International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors.

The Parent’s internal control is an on-going process performed by the Management Board at all management levels.

The internal control system as it relates to the process of drawing up the Parent’s financial statements is performed in line with binding procedures and internal bylaws concerning such matters as approval of financial statements. Financial statements are drawn up by finance and accounting staff under the supervision of the Chief Accountant, and their final content is approved by the Parent’s Management Board. Financial statements approved by the Parent’s Management Board are verified by an independent statutory auditor selected by the Parent’s Supervisory Board.

### 10.4. Shareholding structure

#### Table 37. Shareholding structure as at 1 January 2012 (based on 2011 annual report)

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% share in capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>8 284 242</td>
<td>12.92</td>
<td>8 284 242</td>
<td>12.92</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>5 384 685</td>
<td>8.40</td>
<td>5 384 685</td>
<td>8.40</td>
</tr>
<tr>
<td>PZU S.A. (including PZU Życie S.A.)</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td>Generali OFE</td>
<td>3 245 554</td>
<td>5.06</td>
<td>3 245 554</td>
<td>5.06</td>
</tr>
<tr>
<td>Other</td>
<td>23 277 763</td>
<td>36.31</td>
<td>23 277 763</td>
<td>36.31</td>
</tr>
<tr>
<td>Total</td>
<td>64 115 444</td>
<td>100.00</td>
<td>64 115 444</td>
<td>100.00</td>
</tr>
</tbody>
</table>

According to the list of persons and entities entitled to participate at the extraordinary general meeting called for 27 April 2012, made available to the Parent by the National Depository for Securities, Aviva OFE Aviva BZ WBK registered 6 000 000 shares which is tantamount to an increase in its share of the Parent’s capital to 9.36%.

#### Table 38. Shareholding structure as at 27 April 2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% share in capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>8 284 242</td>
<td>12.92</td>
<td>8 284 242</td>
<td>12.92</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>6 000 000</td>
<td>9.36</td>
<td>6 000 000</td>
<td>9.36</td>
</tr>
<tr>
<td>PZU S.A. (including PZU Życie S.A.)</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td>Generali OFE</td>
<td>3 245 554</td>
<td>5.06</td>
<td>3 245 554</td>
<td>5.06</td>
</tr>
<tr>
<td>Other</td>
<td>22 662 448</td>
<td>35.35</td>
<td>22 662 448</td>
<td>35.35</td>
</tr>
<tr>
<td>Total</td>
<td>64 115 444</td>
<td>100.00</td>
<td>64 115 444</td>
<td>100.00</td>
</tr>
</tbody>
</table>
On 15 June 2012 the Parent received a notification from Powszechne Towarzystwo Emerytalne PZU S.A., based in Warsaw, acting on behalf of pension fund OFE PZU Złota Jesień (PZU OFE), that as a result of executing a transaction for purchase of the shares in the Parent on the Warsaw Stock Exchange on 6 June 2012, the number of shares held by PZU OFE enabled the 5% threshold of votes at the general meeting of the Parent to be exceeded.

Before the above transaction, PZU OFE held 3 196 990 shares, constituting 4.99% of the Parent’s share capital and 4.99% of votes at the general meeting. These shares carried 3 196 990 votes at the general meeting of shareholders.

After the above transaction, PZU OFE held 3 270 585 shares, constituting 5.10% of the Parent’s share capital and 5.10% of votes at the general meeting. These shares carry 3 270 585 votes at the general meeting of shareholders.

Table 39. Shareholding structure as at 15 June 2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares*</th>
<th>% share in capital</th>
<th>Number of voting rights*</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20 549 000</td>
<td>32.05</td>
<td>20 549 000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>8 284 242</td>
<td>12.92</td>
<td>8 284 242</td>
<td>12.92</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>6 000 000</td>
<td>9.36</td>
<td>6 000 000</td>
<td>9.36</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PZU S.A. (including PZU Życie S.A.)</td>
<td>3 374 200</td>
<td>5.26</td>
<td>3 374 200</td>
<td>5.26</td>
</tr>
<tr>
<td>PZU OFE Złota Jesień</td>
<td>3 270 585</td>
<td>5.10</td>
<td>3 270 585</td>
<td>5.10</td>
</tr>
<tr>
<td>Generali OFE</td>
<td>3 245 554</td>
<td>5.06</td>
<td>3 245 554</td>
<td>5.06</td>
</tr>
<tr>
<td>Other</td>
<td>19 391 863</td>
<td>30.25</td>
<td>19 391 863</td>
<td>30.25</td>
</tr>
<tr>
<td>Total</td>
<td>64 115 444</td>
<td>100.00</td>
<td>64 115 444</td>
<td>100.00</td>
</tr>
</tbody>
</table>

According to the list of persons and entities entitled to participate at the extraordinary general meeting called for 14 July 2012, made available to the Parent by the National Depository for Securities:

- ING OFE registered 9 250 000 shares, which is equivalent to increasing its stake in the Parent’s share capital to 14.43%,
- Aviva OFE Aviva BZ WBK registered 6 397 643 shares, which is equivalent to increasing its stake in the Parent’s share capital to 9.98%,
- PZU S.A. (including PZU Życie S.A.) registered 3 392 642 shares, which is equivalent to increasing its stake in the Parent’s share capital to 5.29%,
- Generali OFE registered 3 340 610 shares, which is equivalent to increasing its stake in the Parent’s share capital to 5.21%. 
### Table 40. Shareholding structure as at 14 July 2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% share in capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20,549,000</td>
<td>32.05</td>
<td>20,549,000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9,250,000</td>
<td>14.43</td>
<td>9,250,000</td>
<td>14.43</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>6,397,643</td>
<td>9.98</td>
<td>6,397,643</td>
<td>9.98</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PZU S.A. (including PZU Życie S.A.)</td>
<td>3,392,642</td>
<td>5.29</td>
<td>3,392,642</td>
<td>5.29</td>
</tr>
<tr>
<td>Generali OFE</td>
<td>3,340,610</td>
<td>5.21</td>
<td>3,340,610</td>
<td>5.21</td>
</tr>
<tr>
<td>PZU OFE Złota Jesień</td>
<td>3,270,585</td>
<td>5.10</td>
<td>3,270,585</td>
<td>5.10</td>
</tr>
<tr>
<td>Other</td>
<td>17,914,964</td>
<td>27.94</td>
<td>17,914,964</td>
<td>27.94</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64,115,444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64,115,444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On 23 July 2013 the Parent’s Management Board received a notification from Norica Holding S.à.r.l. (Norica), in which Norica announced that as a result of a transaction for purchase of shares in the Parent as a result of the tender offer announced on 16 May 2012, on 20 July 2012 it had acquired rights under 7,715,131 shares, carrying 7,715,131 votes at the Parent’s general meeting (12.03% of total votes at the general meeting).

Prior to the tender offer Norica did not hold shares in the Parent. As at the date of announcing the tender offer, Agroberry Ventures Limited (having its registered office in Nicosia, Cyprus), i.e. a company controlled by Norica’s parent company, held 766,156 shares in the Parent, carrying 766,156 votes at the general meeting (1.2% of total votes at the Parent’s general meeting). After acquisition of the shares under the tender offer, Norica and Agroberry Ventures Limited hold a total of 8,481,287 shares, carrying 8,481,287 votes at the Parent’s general meeting (13.23% of total votes at the general meeting).

Norica has announced that it might seek to increase or decrease its share in the total number of voting rights at the Parent’s general meeting over the next 12 months.

### Table 41. Shareholding structure as at 23 July 2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% share in capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20,549,000</td>
<td>32.05</td>
<td>20,549,000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9,250,000</td>
<td>14.43</td>
<td>9,250,000</td>
<td>14.43</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l. with Agroberry Ventures Limited</td>
<td>8,481,287</td>
<td>13.23</td>
<td>8,481,287</td>
<td>13.23</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>6,397,643</td>
<td>9.98</td>
<td>6,397,643</td>
<td>9.98</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PZU S.A. (including PZU Życie S.A.)</td>
<td>3,392,642</td>
<td>5.29</td>
<td>3,392,642</td>
<td>5.29</td>
</tr>
<tr>
<td>Generali OFE</td>
<td>3,340,610</td>
<td>5.21</td>
<td>3,340,610</td>
<td>5.21</td>
</tr>
<tr>
<td>PZU OFE Złota Jesień</td>
<td>3,270,585</td>
<td>5.10</td>
<td>3,270,585</td>
<td>5.10</td>
</tr>
<tr>
<td>Other</td>
<td>9,433,677</td>
<td>14.71</td>
<td>9,433,677</td>
<td>14.71</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64,115,444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64,115,444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On 27 July 2012 the Parent’s Management Board received information from PZU S.A., drafted pursuant to art. 69, sec. 1, point 3 of the Act of 29 July 2005 on Public Offerings and the Terms and Conditions for Introduction of Financial Instruments to an Organised System of Trading and on Public Companies. As per the information provided, as a result of the contribution by PZU S.A. and PZU Życie S.A. on 24 July 2012 of 213,146 shares in the Parent to investment fund PZU FIZ AKCJI, the...
level of shares held in the Parent by PZU S.A. and subsidiary PZU Życie S.A. had fallen below the 5% threshold of total votes at the Parent’s general meeting.

Before the above transaction, PZU S.A. held 3,392,642 shares, constituting 5.29% of the Parent’s share capital and 5.29% of votes at the Parent’s general meeting. These shares carried 3,392,642 votes at the general meeting.

After the transaction, PZU S.A. held 3,179,496 shares, constituting 4.96% of the Parent’s share capital and 4.96% of votes at the Parent’s general meeting. These shares carry 3,179,496 votes at the general meeting.

Table 42. Shareholding structure as at 27 July 2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20,549,000</td>
<td>32.05</td>
<td>20,549,000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9,250,000</td>
<td>14.43</td>
<td>9,250,000</td>
<td>14.43</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l with Agroberry Ventures Limited</td>
<td>8,481,287</td>
<td>13.23</td>
<td>8,481,287</td>
<td>13.23</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>6,397,643</td>
<td>9.98</td>
<td>6,397,643</td>
<td>9.98</td>
</tr>
<tr>
<td>Generali OFE</td>
<td>3,340,610</td>
<td>5.21</td>
<td>3,340,610</td>
<td>5.21</td>
</tr>
<tr>
<td>PZU OFE Złota Jesień</td>
<td>3,270,585</td>
<td>5.10</td>
<td>3,270,585</td>
<td>5.10</td>
</tr>
<tr>
<td>Other</td>
<td>12,826,319</td>
<td>20.00</td>
<td>12,826,319</td>
<td>20.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64,115,444</td>
<td>100.00</td>
<td>64,115,444</td>
<td>100.00</td>
</tr>
</tbody>
</table>

On 29 October 2012 the Parent’s Management Board received information from Generali OFE dated 26 October 2012, drafted on the basis of art. 69 sec. 1 and 2 of the Act of 29 July 2005 on Public Offerings and the Terms and Conditions for Introduction of Financial Instruments to an Organised System of Trading and on Public Companies (Polish Journal of Laws of 2009 no. 185, item 1439). As per the information provided, as a result of a transaction settlement, as at 24 October 2012 Generali OFE holds less than 5% of the voting rights at the Parent’s general meeting.

The number of shares held by Generali OFE before the above change was 3,340,610, constituting 5.21% of the Parent’s existing share capital and 5.21% of the voting rights at the Parent’s general meeting.

The number of shares held by Generali OFE after the above change was 2,335,522, constituting 3.64% of the Parent’s existing share capital and 3.64% of the voting rights at the Parent’s general meeting.

Table 43. Shareholding structure as at 26 October 2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20,549,000</td>
<td>32.05</td>
<td>20,549,000</td>
<td>32.05</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9,250,000</td>
<td>14.43</td>
<td>9,250,000</td>
<td>14.43</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l with Agroberry Ventures Limited</td>
<td>8,481,287</td>
<td>13.23</td>
<td>8,481,287</td>
<td>13.23</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>6,397,643</td>
<td>9.98</td>
<td>6,397,643</td>
<td>9.98</td>
</tr>
<tr>
<td>Generali OFE</td>
<td>3,340,610</td>
<td>5.21</td>
<td>3,340,610</td>
<td>5.21</td>
</tr>
<tr>
<td>PZU OFE Złota Jesień</td>
<td>3,270,585</td>
<td>5.10</td>
<td>3,270,585</td>
<td>5.10</td>
</tr>
<tr>
<td>Other</td>
<td>16,166,929</td>
<td>25.21</td>
<td>16,166,929</td>
<td>25.21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64,115,444</td>
<td>100.00</td>
<td>64,115,444</td>
<td>100.00</td>
</tr>
</tbody>
</table>

As per the information provided, as a result of transactions to sell shares in the Parent at the Warsaw Stock Exchange, settled on 15 January 2013, ING OFE decreased its interest in the Parent to less than 10% of the voting rights at the Parent's general meeting.

The number of shares held by ING OFE before the above change was 8,271,483, constituting 12.90% of the Parent's existing share capital and 12.90% of the voting rights at the Parent's general meeting.

On 18 January 2013 ING OFE held 6,388,983 shares in the Parent in its brokerage account, which constituted 9.96% of the Parent's share capital. These shares carried 6,388,983 voting rights at the Parent's general meeting, i.e. 9.96% of the total number of voting rights.

### Table 44. Shareholding structure as at 21 January 2013

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>20,549,000</td>
<td>32.05</td>
<td>20,549,000</td>
<td>32.05</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l with Agroberry Ventures</td>
<td>8,481,287</td>
<td>13.23</td>
<td>8,481,287</td>
<td>13.23</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>6,397,643</td>
<td>9.98</td>
<td>6,397,643</td>
<td>9.98</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>6,388,983</td>
<td>9.96</td>
<td>6,388,983</td>
<td>9.96</td>
</tr>
<tr>
<td>PZU OFE Złota Jesień</td>
<td>3,270,585</td>
<td>5.10</td>
<td>3,270,585</td>
<td>5.10</td>
</tr>
<tr>
<td>Other</td>
<td>19,027,946</td>
<td>29.68</td>
<td>19,027,946</td>
<td>29.68</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64,115,444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>64,115,444</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On 21 January 2013 the WSE’s Management Board through resolution 83/2013 decided to introduce, as per the standard procedure, 35,080,040 rights to the Parent’s series D ordinary bearer shares, with a nominal value of PLN 5 each, to trading on the main market, subject to registration by the KDPW of the Rights to Series D Shares under the code PLZATRM00079 by 22 January 2013.

On 24 January 2013 the Parent’s Management Board received confirmation of registration by the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register of amendment to the Parent’s articles of association as regards registration of an increase in the Parent’s share capital from PLN 320,577,220 to PLN 495,977,420 through the issue of 35,080,040 series D ordinary bearer shares with a nominal value of PLN 5 each.

After registration of the above share capital increase, the total number of votes carried by all shares issued by the Parent is 99,195,484, with share capital divided into 99,195,484 shares of a nominal value of PLN 5 each, of which:

- 24,000,000 series AA ordinary bearer shares,
- 15,116,421 series B ordinary bearer shares,
- 24,999,023 series C ordinary bearer shares,
- 35,080,040 series D ordinary bearer shares,

On 22 January 2013 the Parent’s Management Board received a notification from Powszechne Towarzystwo Emerytalne PZU S.A., based in Warsaw, acting on behalf of pension fund OFE PZU Złota Jesień (PZU OFE), drawn up pursuant to art. 69 sec. 1 point 2 and art. 69a sec. 1 of the Act of 29 July 2005 on Public Offerings and the Terms and Conditions for Introduction of Financial Instruments to an Organised System of Trading and on Public Companies (the “Act on Public Offerings”).

As a result of the overall increase in the number of shares in the Parent through the series D share issue, after registration of the Parent’s share capital increase by the relevant court, PZU OFE’s stake was reduced to less than 5% of votes at the Parent’s general meeting.

Prior to allocation of series D shares, PZU OFE held 3,270,585 shares in the Parent, constituting 5.10% of its share capital and carrying 3,270,585, or 5.10%, votes at the Parent’s general meeting. On 18 January 2013 (together with rights to series D shares) PZU OFE held 3,795,102 shares in the Parent in its brokerage account, constituting 3.83% of its share capital and carrying 3,795,102, or 3.83%, votes at the Parent’s general meeting.
On 28 January 2013 the Parent’s Management Board received a notification dated 28 January 2013 from Norica Holding S.à.r.l. based in Luxemburg (Norica), acting on its own behalf and as attorney for:

- TrustService Limited Liability Company, having its registered office in Veliky Novgorod, Russia (hereinafter “TrustService”),
- JSC Acron, having its registered office in Veliky Novgorod, Russia (hereinafter “Acron”),
- Subero Associates Inc., a private limited company having its registered office in Tortola, British Virgin Islands (hereinafter “Subero”),
- Viatcheslav Kantor,

drawn up pursuant to art. 69, sec. 1 point 2 and art. 69a sec. 1 point 1 of the Act on Public Offerings. As a result of registration on 24 January 2013 of an increase in the Parent’s share capital by the District Court for Kraków - Śródmieście in Kraków, 12th Commercial Division of the National Court Register, Norica’s stake in the Parent’s shares decreased to less than 10%.

Prior to registration of the above share capital increase, Norica held 8 833 660 shares in the Parent, constituting 13.78% of its share capital and carrying 8 833 660, or 13.78%, votes at the Parent’s general meeting.

After the registration, Norica still held 8 833 660 shares in the Parent, however constituting 8.91% of its share capital and carrying 8 833 660, or 8.91%, votes at the Parent’s general meeting.

At the same time, registration of the increase in the Parent’s share capital resulted in the following shareholding changes:

1. TrustService, dominant entity of Norica, indirectly, through its subsidiary Norica, acquired 8 833 660 shares in the Parent, constituting 8.91% of shares in the Parent, carrying 8 833 660, or 8.91%, votes at the Parent’s general meeting,
2. Acron, dominant entity of TrustService, indirectly, through its subsidiary Norica, acquired 8 833 660 shares in the Parent, constituting 8.91% of shares in the Parent, carrying 8 833 660, or 8.91%, votes at the Parent’s general meeting,
3. Subero, dominant entity of Acron, indirectly, through its subsidiaries Norica and Cliffstone Holdings Limited based in Nicosia, Cyprus (hereinafter “Cliffstone”) (holding 766 156 shares in the Parent carrying 766 156, or 0.77%, votes at the Parent’s general meeting) controls a total of 9 599 816 shares in the Parent, constituting 9.68% of the Parent’s share capital, carrying 9 599 816, or 9.68%, votes at the Parent’s general meeting.
4. Viatcheslav Kantor, dominant entity of Subero, indirectly, through his subsidiaries Norica and Cliffstone (a subsidiary of Subero), held 9 599 816 shares in the Parent, constituting 9.68% of the Parent’s share capital, carrying 9 599 816, or 9.68%, votes at the Parent’s general meeting.

Entities controlled by Viatcheslav Kantor, other than Norica and Cliffstone, do not hold any shares in the Parent.

Entities controlled by Subero, other than Norica and Cliffstone, do not hold any shares in the Parent.

Entities controlled by Acron, other than Norica, do not hold any shares in the Parent.

Entities controlled by TrustService, other than Norica, do not hold any shares in the Parent.

Entities controlled by Norica do not hold any shares in the Parent.
During the 12 month period from receipt of Norica’s information by the Parent, Viatcheslav Kantor, Subero, Norica, Acron and TrustService may from time to time, directly or indirectly, acquire or sell additional shares in the Parent.

Viatcheslav Kantor, Subero, Norica, Acron and TrustService are not linked to persons referred to in art. 87 sec. 1 point 3 letter c of the Act on Public Offerings.

On 29 January 2013 the Parent’s Management Board received information from ING OFE, drawn up pursuant to art. 69 and art. 69a of the Act on Public Offerings.

In connection with the allocation of shares resulting from subscription for the Parent’s series D shares, on 22 January 2013 ING OFE increased its stake in the Parent’s series D shares and rights to shares. Once the series D rights to shares are converted to shares, its stake in the Parent will have exceeded the 10% threshold of votes at the Parent’s general meeting.

Prior to the acquisition of the above rights to shares, ING OFE held 6 388 983 of shares in the Parent, constituting 9.96% of the Parent’s share capital and was entitled to 9.96% of votes at the Parent’s general meeting.

On 22 January 2013 ING OFE held 9 996 273 Parent shares and rights to series D shares in its brokerage account, constituting 10.08% of its share capital and carrying 3 795 102, or 3.83%, votes at the Parent’s general meeting. Once the series D rights to shares are converted to shares, ING OFE will be entitled to 9 996 273, or 10.08%, votes at the Parent’s general meeting.

At the same time, ING OFE announced that it does not rule out an increase or decrease of its shareholding within the next 12 months, depending on market conditions and the Parent’s performance. The objective for the acquisition of shares in the Parent is asset allocation under ING OFE’s investing activities.

On 31 January 2013 the Parent’s Management Board received information dated 31 January 2013 from the Minister of State Treasury, drawn up pursuant to art. 69, sec. 1 point 1 and art. 69 sec. 2 point 1 letter a of the Act on Public Offerings in connection with art. 69, sec. 4 and art. 69a sec. 1 point 2 of the Act on Public Offerings.

On 22 January 2012 Poland’s State Treasury acquired 24 215 617 rights to the Parent’s series D ordinary bearer shares, as a result of which the State Treasury increased its stake in the Parent’s shares and rights to shares. Once the series D rights to shares are converted to shares, its stake in the Parent will have exceeded the 33.33% threshold of votes at the Parent’s general meeting and its stake in the Parent’s share capital will have increased by at least 2% of total votes at the Parent’s general meeting.

The above rights to shares were acquired through a public offering of the Parent’s series D ordinary bearer shares on the basis of a prospectus approved by the KNF on 21 December 2012, addressed to existing ZA Puławy S.A. shareholders. Prior to the acquisition of the rights, the State Treasury held 20 549 000 shares in the Parent, constituting 32.05% of share capital and carrying 20 549 000, or 32.05%, votes at the Parent’s general meeting. Upon conversion of the rights to shares to series D shares, the State Treasury will have increased its stake in the Parent to 44 764 617 shares, constituting 45.13% of share capital and carrying 44 764 617, or 45.13%, of votes at the Parent’s general meeting.

On 5 February 2013 the Parent’s Management Board received resolution of the KDPW no. 109/13 of 5 February 2013 on the receipt of 35 080 040 series D ordinary bearer shares with a nominal value of PLN 5 each and on their registration under code PLZATRM00012, subject to a decision on introduction of the shares to trading on the regulated market where the Parent’s other shares are traded under code PLZATRM00012, issued by the company managing this regulated market, subject to the statement below.

Registration of the Parent’s series D shares by the KDPW took place on 8 February 2013 in connection with the closing of accounts maintained for disposal rights to shares under code PLZATRM00079. The Management Board of the Warsaw Stock Exchange set 7 February 2013 as the first day of listing of the rights to series D shares under the KDPW code PLZATRM00079 and at the same time approved the introduction of 35 080 040 series D ordinary bearer shares, with a nominal value of PLN 5 each, to trading on the main WSE market, and decided to introduce the series D shares to trading on the main market on 8 February 2013, subject to the registration of these shares by the KPDW under code PLZATRM00012 on the same date.
Table 45. Shareholding structure as at 31 January 2013

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>44 764 617</td>
<td>45.13</td>
<td>44 764 617</td>
<td>45.13</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9 996 273</td>
<td>10.08</td>
<td>9 996 273</td>
<td>10.08</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>6 397 643</td>
<td>6.45</td>
<td>6 397 643</td>
<td>6.45</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l with Cliffstone Holdings Limited</td>
<td>9 599 816</td>
<td>9.68</td>
<td>9 599 816</td>
<td>9.68</td>
</tr>
<tr>
<td>Other</td>
<td>28 437 135</td>
<td>28.67</td>
<td>28 437 135</td>
<td>28.67</td>
</tr>
<tr>
<td>Total</td>
<td>99 195 484</td>
<td>100.00</td>
<td>99 195 484</td>
<td>100.00</td>
</tr>
</tbody>
</table>

On 14 February 2013 the Parent’s Management Board received information from ING OFE dated 18 January 2013, drafted on the basis of art. 69 of the Act of 29 July 2005 on Public Offerings and the Terms and Conditions for Introduction of Financial Instruments to an Organised System of Trading and on Public Companies (Polish Journal of Laws of 2009 no. 185, 1439, as amended). As per the information provided, as a result of transactions to sell shares in the Parent at the Warsaw Stock Exchange, settled on 8 February 2013, ING OFE decreased its interest in the Parent to less than 10% of votes at the Parent’s general meeting. The number of shares held by ING OFE before the above change took place was 9 957 692, which - if the rights to share had been converted to series D shares - would have constituted 10.04% of share capital and 10.04% of votes at the Parent’s general meeting. On 13 February 2013 ING OFE held 9 883 323 shares in the Parent in its brokerage account, which constituted 9.96% of the Parent’s share capital. These shares carried 9 883 323, or 9.96%, votes at the Parent’s general meeting.

Table 46. Shareholding structure as at 14 February 2013

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>44 764 617</td>
<td>45.13</td>
<td>44 764 617</td>
<td>45.13</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9 883 323</td>
<td>9.96</td>
<td>9 883 323</td>
<td>9.96</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>6 397 643</td>
<td>6.45</td>
<td>6 397 643</td>
<td>6.45</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l with Cliffstone Holdings Limited</td>
<td>9 599 816</td>
<td>9.68</td>
<td>9 599 816</td>
<td>9.68</td>
</tr>
<tr>
<td>Other</td>
<td>28 550 085</td>
<td>28.78</td>
<td>28 550 085</td>
<td>28.78</td>
</tr>
<tr>
<td>Total</td>
<td>99 195 484</td>
<td>100.00</td>
<td>99 195 484</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Table 47. Shareholding structure as at 6 March 2013

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>44 764 617</td>
<td>45.13</td>
<td>44 764 617</td>
<td>45.13</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9 883 323</td>
<td>9.96</td>
<td>9 883 323</td>
<td>9.96</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>6 397 643</td>
<td>6.45</td>
<td>6 397 643</td>
<td>6.45</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l with Cliffstone Holdings Limited</td>
<td>9 599 816</td>
<td>9.68</td>
<td>9 599 816</td>
<td>9.68</td>
</tr>
<tr>
<td>Other</td>
<td>28 550 085</td>
<td>28.78</td>
<td>28 550 085</td>
<td>28.78</td>
</tr>
<tr>
<td>Total</td>
<td>99 195 484</td>
<td>100.00</td>
<td>99 195 484</td>
<td>100.00</td>
</tr>
</tbody>
</table>
From 6 March 2013 to the date on which these financial statements were published, the Parent did not receive information on any changes in large stake ownership.

10.5. Special control authorisations of holders of securities

Pursuant to the provisions of § 16, sec. 2 of the company's articles of association, the State Treasury of Poland as shareholder is entitled to an individual authorisation to appoint and dismiss one member of the Supervisory Board.

Furthermore, in accordance with the provisions of § 43, sec. 1 points 4 of the Parent’s articles of association, the general meeting summons the Management Board of the Parent at the written request of the State Treasury of Poland as shareholder, irrespective of the share in share capital, submitted at least one month before the proposed date of the general meeting.

§ 45 sec. 4 of the company's articles of association governing the inclusion by shareholders of specific issues in the agenda of the next general meeting, it is stated that "a shareholder or shareholders representing at least one tenth of share capital may request the inclusion of specific issues in the agenda of the next general meeting. This entitlement is also held by the State Treasury of Poland as shareholder, irrespective of its share in share capital.

10.6. Indication of all voting restrictions

In accordance with § 47, sec. 2 of the Parent’s articles of association, one share carries one vote at the general meeting.

On 22 December 2010, the extraordinary general meeting of Zakłady Azotowe w Tarnowie-Mościcach S.A. adopted resolution no. 4, altering the company’s Articles of Association and amending the individual entitlements due to certain shareholders through adding point 3 to § 47, worded as follows:

§ 47 sec. 3. sec. 3 of the articles of association: “As long as the State Treasury of Poland or Nafta Polska S.A. owns shares in the Company constituting at least one fifth of the total votes available in the Company, shareholders’ rights to vote shall be limited in such manner that at the general meeting no one shareholder may exercise more than one fifth of total votes available within the Company on the day on which the general meeting is convened. Limitation of the right to vote, as referred to in the preceding sentence, shall not concern the State Treasury of Poland and Nafta Polska S.A., or any subsidiaries of the State Treasury of Poland and Nafta Polska S.A. For the purposes of this section, exercise of the right to vote by a subsidiary is recognised as exercise thereof by its parent in the meaning of the Act of 29 July 2005 on Public Offerings and the Terms and Conditions for Introduction of Financial Instruments to an Organised System of Trading and on Public Companies (the “Act on Public Offerings”). The terms parent and subsidiary are also understood respectively as each entity whose votes result from directly or indirectly held shares in the Company subject to accumulation with the votes of another entity or entities on the principles specified in the Act on Offerings in connection with the possession, disposal or acquisition of significant blocks of shares in the Company. A shareholder whose right to vote has been limited shall in all instances retain the right to exercise at least one vote.”

Draft resolutions prepared for the extraordinary general meeting convened for 8 March 2013 provide the introduction of the following changes to the Parent’s articles of association concerning voting rights limitations.

§ 47 is expanded to include sections 4-8 after sec. 3, worded as follows:

“4. Subject to sec. 3 above, for the purposes of this paragraph, parent and subsidiary are also understood to include the following:

1) an entity having the status of a parent company, subsidiary or simultaneously parent and subsidiary within the meaning of the Competition and Consumer Protection Act of 16 February 2007, or

2) an entity having the status of a parent company, indirect parent company, subsidiary, indirect subsidiary, jointly controlled entity or simultaneously having the status of a parent company (including indirect parent company) and subsidiary (including indirect subsidiary and jointly controlled entity) within the meaning of the Accounting Act of 29 September 1994, or
3) an entity which has (parent company) or is subject to (subsidiary) significant influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Enterprises and on the Financial Transparency of Certain Enterprises.

5. Within the meaning of this paragraph, a shareholder is understood as any person, including its parent company or subsidiary, which directly or indirectly carries the right to vote at the general meeting on the basis of any legal title; this also relates to persons not holding any shares in the Company, and particularly usufructuaries, lienors and persons authorised to participate in the general meeting despite having disposed of their shareholding after the record date for the general meeting.

6. Shareholders whose voting rights are subject to aggregation and reduction in accordance with this paragraph are collectively referred to as a Shareholding Group. Aggregation of voting rights means the addition of all voting rights held by the shareholders belonging to a Shareholding Group. Reduction of voting rights means reduction of the total number of voting rights at the Company’s general meeting held by shareholders belonging to a Shareholding Group. The reduction of voting rights is performed in accordance with the following principles:

1) the number of voting rights held by the shareholder with the highest number of voting rights at the Company’s general meeting from amongst the shareholders belonging to a Shareholding Group is subject to reduction by a number of voting rights equaling the excess of voting rights collectively held by the shareholders belonging to a Shareholding Group over one fifth of the total number of voting rights at the Company’s general meeting,

2) if, despite the reduction described in point 1) above, the total number of voting rights at the Company’s general meeting collectively held by the shareholders belonging to a Shareholding Group exceeds the threshold described in sec. 3 of this paragraph, further reduction of voting rights shall take place in order determined by the number of voting rights at the Company’s general meeting held by the shareholders belonging to a Shareholding Group (from the largest number of voting rights to the smallest). Further reduction of voting rights shall take place until the total number of voting rights at the Company’s general meeting held by the shareholders belonging to a Shareholding Group does not exceed one fifth of the total number of voting rights at the Company’s general meeting,

3) such a limitation on exercise of the right to vote shall also apply to shareholders absent from the general meeting.

7. In order to determine the basis for aggregation and reduction of voting rights in accordance with this paragraph, a shareholder, the Company’s Management Board, its Supervisory Board or any members of the aforementioned bodies may request that a Company shareholder provide information on whether it is:

1) an entity having the status of a parent company, subsidiary or simultaneously parent and subsidiary within the meaning of the Act of 16 February 2007 on Competition and Consumer Protection, or

2) an entity having the status of a parent company, indirect parent company, subsidiary, indirect subsidiary, jointly controlled entity or simultaneously having the status of a parent company (including indirect parent company) and subsidiary (including indirect subsidiary and jointly controlled entity) within the meaning of the Accounting Act of 29 September 1994, or

3) an entity which has (parent company) or is subject to (subsidiary) significant influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Enterprises and on the Financial Transparency of Certain Enterprises.

4) an entity whose voting rights attached to shares in the Company, either directly or indirectly held, are subject to aggregation with the voting rights of another entity or entities on the principles specified in the Act on Public Offerings in connection with the holding, disposal or acquisition of significant stakes in the Company.

The right described in this section also applies to the right to request disclosure of the number of voting rights held by a shareholder of the Company, independently or jointly with other shareholders. Until the above information requirement is met, an entity which has not met or has improperly met the information requirement may exercise rights carried by no more than one share, and the exercise of rights carried by the remaining shares held by such entity shall be invalid.

8. In the event of doubts arising in connection with this paragraph, its content should be interpreted in accordance with art. 65 § 2 of the Act of 23 April 1964, the Polish Civil Code.”
10.7. Indication of all limitations concerning transfer of securities ownership

Limitations concerning transfer of ownership of securities resulted from the provisions of the Act on commercialisation and privatisation (Art. 38, sec. 3). The statutory disposal prohibition period for AA series shares for employees ended on 15 September 2007 and for members of the then-Management Board of the Parent (holding a total of 970 series AA shares) on 15 September 2008. In connection with the Act of 18 December 2008 on amendment to the Act on commercialisation and privatisation and the Act on the principles for acquisition of shares from the State Treasury of Poland in the consolidation process of electric utilities (Polish Journal of Laws no. 13, item 70) of 12 February 2010, the process of free access of shares to inheritors of entitled persons ended.

10.8. Description of principles concerning the appointment and dismissal of management personnel and their entitlements, in particular the right to take decisions on the issue or buy-back of shares

Principles concerning the appointment and dismissal of management personnel

Management Board

In accordance with § 24 of the company’s articles of association, Members of the Management Board or the entire Management Board are appointed and dismissed by the Supervisory Board with consideration to the provisions of § 25 and subsequent of the articles of association. Each member of the Management Board may be appointed or suspended from duties by the Supervisory Board of general meeting. (§ 24, sec. 2 of the company’s articles of association).

As long as the Parent employs an annual average of above 500 employees, the Supervisory Board appoints one person elected by Parent employees to the Management Board for the term of such Board. (§ 25, sec. 1 of the Parent’s articles of association).

Through resolution no. 4 of 14 July 2012, The extraordinary general meeting of Shareholders amended the content of §10 sec. 3 and subsequent of the Parent’s Articles of Association by wording it the following way:

“3. The Management Board is authorised to increase the Company’s share capital by issuing new shares with a total nominal value of not more than PLN 240 432 915, by means of increasing the share capital within the limits defined above (“authorised share capital”). The increase of the share capital within authorised share capital may be effected only for the purpose and under terms and conditions stipulated in section 4 below. The Management Board’s authorisation to increase the share capital and to issue new shares within authorised share capital expires within six months from the date of registration of the changes to the Articles of Association, stipulating the authorised share capital.

4. Within authorised share capital, the Management Board is authorised to offer the Company’s shares with the exclusion of pre-emptive rights, only to shareholders of Zakłady Azotowe Puławy S.A., with a registered office in Puławy, Poland, entered into the Register of Companies of the National Court Register under number KRS 0000011737 (“ZA Puławy S.A.”) in exchange for a non-cash contribution in the form of shares in ZA PULAWY in such a way that one share in ZA PULAWY will be a non-cash contribution to cover 2.5 Parent’s shares issued within the authorised share capital. The Resolution of the Management Board regarding issuing shares in exchange for a non-cash contribution in the form of shares in ZA PULAWY does not require the approval of the Supervisory Board.

5. In the Parent’s interest the Management Board is authorised to waive the pre-emptive rights of existing in respect of the shares issued within authorised share capital only to offer them to shareholders of ZA PULAWY according to rules described in section 4 above.

6. Unless stipulated otherwise in section 7 or in the Code of Commercial Companies, the Management Board decides on all matters connected with the increase in the share capital within the authorised share capital, in particular the Management Board is authorised to:

1) conclude agreements protecting the organization and carrying out a share issue,
2) adopt resolutions and take other actions regarding dematerialisation of shares and rights to shares as well as to conclude agreements with the KDPW on the registration of shares and rights to shares,
3) adopt resolutions and take other actions regarding, respectively, issuing shares by public offering or applying to distribute shares and rights to shares in the regulated market.

7. Management Board resolutions regarding:
1) increasing the share capital within the authorised share capital,
2) establishing the issue price of shares issued within the authorised share capital, and
3) excluding pre-emptive rights,
require the consent of the Supervisory Board.”

Supervisory Board
In accordance with § 35, sec. 1 of the company's articles of association, the Supervisory Board comprises between 5 and 9 members, appointed by the general meeting subject to the provisions of § 16, sec. 2 (“the State Treasury of Poland as shareholder is entitled to independently appoint and dismiss one member of the Supervisory Board.”) and § 36 of the articles of association (“Part of the Supervisory Board's composition constitutes members elected by the Parent’s employees in accordance with art. 14 of the Act on Commercialisation and Privatisation”).

Right to take decisions on issue or buy-back of shares
In accordance with § 51, points 13 - 16 of the company's articles of association, the general meeting's competences include:
• increasing and decreasing the Parent's share capital,
• issuing convertible bonds, bonds with priority right and subscription warrants,
• purchase of own shares in the situation specified in art. 362, § 1, point 1 of the Polish Commercial Companies Code, 362 § 1 pkt.
• mandatory buy-back of shares appropriate to the provisions of art. 418 of the Polish Commercial Companies Code.
In accordance with § 10, point 1 of the Parent’s articles of association, share capital may be increased through a resolution of the general meeting through the issue of new shares or through increasing the value of existing shares.

10.9. Description of the principles for amending the Parent’s articles of association

In accordance with § 51, sec. 22 of the company's articles of association, amendment to the articles and change of the Parent's business activity are issues which remain at the sole discretion of the general meeting.

10.10. General meeting - means of operation

In accordance with § 51 of the company's articles of association, the general meeting's competences include:
• review and approval of the financial statements for the previous financial year and the Management Board report on the Parent's operations,
• granting a vote of approval to members of the Parent's authorities for fulfilment of their duties,
• distribution of profit or coverage of loss,
• definition of the date for establishment of rights to dividends and the dividend payout date, and also offset of dividend payout in instalments,
• review and approval of the Group's consolidated financial statements for the previous financial year and the Management Board's report on the Group's operations if the obligation for preparation of this results from the Accounting Act,
• appointment and dismissal of Supervisory Board members elected by the general meeting, including the Chairperson of the Supervisory Board, subject to the provisions of § 16, sec. 2 and § 36,
• establishment of the principles for and amount of remuneration for members of the Supervisory Board,
• expression of consent for the disposal or lease of the company's enterprise or an organised part thereof and establishment of limited property rights thereon,
• expression of consent for the purchase of real property, perpetual usufruct or shares in real property of a market value exceeding PLN 2 000 00,
• disposal of and the establishment of limited proprietary rights on real property, perpetual usufruct or shares in real property of a market value exceeding PLN 200 000 (two hundred
(all figures in PLN thousands unless otherwise stated)

Grupa Azoty

thousand Polish zloty),
• expression of consent for the purchase, disposal or establishment of limited proprietary
inghts on elements of fixed assets other than real property, perpetual usufruct or shares in
real property of a market value exceeding PLN 10 000 000,
• execution by the company of agreements for loans, borrowings, sureties or other similar
agreements with a member of the management board, supervisory board, commercial
representative, receiver or on behalf of any such person,
• increasing and decreasing the Parent's share capital,
• issuing convertible bonds, bonds with priority right and subscription warrants,
• purchase of own shares in the situation specified in art. 362, § 1, point 1 of the 362 § 1 pkt.
Polish Commercial Companies Code,
• mandatory buy-back of shares appropriate to the provisions of art. 418 of the Polish
Commercial Companies Code,
• the creation, use and liquidation of reserve capital,
• use of supplementary capital,
• rulings concerning claims for rectification of damage caused in the formation of the
company or exercising of management or supervision,
• merger, restructuring and division of the Parent,
• amendment to the articles of association and amendment of the objects of the Parent's
operations,
• winding-up and liquidation of the Parent,
• disposal of shares with specific conditions and the means of disposal with the exception of:
  • disposal of shares which are publically traded securities,
  • disposal of shares which the Parent holds in quantities not exceeding 10% of the share
capital of a company,
  • disposal of shares acquired in exchange for the Parent's debt claims under bankruptcy or
arrangement proceedings,
• expression of consent for the grant of licences or other disposal of intellectual property
rights initially held by the Parent,
• review of the Supervisory Board reports referred to in § 33, sec. 1, points 8, 20, 21 and 22.

10.11. Composition, alteration and description of the operations of
management and supervisory bodies

Management Board of the Parent

Composition of the Parent's Supervisory Board as at 1 January 2012:
• Jerzy Marciniak - President of the Management Board, Managing Director
• Andrzej Skolmowski - Vice-President of the Management Board responsible for finance and
trade at Grupa Azoty,
• Witold Szczypiński - Vice-President of the Management Board responsible for production and
safety at Grupa Azoty,
• Krzysztof Jalosiński - Vice-President of the Management Board responsible for the strategy
and development of Grupa Azoty,

On 17 February 2012 the Parent’s Supervisory Board adopted resolution no. 138/VIII/2012 on
appointment of Artur Kopeć to the Parent’s Management Board as the Management Board member
elected by employees in a two round election: in December 2011 and January 2012.

Composition of the Parent’s Management Board as at 31 December 2012:
• Jerzy Marciniak - President of the Management Board,
• Andrzej Skolmowski - Vice-President of the Management Board,
• Witold Szczypiński - Vice-President of the Management Board,
• Krzysztof Jalosiński - Vice-President of the Management Board,
• Artur Kopeć - Member of the Management Board.
Composition of the Parent’s Management Board as at the date of drafting these financial statements:

- Jerzy Marciniak - President of the Management Board, Managing Director,
- Andrzej Skolmowski - Vice-President of the Management Board,
- Witold Szczypiński - Vice-President of the Management Board,
- Krzysztof Jaloński - Vice-President of the Management Board,
- Artur Kopeć - Member of the Management Board elected by employees.

Competences of persons managing the Parent

Competences of persons managing the Parent are specified in the following regulations:

- Polish Commercial Companies Code,
- the Act on Commercialisation and Privatisation of 30 August 1996, as amended,
- the Act of 29 July 2005 on Public Offerings and the Terms and Conditions for Introduction of Financial Instruments to an Organised System of Trading and on Public Companies,
- the Act of 29 July 2005 on Trade in Financial Instruments,
- secondary legislation issued on the basis of the above acts,
- provisions of the Parent’s articles of association ($19-$22).

Under § 21 of the articles of association, the Management Board’s competences include:

- adoption of the Management Board regulations,
- approval of Organisational Regulations governing the internal organisation of the Parent’s enterprise,
- creation and liquidation of branches, facilities, offices and other units,
- appointment of a commercial representative,
- incurrence and grant of loans and borrowings (if the level of the Parent’s debt under loans and borrowings, together with planned loans and/or borrowings, exceeds PLN 40 000 000, the execution of loan and/or borrowing agreements and issue of bonds requires the consent of the Supervisory Board),
- issue of bonds, subject to the issue of bonds exchangeable for shares or pre-emptive rights to shares and the competences of the Supervisory Board specified in § 33, sec. 2 point 7,
- adoption of annual financial plans and long-term strategic plans,
- approval of financial statements,
- incurrence of contingent liabilities, including the grant by the Parent of guarantees, sureties and any adoption by the Parent of liability for a third party debt, together with the issue, acceptance and grant of promissory notes and the on-demand endorsement of promissory notes, subject to the provisions of § 33, sec. 2 points 5 and 6 (the incurrence of contingent liabilities, including the grant by the parent of guarantees and property sureties and the acceptance of liability for third-party debt of a value exceeding PLN 2 000 000, together with the issue, acceptance and grant of promissory notes and the on-demand endorsement of promissory notes exceeding PLN 2 000 000 in value, requires the consent of the Supervisory Board),
- the disposal, acquisition and encumbrance with limited property rights of property, plant and equipment with a market value equal to or in excess of PLN 50 000, subject to the provisions of § 33, sec. 2 points 1, 2, 3 and 4, together with § 51, sec. 1 points 8, 9, 10, 11 and 24 of the articles of association (competences of the Supervisory Board and general meeting).

A detailed division of competences amongst Members of the Parent’s Management Board, 9th term, governed by the Resolution of the Management Board of the Parent, no. 1/IX/2011 of 25 October 2011, can be found in the Condensed consolidated interim financial statements for the three and nine month periods ended 30 September 2011, point 8.2 on p. 58.
Supervisory Board

Composition of the Parent’s Supervisory Board as at 1 January 2012:
- Marzena Piszczek - Chairperson of the Supervisory Board,
- Ewa Lis - Vice-Chairperson,
- Jan Wais - Secretary,
- Tomasz Klikowicz - Member,
- Artur Kucharski - Member,
- Marek Mroczkowski - Member,
- Jacek Oblekowski - Member,
- Zbigniew Paprocki - Member,
- Ryszard Trepczyński - Member.

Marzena Piszczek resigned as Member and Chairperson of the Supervisory Board on 13 January 2012. Also on 13 January 2012 the extraordinary general meeting of the Parent appointed Monika Kacprzyk-Wojdyga as Member of the Supervisory Board, simultaneously entrusting her with the function of Chairperson of the Parent’s Supervisory Board.

Composition of the Parent’s Supervisory Board as at 31 December 2012:
- Monika Kacprzyk-Wojdyga - Chairperson of the Supervisory Board,
- Ewa Lis - Vice-Chairperson,
- Jan Wais - Secretary,
- Tomasz Klikowicz - Member,
- Artur Kucharski - Member,
- Marek Mroczkowski - Member,
- Jacek Oblekowski - Member,
- Zbigniew Paprocki - Member,
- Ryszard Trepczyński - Member.

Composition of the Parent’s Supervisory Board as at 31 December 2012 as at the date of drafting this report:
- Monika Kacprzyk-Wojdyga - Chairperson of the Supervisory Board,
- Ewa Lis - Vice-Chairperson,
- Jan Wais - Secretary,
- Tomasz Klikowicz - Member,
- Artur Kucharski - Member,
- Marek Mroczkowski - Member,
- Jacek Oblekowski - Member,
- Zbigniew Paprocki - Member,
- Ryszard Trepczyński - Member.

The Supervisory Board acts pursuant to:
- the provisions of the Act of 15 September 2000 - the Polish Commercial Companies Code (Polish Journal U. no. 94, item 1037 as amended),
- the Act on Commercialisation and Privatisation (…),
- the Accounting Act,
- the Parent’s articles of association (§ 32 and subsequent),
- Bylaws of the Parent’s Supervisory Board.

In 2011 the Supervisory Board appointed an Audit Committee in order to streamline the work of the Board and improve control over the Parent and Group. The Committee constitutes an advisory body working jointly within the structure of the Supervisory Board. The following Board members form its composition:
- Jacek Oblekowski,
- Marek Mroczkowski,
- Tomasz Klikowicz.
The Committee’s tasks include in particular:

- monitoring the financial reporting process,
- monitoring the effectiveness of internal control, internal audit and risk management systems existing within the Parent,
- monitoring financial audit,
- monitoring the independence of the statutory auditor and entity authorised to audit the Parent’s financial statements,
- monitoring the audit of the annual and consolidated financial statements,
- monitoring the work of the internal audit team,
- monitoring the work and reports of the independent statutory auditor,
- auditing selected economic events significant for the Parent’s operations.

The specific principles for Audit Committee operations are defined in the Audit Committee Byelaws drawn up with consideration to the content of annex I, sec. 4 (Audit Committee) to the European Council Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board and art. 86, sec. 1 of the Act of 7 May 2009 on Statutory Auditors (…) (Dz. U. (Polish Journal of Laws no. 77 of 2009, item 649), and adopted by the Parent’s Supervisory Board.
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Management Board signatures

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Jerzy Marciniak                           Andrzej Skolmowski
President of the Management Board

.............................................................. ..............................................................
Witold Szczypiński                      Krzysztof Jałosiński
Vice-President of the Management Board
Vice-President of the Management Board

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

Tarnów, 6 March 2013