



Management Report on the Operations of
Zakłady Azotowe w Tarnowie-Mościcach S.A.
for the 12 months ended 31 December 2012

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1. Basic information concerning the Company

1.1. Company description

Zakłady Azotowe w Tarnowie-Mościcach S.A. (the "Company") is a well-established and recognised company whose value creation capacity is founded on a partnership-based approach to developing lasting trading relations and a mutual understanding of needs. Its key operating areas include mineral fertilisers, plastics and intermediates production, sales and related services.

The Company is an integrated producer of polyamide 6, under the Tarnamid® trademark, which is obtained through caprolactam polymerisation. It is the only Polish manufacturer of polyoxymethylene plastic, trademarked Tarnoform®. The Company manufactures and sells caprolactam in both liquid and crystalline form, together with engineering and modified plastics.

The Company produces fertilisers in two granulation types: *makro* and *standard*.

Its product portfolio includes:

- Saletrosan (ammonium sulphate nitrate),
- Saletrzak (calcium ammonium nitrate),
- ammonium nitrate,
- ammonium sulphate.

In addition to working with leading domestic scientific and academic centres, the Company conducts wide-ranging research and development at its own laboratories, each year carrying out over a million analyses on both new products and technologies and development of the existing product portfolio.

Since 2008, the Company has been listed on the Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*). It has been a constituent of the CSR-focussed RESPECT index since its launch on 19 November 2009. This is proof that Zakłady Azotowe w Tarnowie-Mościcach S.A. is a stable and trustworthy company with high management standards and an attractive investment profile.

The Company 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.

The Company's extraordinary general meeting is set to vote on 8 March 2013 on amendments to the articles of association, including a change of the Company's name. Once this change is voted in and subsequently registered, the Company 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).

1.2. Information on organisational and equity ties between the Company and other entities

The Company has developed a strong and dynamically growing group. 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.

Together, Grupa Azoty companies market a comprehensive product portfolio for even the most demanding customers who value high quality and modern technology.

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

Table 1. Company's shareholding in subsidiaries as at 31 December 2012

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

As at 31 December 2012 the Company also held minority interests in 13 entities.

Table 2. Company's minority shareholdings as at 31 December 2012

Company name	% of shares
ZA Puławy S.A.	10.30 %
Centrum Naukowo - Produkcyjne Materiałów Elektronicznych „CEMAT'70” S.A.	1.24 %
Francusko-Polskie Przedsiębiorstwo Instalacji Przemysłowych POLSNIG Sp. z o.o.	2.67 %
INWESTSTAR S.A.	0.06 %
Konsorcjum Rozwoju Eksploatacji Majątku Trwałego „EKSPLOSYSTEM” Sp. z o.o.	3.36 %
LEN S.A. w Likwidacji	0.289 %
Tarnowska Agencja Rozwoju Regionalnego S.A.	0.05865 %
Tarnowski Klaster Przemysłowy S.A.	0.1077 %
Tarnowskie Wodociągi Sp. z o.o.	12.55 %
Tłocznia Metali "PRESSTA" S.A. w Upadłości Likwidacyjnej	0.019 %
Wytwórnia Silników "PZL MIELEC" Sp. z o.o. w Upadłości	0.12 %
Zakłady Tworzyw Sztucznych "PRONIT" S.A. w Upadłości	0.28 %
Zakłady Włókien Chemicznych „WISTOM” S.A. w Upadłości	9.83 %

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 "Chetmek" 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 Company 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 Company increased its stake in ZA Puławy S.A.' share capital from 10.3% to 83.7%.

- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. - previous name Zakłady Azotowe Kędzierzyn Spółka Akcyjna; trading under the new name since 11 January 2013.
- Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z o.o. - previous name Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością; trading under the new name since 28 February 2013.
- Grupa Azoty KOLTAR Sp. z o.o. - previous name PTK KOLTAR Spółka z ograniczoną odpowiedzialnością; trading under the new name since 6 March 2013.

1.3. Information on branches (facilities) owned by the Company

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

1.4. Information concerning employment

Table 3. Employment level at the Company

Employee group	As at 31-12-2012	As at 31-12-2011
blue collar employees	1 310	1 326
white collar employees	756	735
Total	2 066	2 061

Table 4. Average annual employment level at the Company and employment at the end of 2012

Employee group	Average employment	Employment at year end
blue collar employees	1 318	1 310
white collar employees	747	756
Total	2 065	2 066

Table 5. Employee rotation in the period 1 January to 31 December 2012

	2012
Number of new workers	41
Number of workers made redundant	36
	5

Table 6. Employment by education

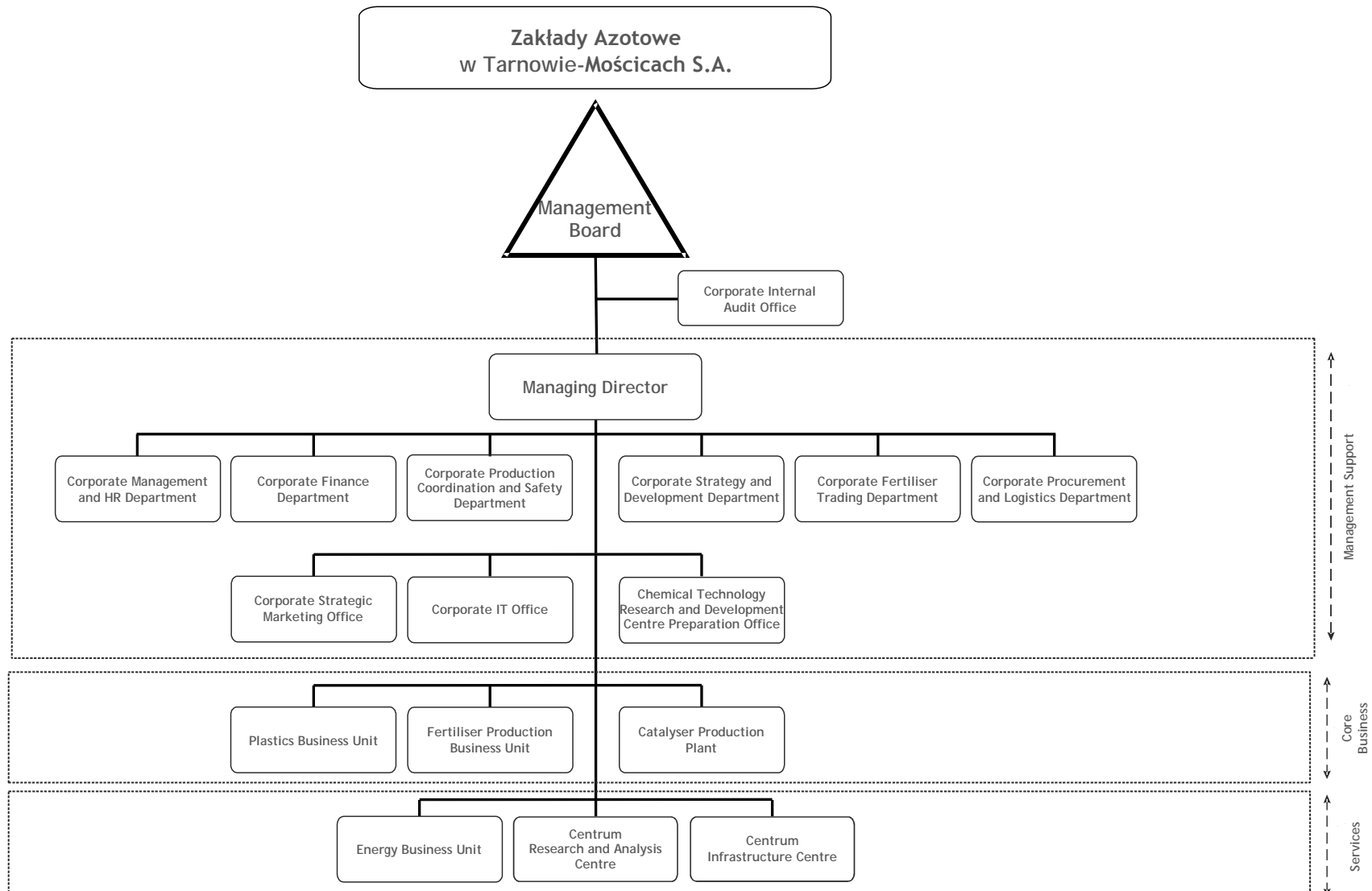
Description	Year	Total				
		employment	Higher	Secondary	Vocational	Basic
Number of employees	2012	2 066	435	842	662	127
Number of employees	2011	2 061	399	862	676	124

Table 7. Employment by length of service

Description	Year	Total			
		up to 5 years	6-10 years	11-20 years	above 20 years
Number of employees	2012	128 6.20 %	134 6.49 %	531 25.70 %	1 273 61.61 %
Number of employees	2011	173 8.39 %	101 4.90 %	560 27.17 %	1 227 59.54 %

2. Company management principles

2.1. Company organisational chart



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 management model which envisages the Company's Management Board simultaneously functioning as management board for the entire 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 Company's Management Board of corporate departments and business and support areas.

Competences to manage Grupa Azoty are assigned to the Company's corporate departments, which play a dual role - performing tasks for Grupa Azoty and for the Company. 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 Company in 2012

In connection with the necessity to adapt the Company's structure to the requirements of modern management for a large group of companies, the Company'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 Company was established as 1 February 2012.

Information security policy at the Company

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 at the Company and throughout Grupa Azoty on 3 February 2012.

3. Information on the Company's equity and other instruments, together with significant shareholders

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

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

- 24 000 000 series AA shares with 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 Company is 99 195 484, ISIN code PLZATRM00012 (as at 31 December 2012: 64 115 444).

Table 8. Company shares held by management personnel

	Number of shares / votes		
	As at 01-01-2012	As at 31-12-2012	As at 06-03-2013
Jerzy Marciniak	-	2 000	2 000
Witold Szczypiński	639	639	639

Table 9. Company shares held by supervisory personnel

	Number of shares / votes		
	As at 01-01-2012	As at 31-12-2012	As at 06-03-2013
Tomasz Klikowicz	190	190	190

On 18 January 2012 Jerzy Marciniak, President of the Management Board and Managing Director, acquired 2000 shares in the Company.

Shareholdings of the Company's other management and supervisory personnel have not changed.

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

3.2. Information on agreements known to the Company 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 Company 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 in this report under point 3.5 *Equity and debt issues*.

3.3. Information on employee share ownership programme control systems

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

3.4. Own shares held by the Company, Grupa Azoty companies and persons acting on behalf thereof

The Company and other Grupa Azoty entities do not hold own shares.

Company shares held by persons acting on behalf of Grupa Azoty entities as at 6 March 2013

	Number of shares
Management Board	
Krzysztof Pieńkowski - ATT Polymers GmbH	634
Jerzy Woliński - Grupa Azoty PKCh Sp. z o.o.	128
Supervisory Board	
Małgorzata Malec - ATT Polymers GmbH	360
Jerzy Koziara- Grupa Azoty ZAK S.A.	639

3.5. Equity and debt issues

The process of issuing series D shares in the Company commenced with the adoption and publication by the Company'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 Company's Management Board adopted a decision to acquire shares in ZA Puławy S.A., based in Puławy. On the same day, the Company'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 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 Company's extraordinary general meeting, through adopting the required resolution, amended the articles of association through adding authorisation for the Management Board to increase the Company'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 Company to assume control over ZA Puławy S.A. without the need to commit significant funds and increase the Company's debt.

Pursuant to the above shareholder decision, the Company's Management Board commenced work on preparing the Company'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 Company for PLN 110 per share, bringing the transaction value to PLN 216 489 000. Prior to the tender offer announcement, the Company did not hold any shares in ZA Puławy S.A. The shares acquired by the Company are admitted to trading on the regulated market managed by the Warsaw Stock Exchange.

On 11 September 2012 the Company'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 Company'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 Company,
- 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 Company 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 Company 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 Company filed an application with the European Commission on issue of consent for concentration.

On 21 December 2012 the Polish Financial Supervision Authority approved the Company'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 Company'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 Company's Supervisory Board on 4 January 2013.

On 11 January 2013, in connection with the completion of subscriptions for shares, the Company'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 Company's prospectus. In addition, on the same date the Company'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 Company's amended share capital amounts to PLN 495 977 420, divided into 99 195 484 shares with a nominal value of PLN 5 each. The increase in the Company'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 Company 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 Company 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 Company'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 Company'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 Company after registration of the increase in share capital was 99 195 484, with share capital divided into 99 195 484 shares with 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 Company's current reports:

Current report 34/2012,
Current report 40/2012,
Current report 62/2012,
Current report 77/2012,
Current report 2/2013,
Current report 3/2013,
Current report 4/2013,
Current report 7/2013,
Current report 8/2013,
Current report 10/2013,
Current report 11/2013,
Current report 12/2013,
Current report 15/2013,
Current report 16/2013,
Current report 15K/2013,
Current report 18/2013,
Current report 19/2013,
Current report 37/2013.

3.6. Use of proceeds from share issues

The total value of the Company's public offerings to date 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 Company 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 Company and adopted fair value for the issued shares at PLN 54.85 per share (established pursuant to the Company'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 Company 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 investments implemented under "Optimisation of the Nitrogen Fertiliser Product Portfolio and Sales System" - the full amount described in the prospectus,
 - PLN 120 241 000 for investments 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 19 921 000 for increasing polyamide production capacity, the "Polyamide II Facility" (including the acquisition of ATT Polymers GmbH),
 - PLN 569 250 000 for the acquisition of a 66% interest in ZCh Police S.A.,
 - PLN 102 248 000 for the acquisition of 40.86% shares in ZAK S.A. from the Ministry of the Treasury.

The Company used a total of PLN 873 150 000 in funds raised via 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 facility 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 Company 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 10. Expenditures on issue objectives incurred up to 31 December 2012

Task	Expenditures from 1 July 2008	Borrowings	Own funds other than proceeds from issuing equity	From issuing equity	Expenditures from 1 Jan 2012 to 31 Dec2012
Caprolactam facility upgrade together with construction of a new hydrogen facility	167 757	45 278	2 238	120 241	26 716
Optimisation of nitrate fertiliser product portfolio and sales system	50 089	6 291	5 798	38 000	-
Expansion of the Modified Plastics Facility	23 490	-	-	23 490	(35)
Polyamide II Facility (including ATT Polymers GmbH acquisition)	19 921	-	-	19 921	-
Total expenditures financed under issue I objectives (2008)	261 257	51 569	8 036	201 652	26 681
Acquisition of shares in ZCh Police S.A.	569 250	-	-	569 250	-
Acquisition of shares in ZAK S.A.	200 090	-	97 842	102 248	-
Total expenditures under issue II objectives (2011)	769 340	-	97 842	671 498	-
Total expenditures under issue objectives as at 31 December 2012	1 030 597	51 569	105 878	873 150	26 681

3.7. Share data

The Company debuted on the Warsaw Stock Exchange on 30 June 2008. Its shares (symbol ATT) are listed on the WSE main market in a continuous trading system and are included in the WIG, mWIG40 (up to 16 December 2011 sWIG80) and industry-focussed WIG-Chemia. The Company 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 Company 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 Company 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. On 19 February 2013 global investment bank Morgan Stanley Capital International, a leading provider of investment decision support tools to investment institutions, announced the Company's inclusion in the MSCI Emerging Markets index. The Company's inclusion in the index is expected to 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 Company'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 11. Shareholding structure as at 31 December 2012

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

including:

<i>series AA and B shares</i>	<i>39 116 421</i>
<i>series C shares</i>	<i>24 999 023</i>

Table 12. Shareholding structure as at 6 March 2013

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

including:

series AA and B shares	39 116 421
series C shares	24 999 023
series D shares	35 080 040

Between 6 March 2013 and the publication date of this report, the Company did not receive information on any changes in large stake ownership.

Share performance

The Company 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. Company 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 Warsaw Stock Exchange 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 Company, with a nominal value of PLN 5 each, to trading on the main market.

Dividend policy

The guiding principle behind the Company's dividend policy is to make payments proportionally to the level of profit generated and its 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 both the Company and 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 Company'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 Company 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 Company 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 13. Recommendations relating to the Company's shares, as published between 1 January 2012 and the date of publishing this report

Date	Type	Target price (in PLN)	Price on publication (in PLN)	Company
18-02-2013	sell ↓	51.00 ↓	56.00	Wood&Company
05-02-2013	sell ↓	49.70 ↓	54.90	ING Securities
28 January 2013	buy	67.00	56.90	Raiffeisen Centrobank
25 January 2013	hold ↓	61.20 ↑	57.40	Wood&Company
23 January 2013	neutral	54.10 ↓	56.00	Millenium DM
2 February 2013	hold ↓	55.00 ↓	56.40	DM IDM SA
6 December 2012	buy	57.10	49.60	Espirito Santo
15 November 2012	buy ↑	65.00 ↑	48.96	DM IDM SA
16 October 2012	hold ↓	55.40 ↓	49.60	DM IDM SA
17 September 2012	hold →	54.30 ↑	48.40	Millenium DM
30 July 2012	buy →	51.10 ↑	46.61	ING Securities
26 July 2012	buy ↑	52.10 ↑	47.81	Wood&Company
23 July 2012	buy ↑	59.60 ↑	38.00	DM IDM SA
19 July 2012	buy ↑	46.50 ↑	38.00	IPOPEMA
29 June 2012	hold ↓	41.60 →	36.17	DM IDM SA
20 June 2012	hold ↓	39.00 ↑	37.95	TRIGON DM
17 May 2012	hold ↓	41.50 ↑	36.23	IPOPEMA
9 May 2012	buy →	44.00 ↑	34.20	DM BZ WBK
20 April 2012	hold	38.90	33.68	TRIGON DM
5 April 2012	buy ↑	41.60 ↑	34.79	DM IDM SA
6 February 2012	buy ↑	36.80 ↑	30.25	ING Securities
2 February 2012	buy ↑	32.00 ↑	30.05	IPOPEMA
9 January 2012	hold ↓	33.00 ↓	26.22	DM IDM SA

Source: Grupa Azoty

Investor relations

Acting in accordance with the highest standards of capital market communications and corporate governance, the Company provides all market participants, and in particular current and potential shareholders, with exhaustive and reliable information on events taking place within the Company and Grupa Azoty.

In communications with investors the Company goes above and beyond its disclosure requirements. The Company implements an open information policy in response to the high requirements of capital market participants.

It has already become the norm for the Company to organise earnings conferences presenting the Company's and Group's financial results. In 2012 representatives of the Company 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 Company were again on hand to meet with shareholders during the conference and the associated *Targi Akcjonariat* event.

The Company'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 Company's active participation in the *Akcja Inwestor* campaign, due to which the Company has had the privilege to be able to use the "Responds to Investors" mark since August 2010.

4. Description of Company operations

The Company, being the parent of Grupa Azoty, is a major chemical industry player in Poland and across CEE. Its product portfolio includes mineral fertilisers, plastics and organic chemicals. The Company's operations focus in the following segments:

- Fertilisers,
- Plastics,
- Other activity.

The Company also generates revenue from the sale of chemical products, energy and laboratory, logistics, port and other services.

Fertilisers

Fertilisers are a particularly important segment for the Company, with the key products including: Saletrosan® (ammonium sulphate nitrate), Saletrzak (calcium ammonium nitrate - CAN), ammonium nitrate, and ammonium sulphate.

Sulphur-based fertilisers constitute a major part of the Company's fertiliser portfolio. These include: Saletrosan® and ammonium sulphate. Sulphur-based fertilisers are primarily obtained through mechanical granulation and feature high spreading properties.

Engineering plastics

The Company is a major polyamide 6 producer, ranking 4th in the European Union. Products within this segment also include: caprolactam, cyclohexanone, cyclohexanol and locally-manufactured intermediates. It is also Poland's only producer of polyacetal (POM).

Plastics within the segment are manufactured in both natural and modified form, with the latter including Tarnamid®, which is a trade name of polyamide (PA6).

A wide array of polyamides enables selection of plastics with bespoke technical properties, depending on their applications.

The Company also markets polyacetal (POM) in natural form - under the trade name Tarnoform®, and modified - acetal copolymer.

Engineering plastics are mainly used in the automotive industry, in household appliances, electronics and packaging.

Other activity

The catalysts manufactured by the Company, together with other organic and non-organic chemicals, are used for selected chemical syntheses in the production of ammonia, hydrogen and synthetic gas. The Company's catalyst product range includes the following:

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

The Company 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.

The Company 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

Nitrogen fertilisers

Saletrzak 27

Saletrzak 27 standard is a granulated nitrogen fertiliser derived from a blend of ammonium nitrate and finely-ground dolomite rock. The presence of dolomite powder as filler reduces the natural acidity of ammonium nitrate and enriches the fertiliser with valuable ingredients: calcium and magnesium.

Saletrzak 27+B standard with boron

Saletrzak 27+B standard with boron is a granulated fertiliser, with evenly-sized granules with colour ranging from brown to beige and size of 0.6-4.0mm, comprising no less than 94% of the fertiliser's volume. It features anti-caking agents, preventing the granules from permanently caking together. Spreading density: 1.02 kg/dm³.

This fertiliser comprises ammonium nitrate with the addition (filler) of dolomite powder containing calcium and magnesium.

Ammonium nitrate 30 makro

Ammonium nitrate 30 makro is a granulated fertiliser with evenly-sized granules with colour ranging from brown to beige. It features anti-caking agents, preventing the granules from permanently caking together. The size of granules ranges from 2mm to 6mm, and they comprise no less than 95% of the fertiliser's volume. Spreading density: 0.96 kg/dm³. *Ammonium nitrate 30 makro* comprises ammonium nitrate with the addition (filler) of dolomite powder containing calcium and magnesium. The fertiliser contains 30% nitrogen (N), with 15% in ammonium form and 15% in ammonium nitrate form, together with 2% magnesium oxide (MgO).

Urea ammonium nitrate solution (RSM)

Urea ammonium nitrate solution (UAN) is a water-based ammonium nitrate and urea solution at a molar ratio of 1:1. It is in clear, colourless or slightly yellowish liquid form, with a faint hint of ammonia and pH of over 7.0. It is available in two nitrogen-content variants: 28% nitrogen (RSM 28) and 30% nitrogen (RSM 30). The RSM 28 contains 28% nitrogen, with not less than 7.1% of ammonium nitrogen, 7.1% of ammonium nitrate and 13.8% amide nitrogen. Its density is 1.28 kg/dm³. The RSM 30 contains 30% nitrogen, with not less than 7.6% of ammonium nitrogen, 7.6% of ammonium nitrate and 14.8% amide nitrogen. Its density is 1.30 kg/dm³.

Sulphur-based nitrogen fertilisers

Saletrosan® 26 makro

Saletrosan® 26 makro is a granulated fertiliser with evenly-sized granules with colour ranging from brown to beige. It features anti-caking agents, preventing the granules from permanently caking together. The size of granules ranges from 2mm to 6mm, and they comprise no less than 95% of the fertiliser's volume. Spreading density: 0.98 kg/dm³. *Saletrosan® 26 makro* is a blend of ammonium nitrate and ammonium sulphate with the addition of dolomite powder rich in calcium and magnesium.

The fertiliser contains 26% nitrogen (N), with 19% in ammonium form and 7% in ammonium nitrate form, together with 13% water-soluble sulphur (S) in sulphate form [the equivalent of 32.5% volume if converted to sulphur trioxide (SO₃)].

Ammonium sulphate AS 21

Ammonium sulphate AS 21 is a crystalline fertiliser with a creamy to grey-beige colour, which does not cake permanently. The fertiliser contains 21% nitrogen (N) in ammonium form and 24% water-soluble sulphur in sulphate form [the equivalent of 60% volume if converted to sulphur trioxide (SO₃)].

Plastics

Tarnamid® (PA6)

Tarnamid® is a trade name of polyamide 6 (PA6), a high-quality engineering thermoplastic in granular form for injection and extrusion moulding applications. It is obtained from ε-aminocaprolactam.

Tarnoform® (POM)

Tarnoform® is a trade name for acetal copolymer (polyoxymethylene, POM), a high-quality engineering thermoplastic in granular form obtained through ion polymerisation of trioxane. It is used in injection and extrusion moulding processes.

Tarnoprop C and H (PPC - Polypropylene Copolymer / PPH - Polypropylene Homopolymer)

Tarnoprop C and H (PPC, PPH) is a range of granulated engineering plastics produced from copolymers and homopolymers of propylene. They are used in injection moulding.

Tarnodur A (PBT - Polybutylene terephthalate)

Tarnodur A (PBT) is a range of granulated engineering plastics produced from thermoplastic polymers - polybutylene terephthalate (PBT). They are used in injection moulding.

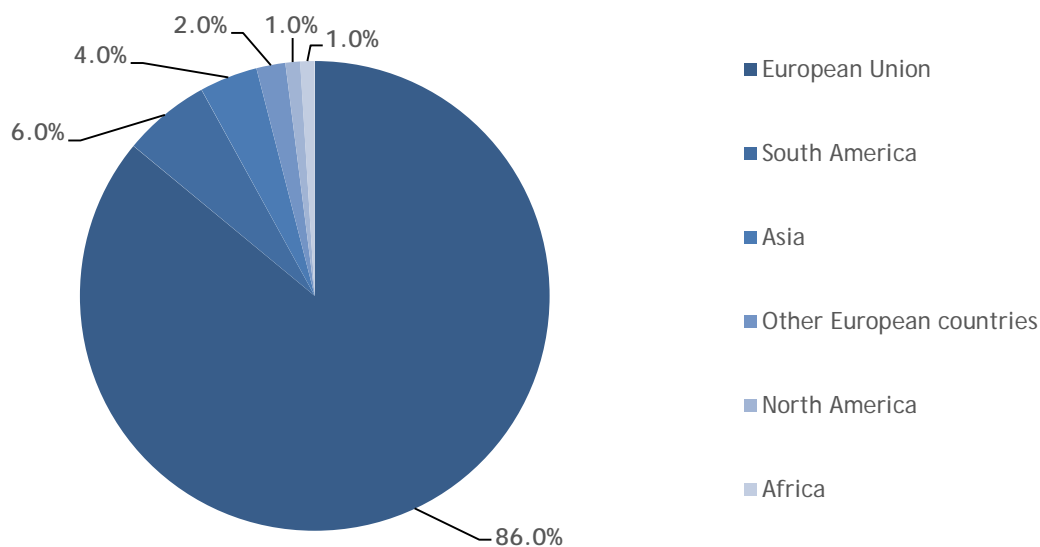
Tarnamid® A (PA66)

Tarnamid® A (PA 66) is a range of granulated modified engineering plastics produced from polyamide 66 (PA66). They are used in injection moulding.

4.2. Information on sales markets and procurement of strategic raw materials

The Company 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. Fertilisers are the key product sold in the domestic market. Exports to the EU and Asia mainly cover plastics, whereas in South America this is fertilisers.

Figure 2. 2012 exports by region



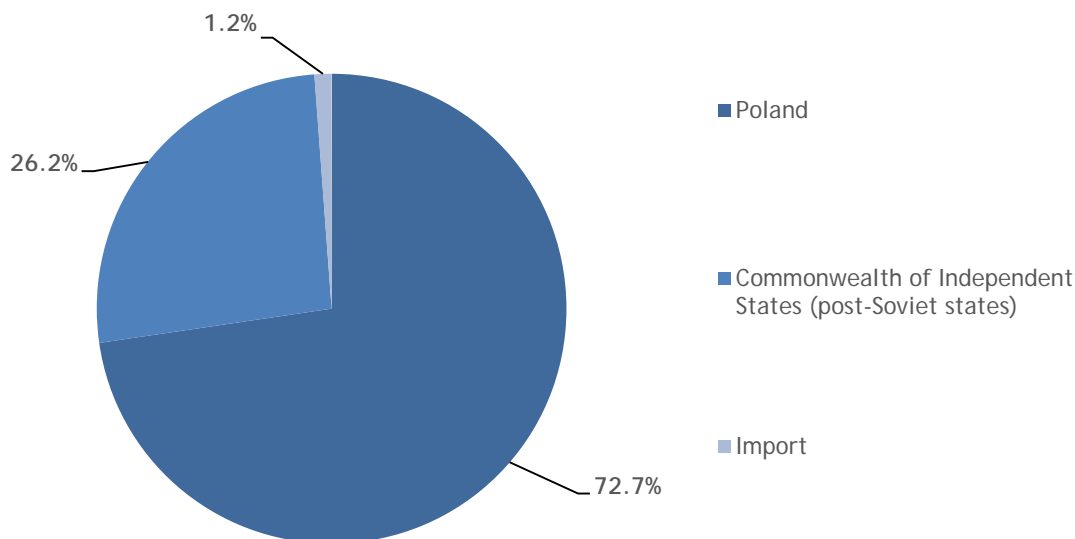
Source: Grupa Azoty

The Company had one customer whose share in its 2012 revenue exceeded 10% - ATT Polymers GmbH, a subsidiary.

Procurement of commodities and materials

For the most part, the Company procures materials for manufacturing domestically. A significant part of procurement from other EU countries constitutes phenol and benzene, while procurement from outside the EU mostly concerns ammonia.

Figure 3. 2012 procurement by region



Source: Grupa Azoty

PGNiG S.A. is the only supplier with whom trade exceeded 10% of the Company's revenue from sales in 2012.

Procurement of strategic raw materials

Natural gas

Natural gas was procured through a transmission network from Poland's sole domestic supplier, together with local suppliers pursuant to long-term agreements. The Company's procurement is based on the overarching strategy adopted by Grupa Azoty.

Ammonia

In 2012 the Company procured ammonia exclusively from other Grupa Azoty companies, mainly from ZCh Police S.A.'s manufacturing facility. Grupa Azoty holds the largest ammonia surplus in Poland, which fully meets its procurement requirements.

Phenol

The Company's phenol procurement strategy is based on two primary sources - Germany's INEOS Phenol and domestic supplies. From the third quarter of 2012 the Company commenced to receive regular deliveries from Scandinavian manufacturers as a supplementary source, which was connected with the start-up of new unloading docks (these are truck deliveries). Given the market pricing structure, phenol prices are to a large extent dependent on forward market pricing of benzene.

Benzene

The Company's benzene procurement strategy is based on domestic and CEE suppliers. Its procurement requirements in 2012 were fully secured. A key problem for caprolactam manufacturers in 2012 were very high contract prices of benzene, which exceeded 1000 EUR/tonne. Market participants generally agree that the 2012 prices were not adequate to market conditions and that the market was largely dominated by speculative transactions.

Sulphur

The Company's long-term strategy providing for deliveries based on long-term contracts enabled it to fully meet its procurement requirements without disruptions in 2012. This was mainly a result of Grupa Azoty's overall sulphur procurement strategy, as well as sulphur supply diversification from petrochemical sources and the optimisation of trade terms for sulphuric acid deliveries across Grupa

Azoty. Market conditions were dependent on the fertiliser market, particularly the compound fertilisers segment.

Methanol

The Company's long-term strategy providing for deliveries based on long-term contracts enabled it to fully meet its procurement requirements without disruptions in 2012. Throughout the year Grupa Azoty was able to meet its production requirements through performance of annual contracts, primarily from Russian sources. Also, the spot market was not subject to any significant price swings, with short-term fluctuations resulting primarily from infrastructure failures or maintenance downtime at the largest methanol manufacturers. Within Poland, demand was maintained for Russian methanol which is highly competitive in terms of pricing.

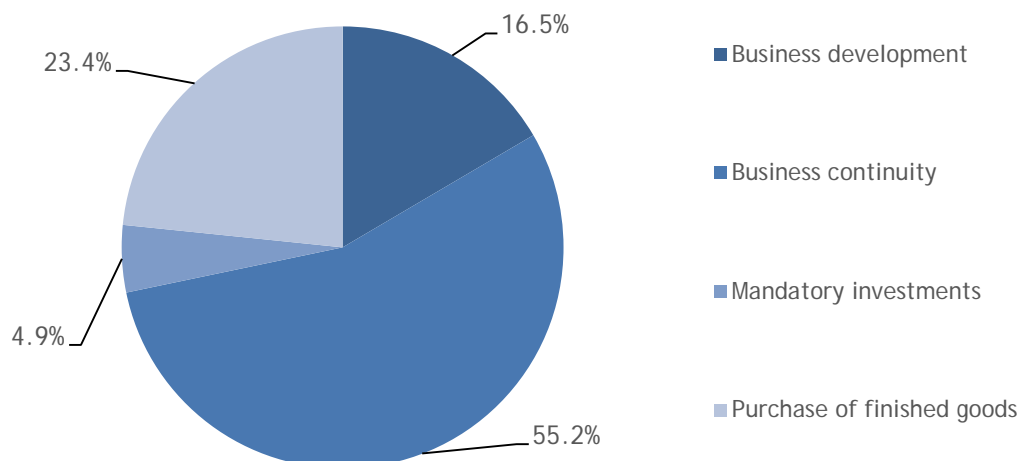
4.3. Major domestic and foreign investments

Total investment expenditures incurred by the Company in 2012 amounted to PLN 151 008 000. These expenditures do not include infrastructure repairs (PLN 20 254 000), but do contain advance payments (PLN 7 607 000).

Investment expenditure structure at the Company in 2012

- | | |
|---|-----------------|
| • investments connected with business development | PLN 24 982 000, |
| • investments connected with business continuity | PLN 83 331 000, |
| • mandatory investments | PLN 7 395 000, |
| • purchase of finished goods | PLN 35 300 000. |

Figure 4. Investment expenditure structure at the Company in 2012



Source: Grupa Azoty

The largest investments in 2012 were projects implemented as issue objectives: sulphuric acid facility upgrade and construction of a new hydrogen facility.

During the year, several key investments had been completed, including the construction of a hydrogen facility.

The new hydrogen facility ensures hydrogen supplies for caprolactam manufacture and enables 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 the Company enables an increase in the direct transmission from the Company'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 Company. 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 project to convert 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 Company'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 Company, Grupa Azoty ZAK S.A. and ZCh Police 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.

4.4. Company's asset allocation and equity investments outside of Grupa Azoty

The Company's largest investment during the reporting period was the two-stage acquisition of shares in ZA Puławy S.A. (details of which can be found in this report under point 3.5 *Equity and debt issues* and point 4.9 *Significant events*).

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

The Company is also in the process of acquiring Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. Further information can be found in this report under point 4.9, *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 at the Company throughout the Group.

The Company maintains a cash surplus in an account held at PKO Bank Polski S.A., enabling it to generate interest calculated using same market interest rates equal to WIBOR 1M annualised, whereas 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, the Company held a total of PLN 66 992 000 in bank accounts and short-term deposits, of which PLN 13 298 000 was held in the current account at PKO Bank Polski S.A. connected with virtual cash pooling. This includes PLN 7 769 000 in unused proceeds from the Company's equity issues. As at 31 December 2012, all of the above funds were recognised in the financial statements under "cash and cash equivalents".

Under fixed-term deposits and virtual cash pooling services, in 2012 the Company generated PLN 6 513 000 in interest income on accounts held at PKO Bank Polski S.A., including PLN 1 089 000 on deposit of the remaining proceeds from the public offerings.

Table 14. Bank deposits as at 31 December 2012

Bank	Amount
Total deposits with maturities over 3 months	-
Total deposits with maturities under 3 months	28 810
Other deposits	-
Total bank deposits	28 810

The Company holds funds covered by virtual cash pooling, which remain in a technical bank account where positive balances are treated as an overnight deposit and generate the same interest rate (WIBOR 1M) as negative balances at other Group entities.

4.5. Significant agreements

Table 15. Agreements significant to Company operations

Parties	Object	Date of execution	Value	Current report date and number	Value of trade during the year
Company - Societe Generale S.A.	Collateral agreement	13-07-2012	672 848	Current report 43/2012 of 13 July 2012	-
Company - PKO BP S.A.	Loan agreement	14-08-2012	711 000	Current report 57/2012 of 15 August 2012	-
Company - PKO BP S.A. / PZU Życie S.A.	Accession of PZU Życie S.A. to the loan agreement dated 14 August 2012	22-08-2012	Annex	Current report 61/2012 of 23 August 2012	-
Company - PKO BP S.A. / PZU Życie S.A.	Annex 2 to the loan agreement dated 14 August 2012	15-02-2013	Annex	Current report 35/2013 of 15 February 2013	-

4.6. Significant transactions with related parties

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

4.7. Significant R&D achievements

The Company's research and development efforts in 2012 were well-aligned with its strategic objectives. Most of the capital allocated to R&D was invested within the Company'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® 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 catalysers 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 the Company with the aim to identify the energy efficiency potential of products at its various facilities.

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 Company 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 the Company, as representative of Grupa Azoty, the Town of Tarnów and the Province of Małopolska concerning 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.

Licences

2012 marked the completion of the Company'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

Details	Application date	Application number	Exclusive right number
Polyoxymethylene production method	04-10-2004	P-370470	PL-211707
Polyoxymethylene production method	23-12-2004	P-371912	-

Trademark application

Name	Application date	Application number	Exclusive right number
<i>Dodajemy ziemi życia, a życiu barw</i>	05-04-2012	Z-399112	-
<i>Grupa Najlepszych składników</i>	12-07-2012	Z-402855	-
CYCLOPOL	13-09-2012	Z-404756	-
Grupa Azoty (wordmark)	19-11-2012	Z-407106	-
Grupa Azoty (word-graphic mark)	30-11-2012	Z-407604	-

Grupa Azoty (word-graphic mark)	30-11-2012	Z-407606	
Grupa Azoty Tarnów	19-11-2012	Z-407103	
European application			
	Application date	Application number	Exclusive right number
Saletrosan	12-07-2012	011035227	011035227
Logotypes			
Grupa Azoty	03-12-2012	011392065	-
Grupa Azoty	05-12-2012	011398351	-
	Application date	Application number	Exclusive right number
Details			
Caprolactam purification process	12-07-2012	P-399928	-
Method for recycling waste polytrioxane	16-07-2012	P-399968	-

4.8. Environmental performance

The Company holds 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 its operations.

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

1. An audit was conducted at the Company 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 Małopolska. 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 Company's installations.
5. A PRTR (European Pollutant Release and Transfer Register under Regulation (EC) no. 166/2006 and the Environmental Protection Law, Polish Journal of Laws 129/2006 and the Ordinance of the Minister of the Environment, Polish Journal of Laws 141/2009) was drafted for the General Environmental Protection Inspectorate.
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 Company'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 concerned 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.

Actions taken to fulfil the requirements of Resolution (EC) no. 1907/2006 (REACH)

Chromium trioxide was registered under REACH in 2012 due to exceeding the one tonne per year production threshold. The registration of six other substances continued before the second REACH registration deadline, i.e. in 2013, including cyclohexanone which is produced and registered only by the Company.

Formaldehyde registration has been updated in accordance with a decision of the ECHA.

4.9. Significant events

Increase of the Company's issued share capital within authorised share capital

(details can be found in this report under point 3.5 - *Equity and debt issues*)

Acquisition of ZA Puławy S.A.

The Company 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 Company for PLN 110 per share, bringing the transaction value to PLN 216 489 000. Prior to the tender offer announcement, the Company did not hold any ZA Puławy shares. The shares acquired by the Company 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 Company shares at an exchange ratio of 2.5 Company 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 Company'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 Company'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 Company 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 Company 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 Company's share capital through the series D share issue addressed to existing ZA Puławy S.A. shareholders and the Company'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 Company's Management Board has re-affirmed its support for ZA Puławy's investments specified in the Consolidation Agreement.

The Company's and ZA Puławy S.A.'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 more than ten thematic teams, each of which is currently analysing the current state of affairs, defining potential synergies and outlines key strategic initiatives to be completed within their respective areas. As an advisor, BCG is providing process-based and subject-matter support to the teams and coordinating consolidation at both companies.

Norica's tender offer for shares in the Company

On 16 May 2012 Norica Holding S.à.r.l. ("Norica"), 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 Company. Norica 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 Company's general meeting.

In accordance with the tender offer, Norica only intended to acquire shares in the Company if, at the end of the subscription period, at least 31 291 567 shares in the Company had been covered by subscriptions, which together with the 766 156 shares in the Company held by Agroberry Ventures Limited (a Nicosia-based company controlled by Subero Associates Inc.) as at the date of announcing the tender offer would have corresponded to 50%+1 voting right at the Company'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 voting right restrictions at the Company's general meeting, as referred to in § 47, sec. 3 of the Company's articles of association.

On 31 May 2012 Norica changed the minimum number of shares covered by subscriptions in the tender offer. Its intention was to acquire shares only in the event that subscriptions cover at least 41 550 037 shares in the Company, which together with the 766 156 of shares in the Company 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 Company'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 Company's Management Board presented its position on the tender offer for purchase of shares in the Company, as announced by Norica (current report 30/2012). In accordance with its published position, the Company'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 Company and did not take into consideration its long-term strategy, in particular failing to take into account potential synergies. The position taken by the Company'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 Company's Management Board recommended that shareholders in the Company 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 5 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 Norica announced that on 16 July 2012 the subscription period for purchase of shares in the Company 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 Company, 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 Company. 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 Company's share capital. In addition, Agroberry Ventures Limited, a subsidiary of Acron, held 766 156 shares in the Company, constituting a 1.2% stake in the Company's share capital.

Details can be found in the Company's current reports:

Current report 29/2012,

Current report 30/2012.

2012-2020 Strategy

On 13 June 2012 the Company's Management Board presented an updated 2012-2020 strategy for Grupa Azoty. The document covers both the Company and other entities comprising Grupa Azoty. Their operations are closely intertwined and complementary. In accordance with the adopted document Grupa Azoty operations over the next decade are aimed at implementing the Group's vision, which focusses on the Company 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 Company. 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 Company'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 by the Company in 2012 and it resulted in the introduction of a new common brand - *Grupa Azoty*.

The Company'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 - indeed, it aims to facilitate effective competition across global markets and consistent delivery of the strategy adopted in 2012. In addition, thanks to common branding the Group's product offering is presented in a consistent manner, facilitates communication 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 trade union representatives, and keeping the post-retirement financial security of our employees in mind, the Company'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 Company and fund manager TFI PZU S.A.

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

The programme is to be fully financed by the Company 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.

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 Company'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 Company'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 Company 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 Company by Grupa Azoty ZAK S.A.), with the remaining 75% from a new long-term loan which the Company has applied to PKO Bank Polski S.A. and PZU Życie S.A. under the joint financing agreement.

The Company, 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 Company.

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 Company 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 Company 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 Company 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 the Company, the Town of Tarnów and the Province of Małopolska (details can be found in this report under point 4.8, *Significant R&D achievements*).

QMS audit

On 19-22 March 2012 Det Norske Veritas carried out an audit covering the Company'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

The Company is undertaking efforts to improve the integration of companies within its group. The transformation and consolidation of IT environments at the Company, 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 Company 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 Company 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 Company 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 recognised in H2 2012 results.

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 Małopolska 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 Company 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 Company'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 Company under certificates of origin for electricity generated through highly efficient co-generation for the period from January to October 2012. The Company is awaiting award of the remaining certificates of origin for 2012.

5. Current financial standing and asset position

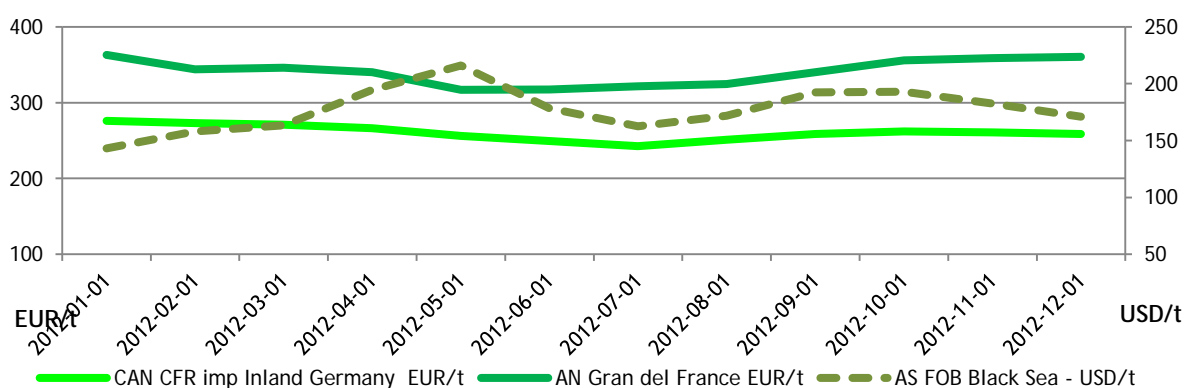
5.1. Significant factors and events having considerable impact on Company operations and financial results

5.1.1. Market pricing

Fertiliser market

Sulphur-based fertilisers and ammonium sulphate

Figure 5. CAN, AN and AS prices

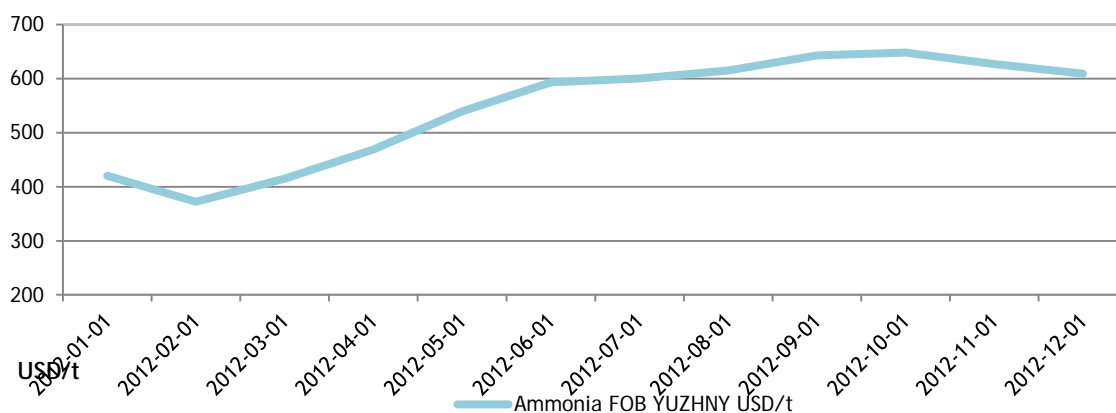


Source: FORTECON

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 6. Ammonia prices

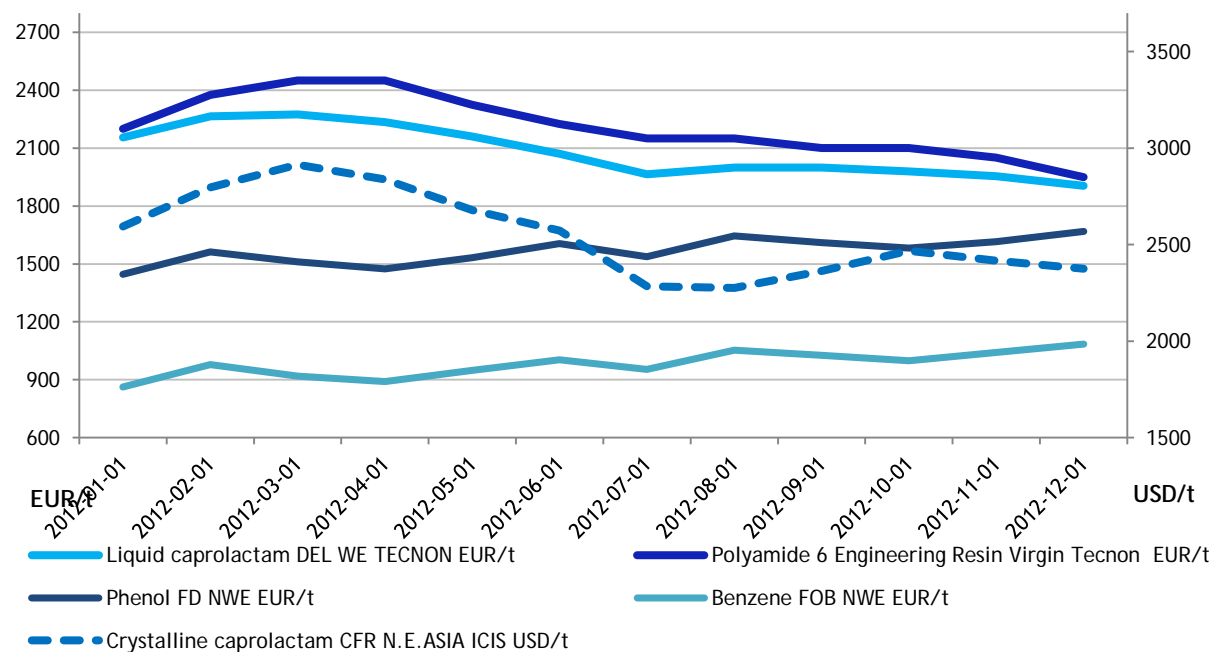


Sources: ICIS, FMB

The greatest contribution to the global supply-demand equilibrium 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 disruptions 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).

Plastics market

Figure 7. Caprolactam, PA6, benzene and phenol prices



Source: TECNON, ICIS

Benzene

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.

5.1.2. Other non-typical factors and events

Non-typical factors impacting financial performance include the on-going acquisition by the Company 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 Company.

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, securing financing for 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 exchange shares in ZA Puławy S.A. for shares in the Company.

Other factors and events impacting the Company'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 an 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 Company's financial results with regard to its net foreign currency exposure in EUR and its currency surplus over currency expenses. In turn the Company's net currency exposure in USD is significantly lower, meaning that the higher volatility in PLN compared to USD 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 Company hedged up to 50% of planned currency exposure under contracts executed, within a time scale of up to six months from the date on which the hedge was originated.

The Company used forward EUR hedges and to a lesser degree forward USD hedges in 2012, adequately to its planned net exposure in both currencies.

As at 31 December 2011, the nominal value of open currency derivatives (forwards) at the Company was EUR 4 000 000 (by maturity: January 2013 - EUR 1 000 000, February 2013 and March 2012 - EUR 1 500 000 each). At the end of 2012 the Company did not have any open derivatives in USD.

Revenue from sales was decreased by PLN 1 594 000 in 2012 (PLN 716 000 in H1 and PLN 878 000 in H2) as a result of a settlement of hedge positions related to currency loans and borrowings through the revaluation reserve.

Valuation of open hedging transactions as at 31 December 2012 amounted to PLN 410 000, constituting the total value of foreign exchange derivative instruments recognised under financial assets. No hedging relationships were designated in this group.

In addition, an EUA-CER swap executed by the Company was measured as at 31 December 2012, which consisted of exchanging 426 000 European Union Allowances for 426 000 Certified Emission Reductions with a mutual delivery deadline of 22 March 2013. The measurement for 2012 was a negative PLN 5 091 000, and cumulatively since origination of the swap a negative PLN 2 315 000. This results from an increase in the EUA-CER spread. The PLN -9 701 000 difference was recognised under current financial liabilities.

5.2. Key financial and economic data

5.2.1. Company financial results

During 2012 the Company generated a positive EBITDA of PLN 208 215 000 and net earnings of PLN 250 692 000.

Compared with 2011, the above figures are PLN 114 253 000 lower and PLN 42 817 000 higher respectively.

Table 16 below compares selected items in the consolidated statement of comprehensive income for 2012 and 2011.

Table 16. Company financial results

Description	2012	2011	change	% change
Revenue from sales	1 996 173	1 916 717	79 456	4.1
Cost of sales	(1 634 916)	(1 428 982)	(205 934)	14.4
Gross profit on sales	361 257	487 735	(126 478)	(25.9)
Distribution costs	(63 989)	(69 841)	5 852	(8.4)
Administrative expenses	(147 731)	(122 752)	(24 979)	20.3
Net profit on sales	149 537	295 142	(145 605)	(49.3)
Other operating expenses	(16 020)	(36 897)	20 877	(56.6)
Profit on operating activities	133 517	258 245	(124 728)	(48.3)
Finance income	142 626	1 376	141 250	10 265.3
Profit before tax	276 143	259 621	16 522	6.4
Income tax	(25 451)	(51 746)	26 295	(50.8)
Net profit	250 692	207 875	42 817	20.6
EBIT	133 517	258 245	(124 728)	(48.3)
Depreciation	(74 698)	(64 223)	(10 475)	16.3
EBITDA	208 215	322 468	(114 253)	(35.4)

Source: Grupa Azoty

The year on year revenue growth results from the Company generating higher sales in the fertiliser segment. Revenue in other segments slightly decreased compared to 2011 (plastics by approx. 8%, other activity by 0.6%). Despite higher growth in cost of sales over revenue from sales, the Company generated a positive result on sales and as a consequence ended the reporting period with a net profit of PLN 250 692 000.

The cost increase was primarily due to higher depreciation, use of materials and energy, and external services.

In 2012 a negative result of PLN 16 020 000 was recorded on other operating activities. Compared with 2011, the loss decreased by PLN 20 877 000, which mainly resulted from release of provisions and decrease of costs related therewith, as well as lower costs connected with production downtime and repairs.

On the other hand, finance income increased quite significantly - by PLN 141 250 000 compared to 2011. The key item here was dividends received from subsidiaries. Another contribution came in the form of positive exchange differences. Interest income declined slightly, however followed by a decrease in interest expenses.

5.2.2. Segment results

Table 17. EBIT by segment

Description	Fertilisers	Plastics	Other activity
Net revenue from sales	888 638	1 056 547	50 988
<i>Share [in %]</i>	<i>44.5</i>	<i>52.9</i>	<i>2.6</i>
Net profit on sales	104 721	44 752	64
<i>Share [in %]</i>	<i>70.0</i>	<i>29.9</i>	<i>0.0</i>
EBIT	100 646	42 158	(9 287)
<i>Share [in %]</i>	<i>75.4</i>	<i>31.6</i>	<i>(7.0)</i>

Source: Grupa Azoty

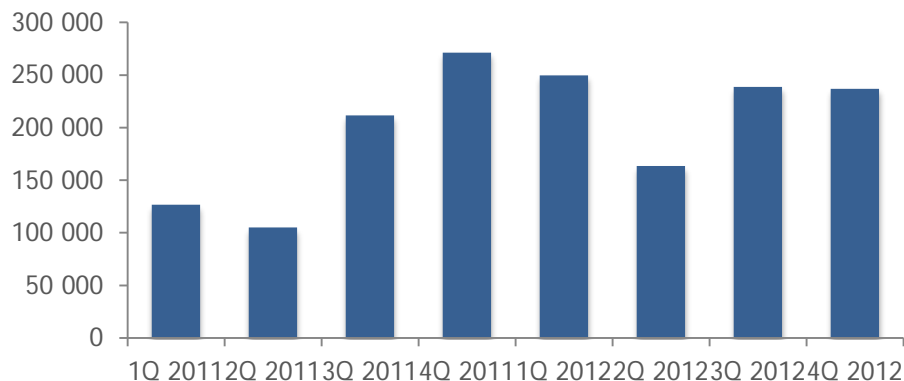
The level of Company product sales is primarily determined by market conditions in the fertiliser and plastics segments. Revenue from sales in the fertiliser segment reached PLN 888 638 000 in 2012, up 24.4% compared to 2011. Revenue from sales in the plastics segment was PLN 1 056 547 000, 8.2% higher than in the previous year. The fertiliser segment generated the highest net profit on sales and operating profit.

Fertilisers segment

In 2012 revenue from sales in the fertiliser segment reached PLN 888 638 000 and accounted for 44.5% of sales revenue generated by the Company. The revenue growth compared with 2011 was a result of higher sales recorded by the Company.

Favourable pricing conditions in the nitrogen fertiliser market throughout 2012 resulted in higher revenue from sales. Domestic sales were over 50% higher than exports. However, compared with 2011 exports increased their share in the sales structure.

Figure 8. Revenue from sales in the fertilisers segment



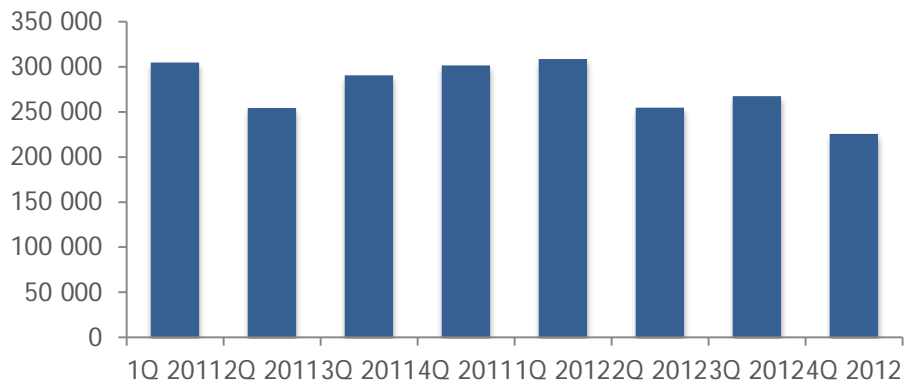
Source: Grupa Azoty

Plastics

In 2012 revenue from sales in the plastics segment amounted to PLN 1 056 547 000, accounting for 52.9% of all sales revenue generated by the Company. Compared to 2011, sales revenue in the segment neither increased nor decreased.

Domestic sales increased, whereas exports fell.

Figure 9. Revenue from sales in the plastics segment



Source: Grupa Azoty

Other activity

The other activity segment revenue decreased by approx. 0.6% during 2012 compared to the same period last year. Operating profit also improved.

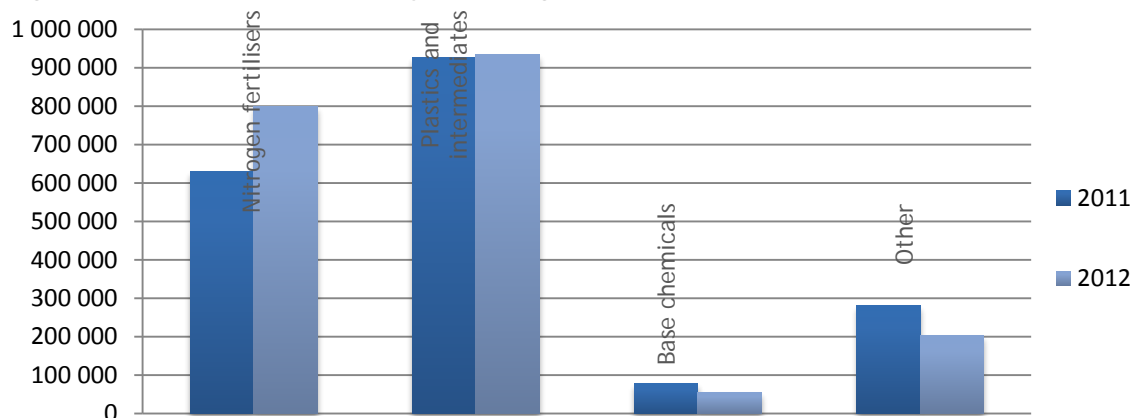
Figure 10. Revenue from sales in the other activity segment



Source: Grupa Azoty

Sales by product group

Figure 11. Revenue from sales by product group

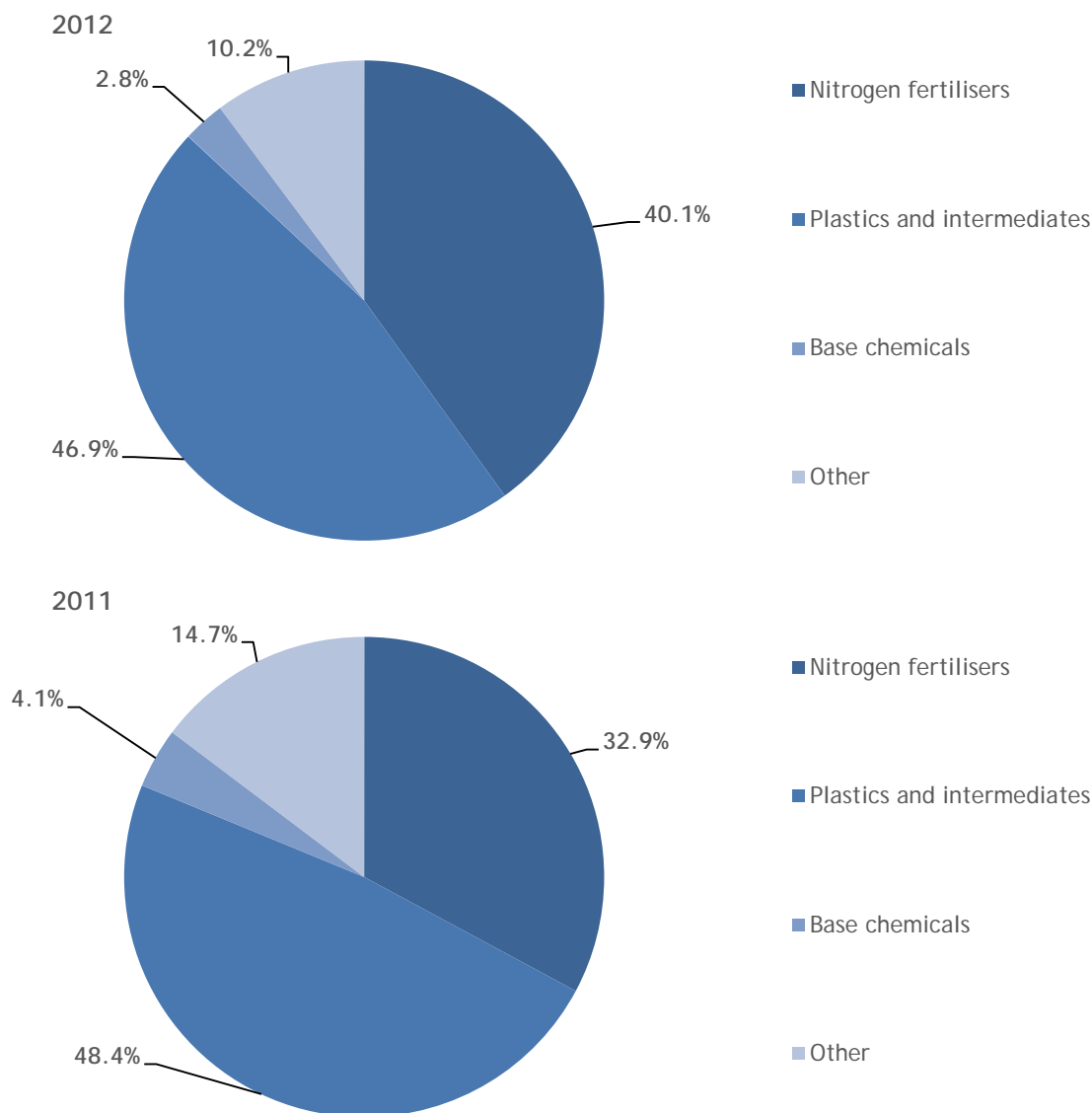


Source: Grupa Azoty

The key revenue items in Company sales are plastics and intermediates (a 46.9% share) and fertilisers (a 40.1% share).

Nitrogen fertilisers recorded the highest growth in revenue compared to 2011. Revenue from sales in this product group increased by nearly 27%. A slight increase in revenue from sales was also recorded in plastics and intermediates which are also the largest revenue contributor among the analysed product groups.

Figure 12. Sales revenue structure by product group



Source: Grupa Azoty

The Company's sales structure has changed in comparison with 2011. Plastics and intermediates, base chemicals and other activity decreased by 1.5pp, 1.3pp and 4.5pp respectively. On the other hand, nitrogen fertilisers' share grew by 7.2%.

5.2.3. Operating expenses by nature

Operating expenses during 2012 amounted to PLN 1 831 501 000, a PLN 311 444 000 increase on 2011. A PLN 203 673 000 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

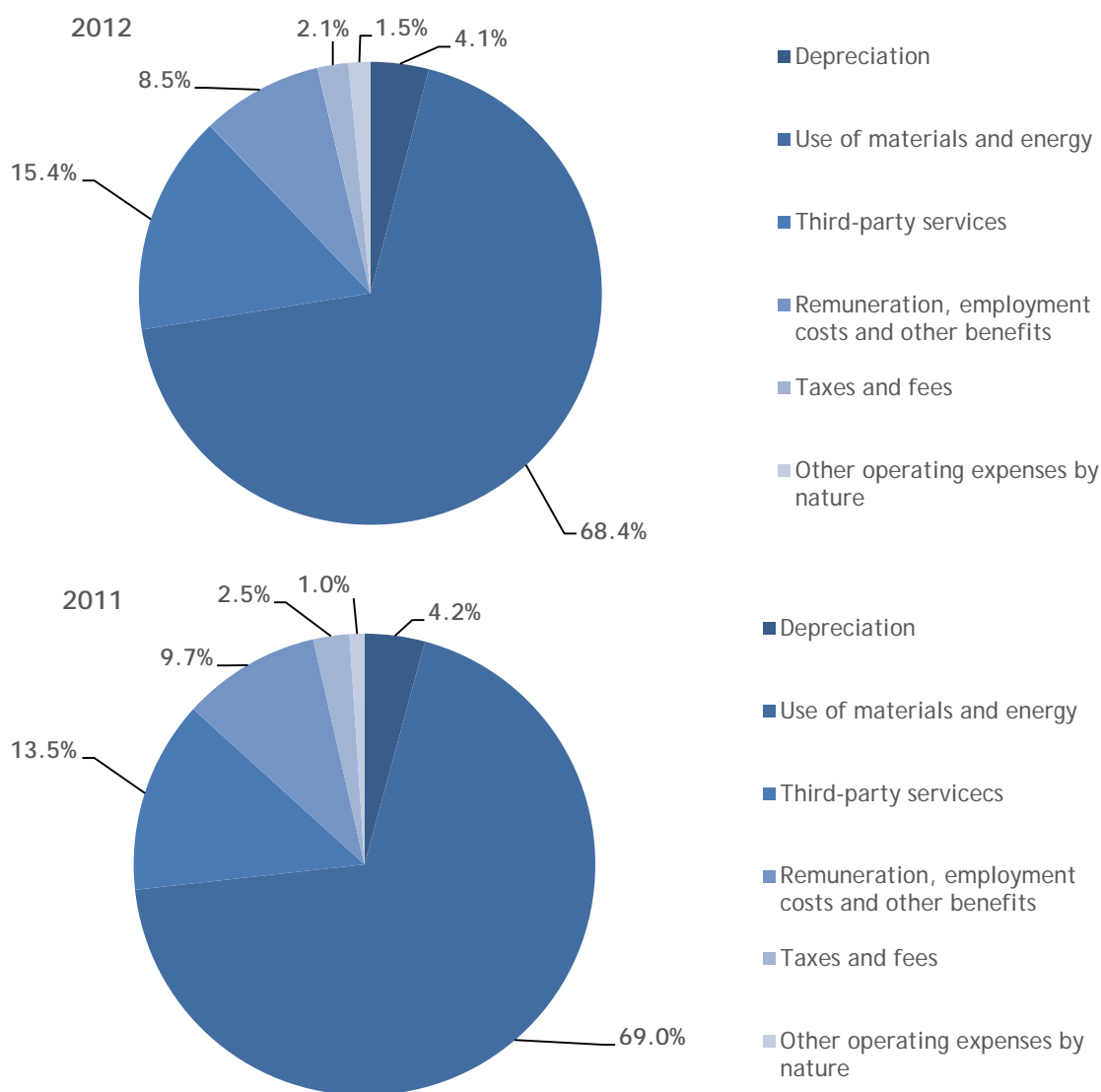
other materials. In addition, other operating expenses by nature increased by 77.8% and third-party service costs by 37.4%.

Table 18. Operating expenses by nature

Description	2012	2011	change	% change
Depreciation	74 698	64 223	10 475	16.3
Use of materials and energy	1 252 878	1 049 241	203 637	19.4
Third-party services	281 436	204 859	76 577	37.4
Remuneration, employment costs and other benefits	155 363	147 167	8 196	5.6
Taxes and fees	38 978	38 736	242	0.6
Other operating expenses by nature	28 148	15 831	12 317	77.8
Total	1 831 501	1 520 057	311 444	20.5

Source: Grupa Azoty

Figure 13. Structure of operating expenses by nature



Source: Grupa Azoty

The largest operating expense in 2012 was the use of materials and energy. Its share was similar to 2011. Third-party service costs slightly increased. A small decrease was recorded in remuneration, employment costs and other benefits.

5.2.4. Asset and liability structure

Throughout 2012, the value of the Company's assets increased to PLN 2 887 644 000, or by 16.6% compared to 2011. As at 31 December 2012 non-current assets were valued at PLN 2 344 204 000, while current assets amounted to PLN 543 440 000.

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

- an 18.8% increase in non-current assets,
- an 8.1% increase in current assets,
- an 80.0% increase in intangible assets,
- a 22.4% decrease in cash and cash equivalents,
- a 347.8% increase in other current financial assets.

Table 19. Asset structure

Description	2012	2011	change	% change
Non-current assets, including:	2 344 204	1 973 543	370 661	18.8
Property, plant and equipment	998 260	916 912	81 348	8.9
Intangible assets	49 298	27 395	21 903	80.0
Investment property	14 444	12 622	1 822	14.4
Investments in subsidiaries, associates and jointly controlled entities	993 757	993 757	-	-
Available-for-sale investments	282 815	12 204	270 611	2 217.4
Current assets, including:	543 440	502 872	40 568	8.1
Inventory	216 458	177 422	39 036	22.0
Trade and other receivables	220 012	225 148	(5 136)	(2.3)
Cash and cash equivalents	66 992	86 289	(19 297)	(22.4)
Other financial assets	23 850	5 326	18 524	347.8
Total assets	2 887 644	2 476 415	411 229	16.6

Source: Grupa Azoty

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

- a 15.0% increase in equity,
- a 100.0% increase in non-current liabilities,
- a 472.3% increase in non-current liabilities on borrowings,
- a 7.1% decrease in current liabilities,
- a 53.0% decrease in current borrowings.

Table 20. Equity and liabilities structure

Description	2012	2011	change	% change
Equity	2 215 135	1 925 589	289 546	15.0
Non-current liabilities, including:	299 874	149 906	149 968	100.0
Borrowings	172 473	30 135	142 338	472.3
Employee benefit provisions	38 409	32 931	5 478	16.6
Other provisions	22 324	25 289	(2 965)	(11.7)
Current liabilities, including:	372 635	400 920	(28 285)	(7.1)
Trade and other payables	255 417	230 832	24 585	10.7
Borrowings	43 742	92 997	(49 255)	(53.0)
Other provisions	12 615	16 191	(3 576)	(22.1)

Description	2012	2011	change	% change
Total liabilities	672 509	550 826	121 683	22.1
Total equity and liabilities	2 887 644	2 476 415	411 229	16.6

Source: Grupa Azoty

5.3. Financial ratios

Profitability

Profitability ratios mostly decreased in 2012 compared with the previous year. Return on sales decreased the most as a result of a 14.4% increase in cost of sales, with a concurrent increase in revenue from sales of 4.1%. EBIT and EBITDA margins also dropped, due to slower growth in operating profit than in revenue from sales. Higher costs recorded during the year had an impact on the return on sales. Return on equity increased as a result of growth in net earnings as at the end of 2012 compared with the end of 2011. Return on capital employed also declined as a result of a decrease in operating profit.

Table 21. Profitability ratios

Ratio	2012	2011
Return on sales	18.1 %	25.4 %
EBITDA margin	6.7 %	13.5 %
EBITDA margin	10.4 %	16.8 %
Net profit margin	12.6 %	10.8 %
Return on assets	8.7 %	8.4 %
Return on capital employed	5.3 %	12.4 %
Return on equity	11.3 %	10.8 %
Return on non-current assets	10.7 %	10.5 %

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 the Company recorded an increase in liquidity ratio I, which was caused by growth in current assets, with a concurrent decrease in the growth rate of current liabilities.

The respective increase and stagnation in liquidity II and III ratios resulted from a decrease in current liabilities, combined with an increase in current assets less inventory, together with growth in cash and cash equivalents, other financial assets and trade receivables.

Table 22. Liquidity ratios

Ratio	2012	2011
Liquidity ratio I	1.5	1.3
Liquidity ratio II	0.9	0.8
Liquidity ratio III	0.2	0.2

Source: Grupa Azoty

Ratio definitions:

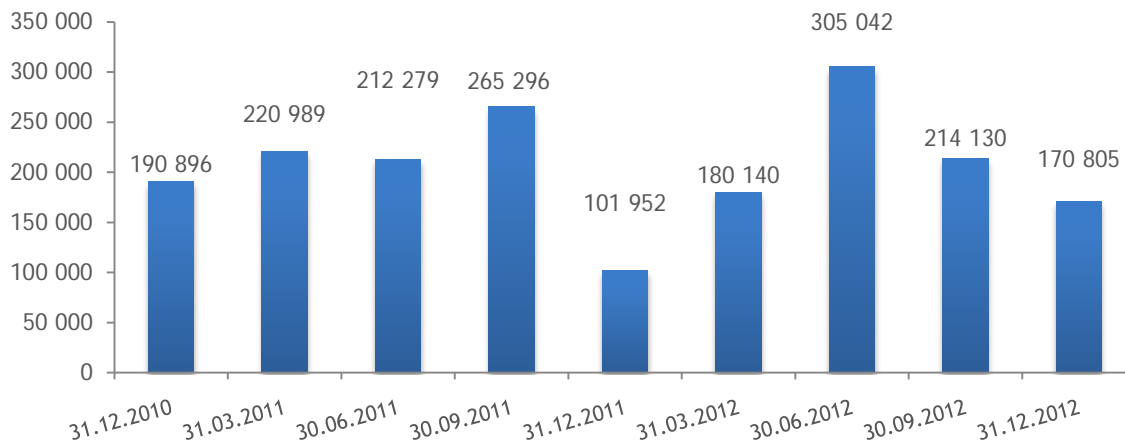
Liquidity ratio I = current assets / current liabilities

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 170 805 000.

Figure 14. Working capital dynamics



Source: Grupa Azoty

Inventory, receivables and payables

Inventory turnover increased primarily due to an increase in inventories. The decrease in receivables turnover, a positive, resulted from credit strategy optimisation and an improvement in receivables collection, with the concurrent introduction of a prudent insurance strategy. At the same time, the decrease in payables turnover, caused primarily by growth in cost of sales (mainly raw material prices), contributed to stagnation in the cash conversion cycle. That said, 31 days is a comfortable level for the Company, which is reflected in its liquidity ratios.

Table 23. Inventory, receivables and payables ratios

Ratio	2012	2011
Inventory turnover	48	45
Receivables turnover	40	44
Payables turnover	56	58
Cash conversion cycle	31	31

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 Company's assets and operations 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 Company's full debt servicing capacity and credit standing.

Table 24. Debt ratios

Ratio	2012	2011
Total debt ratio	23.3 %	22.2 %
Long-term debt ratio	10.4 %	6.1 %
Short-term debt ratio	12.9 %	16.2 %
Equity-to-debt ratio	329.4 %	349.6 %
Interest coverage ratio	2 136.0 %	1 826.0 %

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 for 2012 had not been published.

5.5. Capital and asset management

In 2012 the Company 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 Company 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 the Company increased its borrowings from PLN 123 132 000 to 216 215 000.

Importantly, the Company maintains a considerable cash surplus (as at 31 December 2012: PLN 66 992 000), hence liquidity risk is very low and even further reduced by the available current-account and multi-purpose loan facilities (amounting to PLN 93 400 000 as at 31 December 2012). Furthermore, as at 31 December 2012 the Company had available investment-purpose credit and loan facilities amounting to PLN 313 449 000 (including a PLN 70 000 000 loan at a subsidiary).

As at 31 December 2012, the Company 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 the Company'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 Company'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,

The Company achieved the above objectives through the following measures taken in 2012:

- Company'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 Company of a cash surplus earmarked for strategic objectives outlined in its prospectus,
- Company'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 Company financed investment expenditures totalling PLN 151 008 000 (excluding maintenance expenditures of PLN 20 254 000, including advances of PLN 7 607 000), 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 Company 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 Company 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 Company increased the Subsequent Tender Offer tranche for 16.3% 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.

The Company 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 Company'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

The Company did not terminate any credit or loan agreements during 2012.

The Company executed the following credit agreements or annexes to such agreements during 2012:

- **Factoring agreement between the Company and Raiffeisen Bank Polska S.A.**
On 5 January 2012 the Company executed an annex to its factoring agreement with Raiffeisen Bank Polska S.A., providing for cost optimisation 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.
- **Investment loan agreement between the Company and BGŻ S.A.**
On 30 March 2012 the Company 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 the Company's financial standing. Collateral for the loan was established in the form of a contractual mortgage of up to PLN 67 500 000 on sulphuric acid and hydroxylammonium sulphate facility, together with a registered pledge on moveable property within the above plant of a maximum pledge value of PLN 19 100 000.
- **Investment loan agreement between the Company as one party and PKO Bank Polski S.A. and PZU Życie S.A. as the other**
On 14 August 2012 the Company 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 Company's acquisition of up to 32% of shares in ZA Puławy S.A. as a result of the tender

offer and the costs and expenses connected with acquiring shares in ZA Puławy 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 Company's acquisition of ZA Puławy S.A. as a result of the Subsequent Tender Offer for purchase of shares in ZA Puławy S.A., the announcement of which may be mandatory due to the planned in-kind offering.

Furthermore, on 22 August 2012 the Company 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 Company'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 Company, together with shares in these companies to be acquired in the future, and furthermore registered and financial pledges on the Company's bank accounts held at PKO Bank Polski S.A. and the account held at DM 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.

- **Loan agreement between the Company and Raiffeisen Bank Polska S.A.**

On 23 January 2012 the Company 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 Company 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 all of 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 25. Significant financing agreements signed or annexed in 2012

	Agreement date	Annex date	Currency	Amount	Maturity
Factoring agreement Company - Raiffeisen Bank Polska S.A.	11-09-2009	05-01-2012	EUR	6 500	unspecified
		08-03-2012			
		30-03-2012			
Current account overdraft Company - PKO BP S.A. ¹⁾	01-10-2010	31-07-2012	PLN	60 000	30-09-2014 from 31 March 2014 to 31 December 2018
		18-12-2012			
Investment loan Company - BGŻ S.A.	30-03-2012	-	PLN	45 000	December 2018
Loan agreement between Company and PKO BP S.A., together with an agreement amending the Joint Financing Agreement, executed between Company and PKO BP S.A. and PZU Życie S.A.	14-08-2012	22-08-2012	PLN	711 000	from 31 March 2013 to 31 December 2017
Receivables discounting agreement Company - Raiffeisen Bank Polska S.A.	21-09-2005	23-01-2012 31-12-2012	PLN	10 000	28-11-2014 from 31 March 2010 to 31 December 2014
Investment loan Company - Raiffeisen Bank Polska S.A.	16-12-2009	31-12-2012	EUR	6 000	from 29 March 2013 to 29 December 2017
Investment loan Company - Raiffeisen Bank Polska S.A.	21-09-2010	31-12-2012	USD	7 638	from 29 March 2013 to 29 December 2017
Investment loan Company - Raiffeisen Bank Polska S.A.	21-09-2010	31-12-2012	EUR	1 998	December 2017

Source: Grupa Azoty

¹⁾ this is a PLN 250 000 000 current account facility for Grupa Azoty companies, under which the Company has a sub-limit as listed above.

Grants

In 2012 the Company received a payment of PLN 2 952 000 under a co-financing agreement entitled “Commercial use of ash at Zakłady Azotowe w Tarnowie-Mościcach S.A.” executed on 12 April 2010 with the National Fund for Environmental Protection and Water Management in Warsaw under activity 4.2 priority IV of the Infrastructure and Environment Operational Programme 2007-2013. As a result of a correction of qualified expenditures submitted for refund, in November 2012 the Company refunded PLN 1 455 000 together with PLN 136.45 in interest on the refunded amount.

In accordance with the agreement, the provided co-financing constituted 30% of qualified expenditures in the form of intermediate payments and a final payment which took place on 28 December 2012 in connection with the project’s completion. The total amount of co-financing received was PLN 3 854 000.

5.8. Information on loans granted, in particular to entities related to the Company

In 2012 the Company did not grant loans to any related parties.

ATT Polymers GmbH continued to repay a EUR 6 000 000 loan granted by the Company in January 2010. During the period from January to December 2012 the lender has made timely repayment of

12 monthly instalments, as a result of which at 31 December 2012 the amount still to be repaid to the Company was EUR 2 483 000. During 2012, the Company made PLN 684 000 in interest and commission income on loan servicing costs.

On 30 May 2012 the Company signed an annex to the long-term special-purpose loan agreement executed on 14 June 2011 with Grupa Azoty ZAK S.A. in the amount of PLN 70 000 000. The annex introduced the following changes to the agreement:

- extension of the final repayment deadline from 30 May 2012 to 31 March 2014,
- change into a renewable facility,
- establishment of a separate interest margin above WIBOR 1M for a tranche originating from Grupa Azoty ZAK S.A.'s own funds; this interest was determined based on market conditions.

5.9. Information on guarantees and sureties granted and received, in particular to entities related to the Company

Sureties and guarantees granted by the Company

On 22 March 2012 the Company provided a PLN 948 000 guarantee and a PLN 956 000 guarantee (103.25% of the loan amount) to Grupa Azoty KOLTAR Sp. z o.o. as collateral for repayment of liabilities under a loan agreement with the Provincial Fund for Environmental Protection and Water Management, executed to finance an upgrade of two combustion-engine locomotives. The guarantees are valid until 31 December 2016 or earlier if the loans, together with interest and fees resulting from the loan agreements, are repaid.

Table 26. Guarantees provided by the Company on behalf of its related parties in 2012

Beneficiary	Details	Currency	Amount
Provincial Fund for Environmental Protection and Water Management	Collateral for repayment of Grupa Azoty KOLTAR Sp. z o.o. liabilities under a loan agreement	PLN	948
Provincial Fund for Environmental Protection and Water Management	Collateral for repayment of Grupa Azoty KOLTAR Sp. z o.o. liabilities under a loan agreement	PLN	956
			1 904

Source: Grupa Azoty

Related parties from Grupa Azoty did not grant any sureties or guarantees to the Company. The following guarantees were issued at the Company's request in 2012:

Table 27. Guarantees issued at the Company's request in 2012

Type and parties	Issue date	Subject of collateral	Amount (in PLN)	Validity
Payment guarantee issued by Societe Generale at the request of the Company for UniCredit CAIB Poland S.A.	13-07-2012	Tender offer for 32% of shares in ZA Puławy S.A.	672 848	25-08-2012 (expired)
Annex to a bank guarantee issued by PKO BP S.A. at Company's request for the Customs Chamber in Kraków	26-11-2012	Customs debt	800	from 01-01-2013 to 04-03-2014
			673 648	

Source: Grupa Azoty

Table 28. Guarantees provided by the Company on behalf of its related parties as at 31 December 2012

Type	Beneficiary	Details	Currency	Date issued	31-12-2012	31-12-2011
Surety / Zakłady Azotowe w Tarnowie - Mościcach S.A.	Envia Mitteldeutsche Energie AG Germany	Security for payment of ATT Polymers GmbH liabilities	EUR	24-05-2010	1 000	1 000
Surety / Zakłady Azotowe w Tarnowie - Mościcach S.A.	Envia THERM GmbH	Security for payment of ATT Polymers GmbH liabilities	EUR	29-04-2010	500	500
Surety / Zakłady Azotowe w Tarnowie - Mościcach S.A.	Provincial Fund for Environmental Protection and Water Management	Collateral for payment of PTK Koltar Sp. z o.o. liabilities resulting from a loan agreement	PLN	22-03-2012	1 904	-
					8 179	6 766

liabilities in EUR translated into PLN at the EUR/PLN ask rate of the lead bank as at 30 December 2011 - 4.5106 and 31 December 2012 - 4.1834

Table 29. Guarantees provided within credit limits at the Company's request as at 31 December 2012

Type	Beneficiary	Details	Currency	Date issued	31-12-2012	31-12-2011
Bank guarantee / Raiffeisen Bank Polska S.A.	Director of the Customs Chamber in Krakow	Collateral for customs procedures	PLN	15-11-2005	-	1 600
Bank guarantee PKO BP S.A.	Director of the Customs Chamber in Krakow	Collateral for customs procedures	PLN	14-12-2011	1 600	1 600
Bank guarantee / Raiffeisen Bank Polska S.A.	GATX Rail Poland Sp. z o.o. Warsaw	Guarantee of lease payments	PLN	29-01-2008	-	143
Bank guarantee / Raiffeisen Bank Polska S.A.	GATX Rail Poland Sp. z o.o. Warsaw	Guarantee of lease payments	PLN	26-03-2009	-	120
					1 600	3 463

5.10. Description of significant off-balance-sheet items

Table 30. Promissory notes

Beneficiary	Details	Currency	Date of issue	31-12-2012	31-12-2011
PKN Orlen S.A.	Collateral for payables - goods and services	PLN	02-09-2011	25 000	25 000
Polimex-Mostostal Siedlce S.A.	liabilities resulting from a guarantee of deposit refund for a contract with CNCCC China	USD	26-01-2005	1 872*	2 056*
Director of the Customs Chamber in Krakow	Collateral for existing and future excise tax liabilities	PLN	29-03-2011	330	330
National Fund for Environmental Protection and Water Management	Collateral on the refund of funds paid out for implementation of an ash use project	PLN	09-08-2010	4 588	4 588
Director of the Customs Chamber in Krakow	Collateral for existing and future excise tax liabilities	PLN	07.08.2012	1 050	1 050
				32 840	33 024

* 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 the Company as collateral for payables recognised in the balance sheet or guarantees issued by banks at the Company's request as collateral for liabilities recognised in the statement of financial position.

5.11. Financial instruments - risk management strategy, together with risk management instruments, objectives and methodology

The Company is exposed to credit risk, liquidity risk and market risk (mostly involving currency risk and interest rate risk), which arise during the Company's normal course of business. Financial risk management in the Company 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 (earnings, cash flows). To this end, the Company applies natural hedging and 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 Company's trade receivables, fixed-term deposits and funds held in bank accounts covered by virtual cash-pooling.

Approx. 59% of the Company's trade and other receivables from non-related parties are insured under trade credit insurance policies issued by KUKI S.A., which limits credit risk to the Company's own contribution (5-10% of the insured receivables). This insurance policy ensures that the financial position of the Company's business partners is constantly monitored and receivables are collected whenever necessary. Should the counterparty become physically or legally bankrupt, insurance compensation is received, totalling 90-95% of the insured receivables.

Furthermore, 41% of trade and other receivables is not subject to insurance since these are receivables from related parties.

Whenever no positive trading history exists between a counterparty and the Company 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.

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

Receivables from foreign consumers make up about 65.9% of the Company's trade receivables, with the remaining 34.1% constituting receivables from domestic customers.

The Company generates revenue in two main segments corresponding to its areas of business operations. Customers in the plastics segment are the largest group, accounting for 72.4% trade receivables. This group is dominated by foreign customers, who receive trade credit covered by insurance credit limits.

The second largest group is in the fertiliser segment, accounting for nearly 23.2% of the Company's trade receivables. The group is dominated by domestic customers, where prepayment is applied to some sales, unless a counterparty is creditworthy, in which case it received trade credit covered by insurance credit limits.

Cash and fixed-term deposits

Cash and cash equivalents are deposited in respectable financial institutions with high solvency ratios.

Liquidity risk

Liquidity risk refers to the risk that the Company 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 Company maintains a considerable cash surplus (including proceeds from equity issues), hence liquidity risk is very low and even further reduced by the available current-account and investment-purpose loan facilities and factoring limits. In 2012 the Company 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.

Market risk

Foreign exchange risk

The Company 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 the Company's exposure to currency risk.

The Company 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 Company hedges currency exposure throughout the reporting period using instruments including the following: natural hedging, factoring and forfaiting, and for up to 50% of the remaining currency exposure - forward derivatives. In its separate financial statements the Company carried out a sensitivity analysis of financial instruments denominated in foreign currencies (including derivatives) to exchange rate changes.

Interest rate risk

The Company's exposure to interest rate changes mostly results from its balance of cash and cash equivalents, financial assets as well as bank financing 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 Company does not hedge interest rate risk.

In order to limit interest rate risk, the Company monitors the situation in the money market on an on-going basis. A significant proportion of the Company's cash surplus is covered by virtual cash pooling with interest at WIBOR 1M, together with short-term bank deposits with market-rate interest based on market conditions at the time of execution. A limited increase in WIBID and WIBOR rates was observed in H1 2012, followed by a quicker decline towards the end of the year. Interest on the Company's bank deposits was corresponding to the average interest on financial liabilities based on variable interest rates.

In its separate financial statements the Company carried out a sensitivity analysis of financial instruments denominated in foreign currencies (including derivatives) to interest rate changes.

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

Detailed fair values of the Company's 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. Due to their mostly floating rate nature, the carrying amounts are similar to fair values.
- Currency derivatives and EUA/CER swaps. The carrying amount of such instruments is equal to their fair value.

As at 31 December 2012 the Company 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 Company's open currency derivatives was EUR 4 000 000 (by maturity: January 2013 - EUR 1 000 000, February 2013 - EUR 1.5 000 000, March 2013 - EUR 1.5 000 000). At year end, the Company did not hold any open currency derivatives in USD. As at 31 December 2011, the nominal value of the Company's open currency derivatives was EUR 11 000 000.

Fair value of hedged instruments

As at 31 December 2012, the Group's open currency derivatives were measured at PLN 410 000 and 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.

Hedge accounting

In order to hedge probable future cash flows from sales transactions that give rise to currency risk, the Company 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 the Company

The Company's financial standing is characterised by full payment capability and creditworthiness. This means the Company 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. The Company 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. The Company fulfils uniform covenants under which it is capable of significantly increasing its financial liabilities as needed.

From the viewpoint of the Company'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 the Company

6.1. Significant risk and threat factors

The Company 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 this report under point 5.11 - *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 the Company*, the Company 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 Company through acquisition of a sufficient volume of its shares, allowing 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 Company's Management Board or Supervisory Board 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 Company facilities.

Risk connected with macroeconomic factors

The Company's 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 the Company'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. The Company'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 Company'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 Company's products.

Risk connected with increased competition and commodity price changes

Product prices and demand are subject to significant volatility. In particular, this concerns fertiliser products which are produced using natural gas, phosphorites and potassium salt. In order to reduce the impact of negative price changes in the market in this case, the Company tries to fully diversify its sales markets and customer base. Thanks to these efforts it obtains greater independence and the possibility to level out potential drops in sales in one market with growth in another. Seasonal demand variations for the Company's products are also minimised through the use of an appropriate sales strategy at group level.

The on-going consolidation within Grupa Azoty, supervised by the Company, aims to increase resilience and competitive advantage, enabling the group to successfully compete in global markets.

Risk of interruptions in production processes, repair and maintenance process management, ensuring production continuity and incident management

The Company is classified as a facility with a high risk of a serious industrial incident.

There are safety systems and preventative measures are taken within the Company 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 the Company 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 Company, 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 delivery of strategic projects and growth strategy

The Company's strategy, closely aligned with the 2012-2020 Grupa Azoty Strategy, presented by the Management Board on 31 June 2012, focusses on the Company 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 Company's operations are connected with the use of a wide range of IT systems, with relation to both Company and Group operations as well as Group management. In 2010 the Company launched an IT outsourcing project for the entire Grupa Azoty, delegating IT systems supervision to an external entity. 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. Significant external and internal growth factors for the Company

6.2.1. External factors

The IMF believes that global economic growth in 2013 will reach 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 2013, 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 Company'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 and parent of Grupa Azoty, the Company 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 Company and Grupa Azoty 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 the Company's 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. 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.

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, well-respected 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,
- 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,
- limited level of operating competence in markets for highly processed products aimed at a mass customer.

6.3. Growth directions

The Company's growth directions are outlined in its 2012-2020 strategy published in June 2012 (as mentioned in point 4.10 *Significant events*). The document has been developed for the entire Grupa Azoty and Group activities are synonymous with Company activities.

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.

Grupa Azoty's key strategic to be achieved by the end of 2020:

- Company'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 will aim to reach the above objectives 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,
- optimising production costs through upgrading main production lines,
- building stable and effective customer relations, increasing Grupa Azoty's brand awareness and optimisation of logistics and product distribution,
- improving key process efficiency, together with knowledge management,
- continuously adapting product quality to client requirements,
- related diversification, using synergies with the existing product portfolio,
- 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 the Company, 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 EU-27 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 advanced 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.

Energy

During 2012-2020 the main source of heating power and electricity for production assets will be the existing coal-powered cogeneration facilities.

The existing CHP facilities will be systematically upgraded, with the scope and reach of their modernisation adapted to the changing legal landscape, particularly in the area of environmental performance.

Ensuring heating power and electricity procurement over the long term will be mainly dependent on the adopted legal regulations.

The adopted product and market strategy will be supported through dynamic R&D activities, whose main objective is to develop knowledge-based competitive advantage - translating into a more innovative product, process and technology portfolio.

7. Entity authorised to audit the financial statements

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 Company and Group for the third quarter of 2012. The value of these additional services is PLN 665 000.

Company

Description	<i>KPMG Audyt Sp. z o.o.</i>	<i>Deloitte Audyt Sp. z o.o.</i>
	2012	2011
Audit of the separate and consolidated annual financial statements of the Company and Group	170	210
Review of the separate and consolidated interim financial statements of the Company and Group	105	130
Review of the separate and consolidated quarterly financial statements of the Company and Group for Q3	185	-
Prospectus-related services	480	330
Other services	-	22
Total	940	692

8. Court proceedings

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

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

At the beginning of 2012 the Company received a letter from ISARIOS Industriekapital AG concerning UNYLON AG's potential alleged claims against the Company 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 Company 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 Company'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 Company 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 Company rejected the request through a letter dated 15 August 2012. On 30 November 2012 the Company 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 arbitration proceedings and does not mean that the costs which the Company may potentially incur will not exceed this amount. From the date of the claim (16 November 2012), the arbitration proceeding is considered to be open. The Company is currently working on a response to the claim. As at the date on which the financial statements were drawn up, the Company'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 Company which would have a negative impact on the operations, financial performance and financial standing of the Company and Group.

9. Corporate authorities

9.1. Remuneration and additional benefits

Table 31. Supervisory Board Members' compensation for work at the Company in 2012

	Base salary	Other benefits	Considerations due	Total
Monika Kacprzyk - Wojdyga	160	1	-	161
Marzena Piszczek	21	-	-	21
Ewa Lis	158	1	-	159
Jan Wais ^{*)}	398	1	-	399
Tomasz Klikowicz ^{**)}	209	-	-	209
Artur Kucharski	135	2	-	137
Marek Mroczkowski	135	1	-	136
Jacek Obłękowski	135	-	-	135
Zbigniew Paprocki ^{***)}	252	1	-	253
Ryszard Trepczyński	136	1	-	137
	1 739	8	-	1 747

- ^{*)} including remuneration on the basis of an employment contract at the Company - PLN 240 000,
^{**)} including remuneration on the basis of an employment contract at the Company - PLN 74 000,
^{***)} including remuneration on the basis of an employment contract at the Company - PLN 117 000.

Table 32. Management Board Members' compensation for work at the Company in 2012

	Base salary	Other benefits	Considerations due	Total
Jerzy Marciniak	873	451	458	1 782
Andrzej Skolmowski	476	361	342	1 179
Witold Szczypiński	509	360	342	1 211
Krzysztof Jałosiński	388	90	342	820
Artur Kopeć	335	25	342	702
	2 581	1 287	1 826	5 694

Table 33. Company Management Board and Supervisory Board Members' compensation for work at subsidiaries in 2012

	Base salary	Other benefits	Considerations due	Total
Jerzy Marciniak	87	-	-	87
Andrzej Skolmowski	364	-	-	364
Witold Szczypiński	331	-	-	331
Krzysztof Jałosiński	452	-	-	452
Artur Kopeć	-	-	-	-
	1 234	-	-	1 234

9.2. Agreements executed between the Company 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 Company'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 Company 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 Warsaw Stock Exchange, the Company's Management Board, acting pursuant to resolution no. 1013/2007 of the Warsaw Stock Exchange 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 Company is subject together with the location where the text concerning such principles is publically available

Declaring operations in accordance with the highest capital market communication standards and principles of corporate governance, the Company applies the principles of "Best Practices for Companies Listed on the WSE", drawn up by the Warsaw Stock Exchange. 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 Company, which contain corporate governance principles.

The Company has been a constituent of the RESPECT index managed by the Warsaw Stock Exchange since 2009. The Company 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 Warsaw Stock Exchange, SEG and Deloitte, on 24 January 2013 the Company was for the sixth time included in the elite group of 20 issuers constituting the RESPECT Index.

10.2. Scope in which the Company 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 Company's aim is to observe best practice for corporate governance, which was expressed in the declaration of the Company's Management Board contained in the 2008, 2011 and 2012 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 Company'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 Company's view, documenting and performance of previous general meetings ensured transparency and safeguards the rights of all shareholders. In addition, information concerning the adopted resolutions is published by the Company in the form of current reports, also online. Therefore investors are able to review the matters discussed at the general meeting. The Company 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 Company'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 Company is not against applying this principle in the future. The Company'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 Company 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 Company,
- monitoring financial audit,
- monitoring the independence of the statutory auditor and entity authorised to audit the Company'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 Company's operations.

The specific principles for Audit Committee operations are defined in the Committee Bylaws 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 Company's Supervisory Board.

Guidelines for risk management at the Company 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 Company introduced a procedure for managing currency risk, the objective of which is to hedge currency flows against unbeneficial 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 Company regulating the preparation, approval, publication and allocation of separate and

consolidated periodic reports for the Group. The Company also implements an information policy which is unified for the entire Group.

An Internal Audit Office was created within the Company 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 Company'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 Company'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 Company's Management Board. Financial statements approved by the Company's Management Board are verified by an independent statutory auditor selected by the Company's Supervisory Board.

10.4. Shareholding structure

Table 34. Shareholding structure as at 1 January 2012 (in accordance with the information provided in the annual report for 2011)

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

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 Company by the KDPW, Aviva OFE Aviva BZ WBK registered 6 000 000 shares which is tantamount to an increase in its share of the Company's capital to 9.36%.

Table 35. Shareholding structure as at 27 April 2012

Shareholder	Number of shares	% share in capital	Number of voting rights	% of voting rights
State Treasury of Poland	20 549 000	32.05	20 549 000	32.05
ING OFE	8 284 242	12.92	8 284 242	12.92
Aviva OFE				
Aviva BZ WBK	6 000 000	9.36	6 000 000	9.36
PZU S.A. (including PZU Życie S.A.)	3 374 200	5.26	3 374 200	5.26
Generali OFE	3 245 554	5.06	3 245 554	5.06
Other	22 662 448	35.35	22 662 448	35.35
Total	64 115 444	100.00	64 115 444	100.00

On 15 June 2012 the Company received a notification from PTE 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 Company 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 Company to be exceeded.

Before the above transaction, PZU OFE held 3 196 990 shares, constituting 4.99% of the Company'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 Company'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 36. Shareholding structure as at 15 June 2012

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

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 Company by the KDPW:

- ING OFE registered 9 250 000 shares, which is equivalent to increasing its stake in the Company'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 Company'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 Company's share capital to 5.29%,
- Generali OFE registered 3 340 610 shares, which is equivalent to increasing its stake in the Company's share capital to 5.21%.

Table 37. Shareholding structure as at 14 July 2012

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

On 23 July 2013 the Company'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 Company 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 Company's general meeting (12.03% of total votes at the general meeting).

Prior to the tender offer Norica did not hold shares in the Company. 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 Company, carrying 766 156 votes at the general meeting (1.2% of total votes at the Company'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 Company'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 Company's general meeting over the next 12 months.

Table 38. Shareholding structure as at 23 July 2012

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

On 27 July 2012 the Company'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 Company to investment fund PZU FIZ AKCJI, the

level of shares held in the Company by PZU S.A. and subsidiary PZU Życie S.A. had decreased below the 5% threshold of total votes at the Company's general meeting.

Before the above transaction, PZU S.A. held 3 392 642 shares, constituting 5.29% of the Company's share capital and 5.29% of votes at the Company'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 Company's share capital and 4.96% of votes at the Company's general meeting. These shares carry 3 179 496 votes at the general meeting.

Table 39. Shareholding structure as at 27 July 2012

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

On 29 October 2012 the Company'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 Company's general meeting.

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

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

Table 40. Shareholding structure as at 26 October 2012

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

On 21 January 2013 the Company's Management Board received information from ING Powszechnie Towarzystwo Emerytalne S.A. (ING OFE) dated 18 January 2013, 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, 1439, as amended).

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

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

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

Table 41. Shareholding structure as at 21 January 2013

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

On 21 January 2013 the Warsaw Stock Exchange Management Board through resolution 83/2013 decided to introduce, as per the standard procedure, 35 080 040 rights to the Company'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 Company'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 Company's articles of association as regards registration of an increase in the Company'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 Company 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 Company's Management Board received a notification from Powszechnie 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 Company through the series D share issue, after registration of the Company's share capital increase by the relevant court, PZU OFE's stake was reduced to less than 5% of votes at the Company's general meeting.

Prior to allocation of series D shares, PZU OFE held 3 270 585 shares in the Company, constituting 5.10% of its share capital and carrying 3 270 585, or 5.10%, votes at the Company's general meeting.

On 18 January 2013 (together with rights to series D shares) PZU OFE held 3 795 102 shares in the Company in its brokerage account, constituting 3.83% of its share capital and carrying 3 795 102, or 3.83%, votes at the Company's general meeting.

On 28 January 2013 the Company'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 Company'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 Company's shares decreased to less than 10%.

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

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

At the same time, registration of the increase in the Company'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 Company, constituting 8.91% of shares in the Company, carrying 8 833 660, or 8.91%, votes at the Company's general meeting,
2. Acron, dominant entity of TrustService, indirectly, through its subsidiary Norica, acquired 8 833 660 shares in the Company, constituting 8.91% of shares in the Company, carrying 8 833 660, or 8.91%, votes at the Company'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 Company carrying 766 156, or 0.77%, votes at the Company's general meeting) controls a total of 9 599 816 shares in the Company, constituting 9.68% of the Company's share capital, carrying 9 599 816, or 9.68%, votes at the Company'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 Company, constituting 9.68% of the Company's share capital, carrying 9 599 816, or 9.68%, votes at the Company's general meeting.

Prior to the Company's share capital increase:

1. TrustService, dominant entity of Norica, indirectly, through its subsidiary Norica, acquired 8 833 660 shares in the Company, constituting 13.78% of shares, carrying 8 833 660, or 13.78%, votes at the Company's general meeting,
2. Acron, dominant entity of TrustService, indirectly, through its subsidiary Norica, acquired 8 833 660 shares in the Company, constituting 13.78% of shares, carrying 8 833 660, or 13.78%, votes at the Company's general meeting,
3. Subero, dominant entity of Acron, indirectly, through its subsidiaries Norica and Cliffstone held a total of 9 599 816 shares in the Company, constituting 14.97% of the Company's share capital, carrying 9 599 816, or 14.97%, voting rights at the Company'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 Company, constituting 14.97% of the Company's share capital, carrying 9 599 816, or 14.97%, voting rights at the Company's general meeting.

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

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

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

Entities controlled by TrustService, other than Norica, do not hold any shares in the Company.
Entities controlled by Norica do not hold any shares in the Company.
During the 12 month period from receipt of Norica's information by the Company, Viatcheslav Kantor, Subero, Norica, Acron and TrustService may from time to time, directly or indirectly, acquire or sell additional shares in the Company.
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 Company'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 Company's series D shares, on 22 January 2013 ING OFE increased its stake in the Company's series D shares and rights to shares. Once the series D rights to shares are converted to shares, its stake in the Company will have exceeded the 10% threshold of votes at the Company's general meeting.

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

On 28 January 2013 ING OFE held 9 996 273 Company 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 Company'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 Company'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 Company's performance. The objective for the acquisition of shares in the Company is asset allocation under ING OFE's investing activities.

On 31 January 2013 the Company's Management Board received information dated 30 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 Company's series D ordinary bearer shares, as a result of which the State Treasury increased its stake in the Company's shares and rights to shares. Once the series D rights to shares are converted to shares, its stake in the Company will have exceeded the 33.33% threshold of votes at the Company's general meeting and its stake in the Company's share capital will have increased by at least 2% of total votes at the Company's general meeting.

The above rights to shares were acquired through a public offering of the Company'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 Company, constituting 32.05% of share capital and carrying 20 549 000, or 32.05%, votes at the Company's general meeting. Upon conversion of the rights to shares to series D shares, the State Treasury will have increased its stake in the Company to 44 764 617 shares, constituting 45.13% of share capital and carrying 44 764 617, or 45.13%, of votes at the Company's general meeting.

On 5 February 2013 the Company'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 Company's other shares are traded under code PLZATRM00012, issued by the company managing this regulated market, subject to the statement below.

Registration of the Company'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 Warsaw Stock Exchange main 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 KDPW under code PLZATRM00012 on the same date.

Table 42. Shareholding structure as at 31 January 2013

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

On 14 February 2013 the Company'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 Company at the Warsaw Stock Exchange, settled on 8 February 2013, ING OFE decreased its interest in the Company to less than 10% of votes at the Company'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 Company's general meeting.

On 13 February 2013 ING OFE held 9 883 323 shares in the Company in its brokerage account, which constituted 9.96% of the Company's share capital. These shares carried 9 883 323, or 9.96%, votes at the Company's general meeting.

Table 43. Shareholding structure as at 14 February 2013

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

Table 44. Shareholding structure as at 6 March 2013

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

From 6 March 2013 to the date on which these financial statements were published, the Company 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 Company's articles of association, the general meeting summons the Management Board of the Company 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 Company'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 Company'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 equalling 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 Company (holding a total of 970 series AA shares) on 15 September 2008. In connection with the Act of 19 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 Company's 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 Company employs an annual average of above 500 employees, the Supervisory Board appoints one person elected by Company employees to the Management Board for the term of such Board. (§ 25, sec. 1 of the Company'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 Company'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 PUŁAWY in such a way that one share in ZA PUŁAWY will be a non-cash contribution to cover 2.5 Company'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 PUŁAWY does not require the approval of the Supervisory Board.

5. In the Company'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 PUŁAWY 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 Company'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 Company'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 Company'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 Company'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 Company'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 Company's operations,
- granting a vote of approval to members of the Company'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 200 000,
- disposal of and the establishment of limited property rights on real property, perpetual usufruct or shares in real property of a market value exceeding PLN 200 000,

- expression of consent for the purchase, disposal or establishment of limited property rights 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 Company'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 Company,
- amendment to the articles of association and amendment of the objects of the Company's operations,
- winding-up and liquidation of the Company,
- 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 Company holds in quantities not exceeding 10% of the share capital of a company,
 - disposal of shares acquired in exchange for the Company'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 Company,
- 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

Composition of the Company's Management 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 Jałosiński - Vice-President of the Management Board responsible for the strategy and development of Grupa Azoty,

On 17 February 2012 the Company's Supervisory Board adopted resolution no. 138/VIII/2012 on appointment of Artur Kopeć to the Company'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 Company'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 Jałosiński - Vice-President of the Management Board,
- Artur Kopeć - Member of the Management Board.

Composition of the Company's Management Board as at the date of drafting this report:

- 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 Jałosiński - Vice-President of the Management Board,
- Artur Kopeć - Member of the Management Board elected by employees.

Competences of persons managing the Company

Competences of persons managing the Company 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 Company'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 Company'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 Company'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 Company of guarantees, sureties and any adoption by the Company 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 Company's Management Board, 9th term, governed by the Resolution of the Management Board of the Company, 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 Company'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 Obłękowski - 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 Company appointed Monika Kacprzyk-Wojdyga as Member of the Supervisory Board, simultaneously entrusting her with the function of Chairperson of the Company's Supervisory Board.

Composition of the Company'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 Obłękowski - Member,
- Zbigniew Paprocki - Member,
- Ryszard Trepczyński - Member.

Composition of the Company's Supervisory Board 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 Obłękowski - 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 Company's articles of association (§ 32 and subsequent),
- Bylaws of the Company'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 Company 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,
- 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 Company,
- monitoring financial audit,
- monitoring the independence of the statutory auditor and entity authorised to audit the Company'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 Company'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 Company's Supervisory Board.

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Tarnów, 6 March 2013